

Systematic Misperceptions:

How Policy Design and Partisanship Shape Tax Attitudes

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Abstract: We know remarkably little about what Americans understand and believe about the taxes they pay. Based on qualitative interviews with Americans across the country, I show the ways in which the taxpaying process and partisanship draw public attention to certain aspects of the U.S. tax system, while other parts remain obscured. As a result, though my respondents are in some ways highly informed about taxation, they also suffer from certain systematic blind spots, particularly when it comes to the tax contributions made by lower-income people. On the left, interviewees who would like the rich to pay more in taxes do not consistently recognize which tax reforms would implement this desire. On the right, the hyper-salience of the income tax helps bolster a widespread belief that the poor are unfairly escaping taxation. My results suggest that tax opinion should be recognized not simply as a result of the economic, sociological, or psychological interests of each individual, but as a consequence of the political institutions that shape access to policy information.

Talking to Americans about taxes, you hear their fears of a coercive state, their doubts about the accountability of their representatives, and their conflicting beliefs about how work is rewarded. You hear the strong desire to be recognized as a responsible, contributing member of society, and a gentle pride in the parks, schools, and infrastructure that make up a local community. Behind the forms and the tables, the technical jargon of marginal and effective rates, the act of taxpaying taps into Americans' fundamental political questions and considerations.

To understand how Americans talk about taxes, it is important to recognize the paying of taxes as a political act. In a democracy, taxation is the investment of a people in the shared task of governance. For most Americans, taxpaying is by far their most regular participation in political life. Nonetheless, existing studies of tax opinion often explain Americans' tax views as the result of individual-level economic, social, or psychological factors, leaving politics by the wayside.¹ This problem is compounded by biases in the commonly asked survey questions about taxation, which focus on tax opposition and rarely address the taxes most Americans regularly pay.

This approach has left us with a contradictory picture of the American public, at once responsive to self-interest on tax matters and deeply ignorant of the policies about which they are supposedly stating an opinion. Some studies argue that Americans respond in rational ways to tax changes, by taking account of their own individual costs or by guarding the interests of their social group. Other research suggests that members of the American public know very little about tax policy, and are easily tricked by cunning politicians into supporting measures against their interests and at odds with their values. How do we make sense of Americans' tax attitudes?

¹ For more on the political tradition in political behavior research, see Mettler and Soss 2004.

Based on survey and interview data, I show that my respondents are neither uniformly ignorant nor consistently informed on the subject of taxation. Instead, *the taxpaying process* interacts with *partisanship* to shape people's access to facts that would allow them to connect their values to particular tax policy options. On the left and the right, interviewees held certain misperceptions regarding the effect of tax policies, and particularly tended to underestimate the amount of taxes paid by lower income people. My findings suggest new lines of research into the sources and effects of factual error in public opinion.

After discussing the conflicting literature on tax attitudes, I present my model that emphasizes how access to policy information shapes preferences. Next, I present my novel interview recruitment methodology, which relies on new technologies to increase geographic diversity in qualitative research. I then examine my interviewees' understanding of the payroll tax, the sales tax, and the income tax. I show how the taxpaying process shapes what Americans learn from their own taxpaying experience, and how partisanship can amplify or reduce the prominence of particular features of the tax code. I conclude by considering how this differential visibility within the tax code shapes my interviewees' tax preferences, and describing what my work means for the broader study of policy ignorance.

What We (Don't) Know about Tax Attitudes

In the social science literature, there are three competing explanations of American tax attitudes. Some have argued that Americans can and do respond to their interests, either as individual economic actors or in light of perceived group interests.

Other scholars have suggested that Americans are so uninformed, or even deluded, as to be unable to judge tax policy according to their interests or values.

At times, Americans appear to respond to tax policy in self-interested ways. Those who pay more in income taxes, property taxes, sales taxes, or cigarette taxes have more negative views about the levies that cost them money (Campbell 2009; see also her review of the broader literature on this point). In this telling, Americans respond to their personal costs and benefits as one would expect of *Homo economicus*.

Others have argued that tax opinions are based on a perception of *group* interest, most commonly in opposition to spending on other racial or ethnic groups (e.g. Sears and Citrin 1985). Discussions about taxation revolve around people's "sense of group position" (Kidder and Martin 2012) or "notions of 'us' versus 'them'" (Lieberman 2001) rather than an individual economic calculus. Like studies that suggest an economically rational taxpayer, however, this line of research also sees Americans as able to connect tax policy with their perceived interests.

On the other hand, a number of recent studies have called into question Americans' capacity to understand the impact of tax policy. When it comes to the Bush tax cuts of 2001 and 2003, for example, Bartels (2005) finds that Americans were "ill-informed, insensitive to some of the most significant implications of the tax cuts, and largely disconnected from (or misconnected to) a variety of relevant values and material interests" (but cf. Lupia et al. 2007). Hacker and Pierson (2005) are also pessimistic, arguing that elites can "prey" on uninformed voters. Regarding the estate tax repeal, Birney, Graetz, and Shapiro (2006) find that "misperceptions of self-interest" played an important role in the passage of the legislation. More recently, Americans

simply did not notice the \$116 billion in tax cuts passed in 2009; fewer than 1 in 10 Americans knew that President Obama cut taxes for most Americans,² despite the fact that the tax cut was one of his central campaign promises the year before. These cases suggest that Americans are too easily confused to consistently apply their own individual or group interests to the policy options before them.

How can we reconcile these divergent visions of the American public, who seem to be at once sharp-eyed and easily misled? By thinking more concretely about the sources of information Americans have available to them, we can make sense of the public's blind spots. Americans are not uniformly ignorant; instead, certain kinds of information are readily available, and therefore 'cheap' for the public to receive, while other kinds of information are much harder to obtain (Downs 1957). Low-cost information, placed regularly before the public eye, is more likely to be salient, and to make up a part of the top-of-mind considerations an individual brings to bear on political questions (Zaller 1992). In the following section, I identify two political factors that shape Americans' information about tax policy, and therefore their opinions about that policy.

How the Taxpaying Process and Partisanship Shape Americans' Tax Information

There are undoubtedly many reasons that a given American might misunderstand the tax system. Some people, for instance, are simply not very financially literate (e.g. Lusardi and Mitchell 2011). But my research suggests that two political factors, partisanship and the design of the taxpaying process, play an important, systematic, and sometimes counterintuitive role in shaping what Americans recognize about taxation, and

² Michael Cooper, "From Obama, the Tax Cut Nobody Heard Of," *New York Times*, October 18, 2010. Available at: http://www.nytimes.com/2010/10/19/us/politics/19taxes.html?_r=0

therefore the ways in which they connect their values to particular policy options. Some opinions stem as much from what one perceives as what one believes.

Authors examining policy ignorance offer little in the way of explanation as to why voters are so readily confused, other than the base ignorance of the American public or the machinations of predatory politicians. Bartels names his 2005 article “Homer Gets a Tax Cut,” implying that the American people share traits with the ignorant, incompetent and lazy cartoon character, Homer Simpson. Hacker and Pierson (2005) seem to believe that most voters’ eyes will inevitably “glaze over” when confronted with tax policy options (p. 49). It is a bleak picture.

Rather than imagine policy ignorance as a demographic trait of a given individual, or a near-universal public susceptibility to manipulation by politicians in a given campaign, we can see it as the result of the long-standing political institutions that shape what information voters and taxpayers receive. As Gilens (2001) has shown,

much of what separates actual political preferences from hypothetical ‘enlightened preferences’ is due to ignorance of *specific policy-relevant facts*, not a lack of general political knowledge or the cognitive skills or orientations that measures of general political information reflect.

Variation in education, engagement, and intelligence cannot explain the gaps in Americans’ policy knowledge. Instead, we need to consider when and why they receive the particular relevant facts that would allow them to connect their values and interests with policy proposals. Americans learn about tax policy from two sources: personal experience and mediated information (e.g. Downs 1957). Personal experience with tax policy usually comes from the process of taxpaying, while the mediated information one receives about taxation – a highly partisan issue in recent decades – is strongly determined by one’s partisanship (e.g. Prior 2007). Thus, I suggest, *partisanship* and *the*

taxpaying process are likely to affect the kind of information one receives about tax policy, and therefore one's policy preferences.

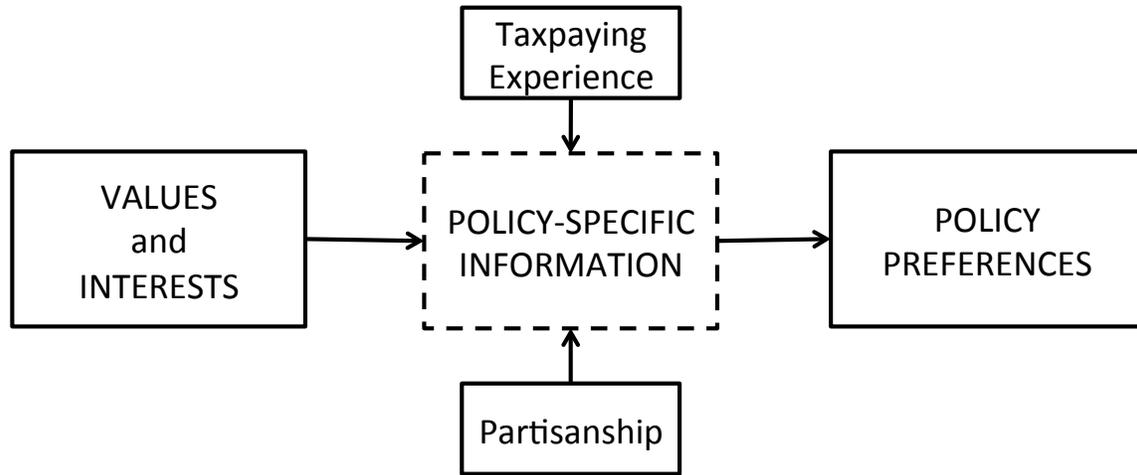


Figure 1: Sources of Tax Policy Information

Building on the work of Ventry (2011) and Zelenak (2013), I suggest that the myriad details of the taxpaying process have a substantial effect on what taxpayers notice about the taxes they pay. Taxes paid in a lump sum, or which require additional paperwork on the part of the payers, are thrust into prominence by the taxpaying process itself.³ Other taxes are paid incrementally and automatically and therefore are more likely to escape a busy taxpayer's notice. The taxpaying process, I will show, obscures the cost of easy-to-pay taxes and accentuates the cost of difficult-to-pay taxes. Thus, taxpayers' "policy learning" (Soss 1999) is uneven and incomplete.

In addition to the structure of tax policy, partisanship also has a systematic effect on my interviewees' tax knowledge. Decades of mobilization on the right have made the income tax, already designed to be highly visible, extremely controversial (Campbell 2009). This is especially true for conservatives (Martin 2008, Martin 2013). I would

³ It is worth noting that policy design is the product of previous rounds of political competition; at times, policies are consciously designed to be salient or hidden. See Michelmore 2012.

expect to see an effect of this mobilization in my data; conservatives should be especially focused on the income tax.⁴

In sum, I theorize that partisanship and the taxpaying process, taken together, shape and in some cases distort interviewees' opinions of tax policy because they shape the access people have to policy-relevant facts. One's ability to connect one's values and interests with particularly policy options is therefore mediated by the information one receives from one's personal experience with taxpaying, and one's partisanship.

Methodology

In this section, I discuss the sources of data I use to test how the taxpaying process interacts with partisanship to affect tax attitudes. First, I explain the value of qualitative interviews in the context of existing tax opinion research. Then, I explain my novel methodology for seeking qualitative interviewees. Finally, I present the demographic and geographic diversity of my interviewees.

Why Interviews?

Existing survey data has provided us with only a narrow window on American tax attitudes. Because large ranges of potential opinion remain unexplored, there is substantial value to open-ended interviewing, which can suggest new avenues of research. But interviews provide more than hypothesis generation. In particular, interviews offer the advantage of clarifying what respondents actually know about taxation, unguided by multiple-choice prompts. Even more important, they allow interviewees to bring their own motivations, considerations and categories to bear on the

⁴ This is certainly not the only effect partisanship has on tax attitudes. Other effects of partisanship on tax attitudes will be discussed in Chapter 7.

question at hand. Interviews provide a richness and a depth of understanding that is simply different from that provided by other methods of opinion research.

Currently, our knowledge of American tax opinion is deep but narrow, and profoundly asymmetric. First, existing studies are heavily focused on tax opposition. For instance, despite the fact that most Americans describe their tax responsibilities as “fair,” many survey questions about taxation are based on the assumption that respondents’ views are strongly negative.⁵ Gallup asks, “Which of the following bothers you most about taxes?”⁶ and “Which do you think is the worst tax – that is, the least fair?”⁷ Studies of tax opinion also tend to focus on the taxes paid primarily by the rich, particularly the income tax. Yet about 50% of American households have no net federal income tax liability.⁸ Surveys only rarely ask about the local, state, and federal taxes that take a large bite out of the average American family’s budget. Thus studies of tax opinion suffer from a bias towards matters of elite concern.⁹ We know far more about tax opposition, and particularly opposition to taxes that affect the wealthy, than we know about support for taxation, especially regarding the taxes that affect most members of the public.

Survey research to date has also neglected to fully identify what Americans know about tax policy. Inherent to the multiple-choice survey format is a series of potential answers, which may prompt respondents to consider possibilities that were not otherwise salient. There is also the challenge of mathematical terminology. Particularly when it

⁵ For a compendium of American survey data on taxation, see Bowman and Rugg 2012.

⁶ Asked in 2003 and 2011.

⁷ Asked almost annually since 1972 by several survey organizations.

⁸ For more, see Marr and Huang 2012.

⁹ For more on the elite focus of survey questions, see Gilens 2005. Like the survey research on taxation, studies of tax-related activism also emphasize opposition to taxes paid by the wealthy. There is an expansive literature on the “tax revolt” of the late 1970s and early 1980s (e.g. Kuttner 1980, Sears and Citrin 1985, Edsall and Edsall 1992, Martin 2008). In striking contrast, there is almost no research at all into the development and expansion of the state sales taxes crucial to state budgets over the past fifty years (but see Pearson 2014).

comes to taxation, a field rife with jargon, it is difficult to know whether it is the questions or the respondents that are unclear (Achen 1975). Do Americans know what a payroll tax is? Do they understand the difference between a flat and progressive tax? As Zelenak (2009) has shown, even changing a question from dollar figures to percentages can have a substantial impact on tax survey responses.

Given these limitations, qualitative interviews have much to offer our understanding of tax attitudes. They avoid the cues provided by multiple-choice responses and thereby offer a compelling way to assess what respondents can recall spontaneously about tax policy. Moreover, because surveys have been limited to a relatively narrow range of questions, interviews also allow for the exploration of the neglected aspects of American tax attitudes – particularly opinions about sales and payroll taxes, and opinions that might be neutral or even positive on the subject of taxation. This data can help generate new hypotheses and better survey instruments.¹⁰

Interviews offer their own insights, however, separate from those offered by survey research. Above all, open-ended interviews let respondents draw their own connections between different ideas. Rather than collecting a series of data points, interviews collect a directional network of data, in which interviewees share not only their conclusions, but the process by which ideas connect to one another. As Jennifer Hochschild notes (1981), interviews

“provide data that surveys are unable to produce. In opinion polling, the researcher infers the links between variables; in intensive interviewing, the researcher induces the respondent to create the links between variables as he or she sees them.”

¹⁰ See the conclusion for more on future avenues of research.

Thus, whether one relies on qualitative, small-n interviews or quantitative, large-n surveys, there is a trade off between depth and breadth. Just as large-n surveys leave researchers speculating about the precise motivations that explain respondents' choices, small-n qualitative research cannot achieve representativeness. Indeed, perfect representativeness is not a reasonable goal for this kind of research (Small 2009). What my approach aims for, instead, is a balance of depth and range that allows for a discussion of the mechanisms and processes by which people arrive at their tax attitudes.

My Approach

My research combines a closed-ended survey with an open-ended interview, taking advantage of the crowdsourcing tool, Mechanical Turk. First, I conducted a survey in three waves with 1400 Mechanical Turk participants that included demographic questions and the tax opinion questions most commonly used in nationally representative surveys (see Appendix). The Mechanical Turk survey allows me to assess how my potential interviewees would appear, were they simply survey participants. Then, from this pool of respondents, I selected 49 Americans across the United States to participate in semi-structured, qualitative interviews about their tax opinions. My approach has limitations to consider, but it provided a pathway to in-depth qualitative and quantitative data from a demographically and geographically diverse pool of respondents.

Interview pools are most readily drawn from areas neighboring the researcher's university, and many of the most groundbreaking studies of American opinion use this approach (e.g. Hochschild 1981). But when it comes to taxes, a great deal of policy is determined at the local level, and interviews in one city or state could easily miss much of the larger story. In California, for instance, tax politics continue to be affected by

Proposition 13, the well-known 1978 property tax limitation; as recently as 2009, the measure was described in *Time* as “the root of California’s misery.” More generally, states use sales and income taxes to different degrees; seven states have no income tax, and five have no sales tax. A geographically limited study of tax attitudes would miss this crucial diversity of conditions. For this reason, Mechanical Turk provided a substantial advantage over other methods of seeking interviewees.

Mechanical Turk is an Amazon.com crowdsourcing tool that allows “requesters,” including businesses and researchers, to easily hire anonymous “workers” to complete brief tasks for a small payment. Mechanical Turk has been increasingly popular for survey and experimental research. According to Berinsky et al. (2012), respondents recruited via Mechanical Turk are “often more representative of the U.S. population than in-person convenience samples,” and “Turkers” have been used to replicate studies conducted using nationally representative samples. “All told...the MTurk sample does not perfectly match the demographic and attitudinal characteristics of the U.S. population but does not present a wildly distorted view of the U.S. population either,” Berinsky et al. conclude. These results are in keeping with those of Paolacci et al. (2010), Buhrmester et al. (2011), and Ross (2010). There is relatively clear evidence, then, that Mechanical Turk samples can be useful for short surveys or experimental tasks. But, to my knowledge, Turkers have not previously participated in qualitative research.

Between July 2013 and March 2014, I conducted three rounds of surveys on Mechanical Turk, resulting in a total pool of 1404 survey respondents, all residents of the United States. All respondents were asked whether they would be interested in participating in a follow-up interview; overall, more than a quarter of respondents

expressed a willingness to participate and provided an email address to contact them.¹¹ The 406 interview volunteers in my sample represented 43 states. After each survey round, I selected a sample of respondents and followed up with them to schedule an interview. In total, I interviewed 49 people in 21 states. The interviews were conducted by phone, and lasted about one hour each. (For a copy of the survey and interview instrument, see the Appendix.) All respondents' interviews were conducted within a month of their survey.

Given the possibility that the survey on taxation biased my potential interviewee pool, one round of the survey, completed by 367 respondents, included only demographic questions.¹² From this sample, twelve interviewees were drawn. These participants could not have guessed that the interview would focus on taxation. The other 37 interviews were conducted with people who had completed both the demographic and opinion components of the survey instrument.

Given the skew of Mechanical Turk respondents, I prioritized reaching a wide range of respondents. Again, the goal here is *diversity*, not *perfect quantitative representation* of the American adult population. As with other MTurk samples, my three survey pools underrepresent certain groups (Table A). But because there was a very high level of interest in participating in an interview, I could ensure that my interview pool was demographically, ideologically, and geographically diverse. Nearly 29% of my total

¹¹ I paid more for my longer survey than my short one; interviewees were paid \$0.14 for the short survey, and \$.25 for the long survey. I paid these rates to ensure my pool would be in keeping with what I could expect from the literature on Mechanical Turk users. However, because these rates are far below minimum wage, I chose to apply bonuses to all workers who completed the task. The bonus was 11 cents for the short survey, and 42 cents for the long survey, which brought total payment for the task to the equivalent of a \$10/hr wage. Interviewees were paid an additional \$15 for their time, provided as a "bonus" to their Mechanical Turk account.

¹² For more on how the survey questions influenced respondents' willingness to participate in an interview, please see "Mechanical Turk as an Interview Recruitment Tool," available at <http://scholar.harvard.edu/williamson/working-papers>.

pool of survey respondents said they were willing to participate in a one-hour interview, for which they were paid \$15.

	% of U.S. Adults	All Respondents (%)	Interviewees (n)	Interviewees (%)
Female	52%	41%	27	55%
20s	20%	52%	11	22%
30s	18	26	11	22
40s	19	9	11	22
50s	19	6	12	24
60s	13	2	4	8
Black	12%	8%	6	12%
White	81	77	39	80
Asian	5	10	2	4
Hispanic	13	4	4	8
Unemployed	7%	19%	5	10%
Full-time employed	43	66	27	55
Republican	41%	23%	21	43%
Democrat	47	60	26	53
GED/High school	30%	11%	7	14%
Four year degree	20	40	18	37
Advanced degree	11	8	4	8
Total		1404 ¹³	49	

Table A: Demographics of Interviewees

¹³ Note that the employment question was asked only in survey round 3, and that some ages are imputed based on the age range reported by survey respondents.

Because of the skew in MTurk participants, I could not rely on a random sampling of the MTurk pool to ensure I would speak to a broad range of people. Instead, I used a strategy of tiered sampling to select interviewees from the pool of willing participants. I first contacted potential participants underrepresented in the MTurk pool, including Republicans, older people, those reporting lower levels of education, and black and Hispanic respondents. I then sampled from the remaining population of potential participants to complete the interview pool. As a result, my interview pool has a higher representation of older people, minorities and Republicans than my original survey respondents. Even with the high rate of responsiveness, there are still categories of people who were hard to interview. Most obviously, it was difficult to find people over the age of 65 to participate; the eldest interviewee was 67 years old. Older people are simply a very small fraction of MTurk participants. In addition, the sample includes a lower percentage of Hispanic people, and people with only a high school education, compared to the national adult population.

The strategy of tiered sampling resulted in a pool of people not only more demographically similar to the country as a whole than the original MTurk sample, but also more attitudinally similar. Table B compares the results of tax opinion questions asked in nationally representative polls to those expressed by the initial pool of survey respondents and by the actual interviewees recruited. Because of differences in survey method, question order and wording, these numbers are not precisely comparable. But they can give us a sense of whether the tax views of MTurkers in general, or my interviewees in particular, were substantially different from the population as a whole. Overall the differences of opinion are smaller than I would have anticipated.

“For these different groups, please tell me if you think they are paying their fair share in federal taxes, paying too much or paying too little? ...Lower income people”		
Gallup (2013) ¹⁴	MTurk: 1037 Respondents	MTurk: 37 Interviewees
“Too little”: 19%	11%	24%
“Fair share”: 37	40	30
“Too much”: 40	45	41

“For these different groups, please tell me if you think they are paying their fair share in federal taxes, paying too much or paying too little? ...Upper income people”		
Gallup (2013) ¹⁵	MTurk: 1037 Respondents	MTurk: 37 Interviewees
“Too little”: 61%	70%	59%
“Fair share”: 26	16	24
“Too much”: 11	11	11

“Do you think that people in the government waste a lot of the money we pay in taxes, waste some of it, or don't waste very much of it?”		
CNN/ORC (2011)	MTurk: 1037 Respondents	MTurk: 37 Interviewees
“A lot of money”: 73%	52%	62%
“Some money”: 23	43	35
“Not much money”: 4	3	3

“Which of the following bothers you most about taxes?”		
Public Interests Project (2003)	MTurk: 1037 Respondents	MTurk: 37 Interviewees
“Large amount <i>you</i> pay in taxes”: 14%	“The large amount <i>I</i> pay”: 13%	16
“The complexity of the tax system”: 31	27	30
“The feeling that some <i>wealthy</i> people get away with <i>not</i> paying their fair share”: 46	“The feeling that some people get away <i>not</i> paying their fair share”: 51	51

“Do you think that people with high incomes should pay a larger share of their income in taxes than those with low incomes, the same share, or a smaller share?”		
GSS (2000)	MTurk: 1037 Respondents	MTurk: 37 Interviewees
“Much larger” or “Larger”: 63.6%, 34	70%	65%
“Smaller” or “Much smaller”: 2.4	2	3

Table B: Survey Responses in MTurk and Nationally

¹⁴ “As I read off some different groups, please tell me if you think they are paying their fair share, too much, or paying too little. How about... lower-income people?”

¹⁵ “As I read off some different groups, please tell me if you think they are paying their fair share, too much, or paying too little. How about... upper-income people?”

Of course, the approach I employ cannot create a truly representative sample, as a random selection of the population would. Interviews are necessarily conducted with those who are willing to answer, and they may be in some important and unmeasured way different from other people. One advantage of my approach is the extent to which I can see the demographic differences between those willing and unwilling to be interviewed.¹⁶ Though perfect representativeness is not possible in this kind of research, these data presented above suggest that a valuable level of diversity has been achieved.

It is reasonable to wonder if respondents contacted by MTurk would be less engaged in the interview than interviewees recruited by other methods. One important difference between MTurk recruitment and local recruitment is that the MTurk method forecloses the possibility of a face-to-face interview. There is only a small amount of research comparing in-person vs. phone interviews (e.g. Shuy 2003 and Rogers 1976), and so most of these considerations are at least somewhat speculative. In any case, this is a qualitative difference that would be difficult to measure. It is worth noting, however, that several of my interviewees were extremely forthcoming about their own interactions with the IRS, including volunteering instances when they themselves had skirted, or even violated, the law.¹⁷ Another piece of suggestive evidence is that several interviewees emailed additional thoughts after the interview. A 56-year-old antiques dealer from Texas forwarded an article on corporate tax evasion. In another case, a 23-year-old mother of two from Mississippi wrote to say:

¹⁶ For more on this question see the working paper, “Mechanical Turk as an Interview Recruitment Tool,” which will make up part of this book’s methodology chapter. It is available at: <http://scholar.harvard.edu/williamson/working-papers>.

¹⁷ My research was vetted and approved by my university’s committee on the use of human subjects.

Please do let me know if you have anything else to run by me (free of charge ;)). I feel like I accomplished more in having my voice "heard" through you than through any elected official! Ha.

Whether respondents would have had even more to say following an in-person interview is unknowable, of course. Nevertheless, the respondents seemed engaged during and sometimes even after the interview.

The interview itself was semi-structured, but was guided by a consistent interview protocol. The opening questions sought out the interviewees' own first considerations, and included a few factual questions to assess their awareness of different taxes, before my more specific questions brought other considerations to mind. I then asked the interviewees about each of the major forms of taxation, including the sales tax, income tax, payroll tax, and property tax. This section also included some questions regarding who pays taxes, and how much. The interview next turned to government spending; I asked interviewees what they were glad and upset tax money was spent on. The final section of the interview focuses primarily on fiscal citizenship, tax avoidance and the income taxpaying process. For the complete survey instrument and interview guide, see the Appendix.

My interviewees proved themselves to be quite well informed about certain aspects of tax policy, while fundamentally misunderstanding other parts of the tax system. In the following sections, I discuss interviewees' understanding of the payroll tax, the sales tax, and the income tax, and show how the taxpaying process and partisanship shape what they know about tax policy, and therefore their tax attitudes.

How the Taxpaying Process Leads to the Misunderstanding of Taxation

Only recently have scholars begun to systematically examine the ways in which tax procedure influences tax attitudes. Ventry (2011) calls for a fundamental reform of the income tax filing system to reduce the paperwork burden on taxpayers and perhaps increase support for the income tax. By contrast, Zelenak (2013) gives “two cheers” for the current system of income tax filing, defending it as a method of encouraging awareness of taxation and fiscal citizenship. These authors are right to suggest that the taxpaying process plays an important role in tax politics. I find that taxpaying is itself a major source of my interviewees’ tax knowledge, both about their own tax obligations and about tax policy more broadly. But the information they receive is not perfect; tax procedure draws attention to some aspects of taxpaying while disguising others. The burdensome process identified by Ventry results in only partial and inadequate “tax consciousness,” to use Zelenak’s phrase.

I find that the economic costs associated with “easy-to-pay” taxes are systematically discounted by my interviewees.¹⁸ These low-effort taxes are predictable, occurring automatically and incrementally, with little or no paperwork on the part of the taxpayer. Most sales and excise taxes fall into this category, as well as payroll taxes for most wage-earners. The payroll tax escapes my interviewees’ notice even when it is the largest tax they pay. The cost of the sales tax is similarly underrated by most middle- and upper-class interviewees. Moreover, because the cost of the sales tax only becomes evident to these interviewees when an item is especially expensive, they tend to assume this levy falls lightly on the poor and heavily on the rich.

¹⁸ In calling a tax “easy to pay,” I am referring only to the procedure by which it is paid, not the cost. A tax can be easy to pay, but also expensive.

By contrast, the income tax is arduous to pay – unpredictable, requiring initiative from the taxpayer, with extensive paperwork, and sometimes requiring a large lump sum payment. As a result, the income tax is highly salient. But the filing process focuses attention on exemptions and deductions, rather than rates, leaving interviewees with a false impression of what kinds of tax reform would increase the amount paid by the rich.

The Payroll Tax: Familiar, Yet Invisible

The payroll tax affects almost every wage-earner in the United States, and funds two of America’s most well-known social programs: Social Security and Medicare. Nonetheless, the tax evades the notice of many of my interviewees, including those for whom it is likely the largest tax they pay. In this section, I compare what each of my interviewees thought was their biggest tax to my estimate of their largest tax responsibilities. I find that the respondents were, by and large, quite accurate in their assessments of their own taxes – except when it comes to the payroll tax. When I ask people directly about payroll taxes, it is clear that most interviewees distinguish this tax from the income tax, and know what the tax is for. But regarding the tax itself, rather than its use, they tend to have very little to say – unless they are among those independent contractors who must calculate and pay their own payroll taxes. Thus the design of the payroll tax makes it at once familiar and invisible.

Early in the interview, before I mentioned any particular tax by name, I asked my interviewees which tax they thought made up the biggest part of their budget. By far the most common response was the federal income tax, an answer volunteered by twenty people (41%). Thirteen people (27%) chose the sales tax, six chose the property tax

(12%), and another six either directly mentioned payroll taxes or spoke in general terms about the taxes on their paycheck. How accurate were these assessments?

To answer this question, I combined the rich picture I was given of each interviewee's economic and family life with existing tools for estimating Americans' taxes. For each interviewee, I have self-reported information about their household income and its sources, their employment, their marital status, number of dependents, and whether they own their home. To estimate the state and federal income taxes paid by the interviewees, I relied on TAXSIM, a program from the National Bureau of Economic Research that calculates federal and state income tax liabilities from survey data.¹⁹ For the payroll tax, I used data from the Congressional Budget Office on the employee component of the payroll tax by income quintile.²⁰ To calculate sales and property tax levels, I turned to the Institute for Taxation and Economic Policy's "Who Pays," a report detailing the average level of sales and property tax paid by state for taxpayers in each income quintile.²¹

I brought this data together to estimate how much each respondent paid each year in federal and state income tax, in payroll tax, in sales tax, and in property tax, and compared these results to their own assessments of their largest tax responsibilities. The results I present here are quite conservative, for several reasons. First, I gave respondents

¹⁹ TAXSIM is available at: <http://users.nber.org/~taxsim/>. I tested two versions of the TAXSIM calculation, one with an estimated home mortgage deduction, and one without. While the inclusion of this deduction had a substantial effect on the estimated income tax for homeowners, this only very slightly altered the overall results, moving perhaps two more people from the income tax to the payroll tax category. This is because many homeowners in my sample were either earning enough that the income tax remained their highest tax, or were older homeowners not working enough to pay much in payroll or income taxes. Because the estimated homeowner deduction was based on state averages, and could not readily account for the income level of each participant, I chose the estimates *without* the home mortgage deduction.

²⁰ This data was reported in Marr and Huang 2012, and closely approximates the data reported by TAXSIM, once one has excluded the employer component.

²¹ The ITEP results do not provide estimates for elderly homeowners, whose incomes are unlikely to be good proxies for their home value or property taxes. Conveniently, however, many interviewees self-reported their property tax rates, either by month or year.

some leeway when the difference between my estimate and their perception was small. When a respondent's perception was within 10% of my estimate, I counted their perception as accurate. Second, and more important, my results rely on the respondents' *self-reported* household income, which might easily be inflated or underreported.²²

Table C compares respondents' perceptions to these estimates. The rows represent what respondents thought was their biggest tax; the columns represent my estimate of their actual largest tax. Respondents included in the shaded boxes along the diagonal were "right" about their biggest tax; their perceptions were confirmed by my calculations. Those outside of the diagonal were "wrong"; according to my estimates, a different tax was actually costing them more money. In each box, I note the number of respondents who fit the category. For instance, where row 1, "Federal Income," intersects with column 2, "Sales," we find that one person perceived the federal income tax as their largest tax, but likely pays more in sales tax.²³

²² There does not seem to have been evidence of immense income inflation. As a general rule, the income reported by the interviewees on their surveys was in keeping with what they reported about their employment during the interviews. If there is enough income inflation to affect the results, it is more likely a small amount across the board. For more on the tendency of survey respondents to misreport their income, see Moore et al. 1997.

²³ This is Wilma, a 57-year-old who says she skimps to get by between her disability payments and a small pension.

		<i>Biggest Estimated Tax (estimated using TAXSIM / ITEP)</i>			
		FEDERAL INCOME	SALES	PROPERTY	PAYROLL
<i>Biggest Perceived Tax (perceived by respondents)</i>	FEDERAL INCOME	13 people; 6 high-earners, 7 middle-income childless adults	1	0	6 people; low-to-middle earners
	SALES	1	6 people; all non-working poor or near-poor	0	6 people; in middle-income households working less than full time or in high sales tax states
	PROPERTY	1	0	4 people; three non-wage earners, and one rental property owner	1
	PAYROLL	0	0	0	6 people; low-to-middle earners

Table C: Perceived vs. Estimated Taxes²⁴

²⁴ Four people are not included in this chart, either because they chose a tax outside of the four major categories (e.g. the state income tax), or because they did not answer this question.

There are several striking things about Table C. First, and perhaps reassuringly, more than half of respondents were approximately correct in their assessment of the biggest tax they pay. Second, very few people took their payroll taxes into consideration. Thirteen people saw the sales, income or property tax as the largest cost they paid, though they likely pay considerably more into Social Security and Medicare.²⁵

First, let's look at those who knew their biggest tax responsibility. Six people correctly identified the sales tax as the biggest tax they pay; all of these respondents were among the poor or near-poor, and not currently working. Asked the biggest tax she pays, Marjorie, who describes herself as "poverty-stricken," says, "I would say it's sales tax. When I go to the store, I'm pinching pennies all the time because we never have enough food and everything." Rosemary, a disabled woman in California, says, "I'm keenly aware if I go buy food. It's bad enough that I'm trying to buy a value meal and paying 99 cents here for this and 99 cents here for that and then I have 50 cents for tax. I'm aware of that." Several of these low-income interviewees spoke knowledgeably about which items are subject to sales tax, and which are not. "In Texas you don't have to pay tax on food unless it's served," explains Donna. My lowest-income interviewees were certainly aware of the daily costs they incur.

In addition, four interviewees correctly identified the property tax as their largest tax responsibility. Two of these respondents, Joe and Steve, were economically comfortable retirees. As Joe noted in his interview, his income taxes are very low

²⁵ Note that my estimates of payroll tax contributions exclude the employer-paid component of payroll tax, though this component likely lowers wages to some degree, and is therefore is also "paid" by the employee. Nonetheless, my estimates regarding the number of people who pay most in payroll taxes are in keeping with what one would expect, given typical tax responsibilities nationally. According to the Center for Budget and Policy Priorities, "82 percent of working households pay more in payroll taxes than in federal income taxes." See Marr and Huang 2012.

because, “I’m collecting Social Security now and that’s not taxed until you get to the higher ranges.” Bonnie, in her late fifties, is also not paying much in income taxes; she lives primarily off the small inheritance she received from her mother. The other member of this category was Matthew, a Black Hawk pilot, who benefits from certain income tax credits for active duty members of the military. Matthew takes great pride in his tax savvy. “The biggest part of my budget. I wouldn't guess, I would know it,” he answers with assurance. “It's property taxes,” he says, and then explains how his rental properties provide him with substantial income while further reducing his federal tax obligations.

Another thirteen people correctly believed they paid most in income tax. These respondents are substantially wealthier than the rest of the interviewees, with an average reported household income of about \$80,000. Kenneth, an attorney, falls into this category, as does Stella, whose husband works for a defense contractor. Some were not quite as well off, but earned a comfortable salary for a single person without children. Alicia, for instance, works in regional sales for a well-known national department store chain.

Thus those who pay most in income, sales, and property taxes tend to be aware of these costs. But the payroll tax is a different story. Out of the nineteen who I classified as likely paying most in payroll taxes, only six people correctly guessed that payroll taxes were their largest tax responsibility – and only two of these interviewees gave clear-cut responses. Jessica says, “After refunds and everything, I suspect that Social Security will end up being a bigger portion.” Other respondents are counted as correct partly because their answers were somewhat vague. James, for instance, says his biggest tax is, “my employment tax, I guess, for my paycheck.” His answer was not entirely clear, but since

he may have been referring to payroll taxes, I counted his answer as correct. Thus only a minority of interviewees knew that their payroll taxes are their largest tax contribution.

One simple reason people might underrate their payroll tax is because it is typically divided into two categories: the tax paying for Social Security and the tax paying for Medicare.²⁶ If people are thinking of each of these taxes separately, perhaps that would explain why they believe their income or sales taxes are higher. But for everyone I count as underestimating their payroll taxes, the Social Security component alone is more than the tax they thought was highest. (In fact, for nine people, payroll taxes were more than *twice the cost* of the tax they guessed as their biggest expense.) The division between the Social Security and Medicare components does not offer an easy answer for the invisibility of the payroll tax.

Alternatively, maybe people do not distinguish payroll and income taxes, since they are both typically withheld from wages – or perhaps, they don't see Social Security and Medicare payments as a tax at all. But this does not appear to have been the case. For twenty-two of the interviewees, I asked in general terms which taxes appeared on their paycheck.²⁷ In all, nineteen of the twenty-two not only recalled the payroll taxes as separate from the income tax, but named Social Security or Medicare as the purpose of the payroll components. When the interviewees say their income taxes are highest, they do not seem to be confusing income and payroll taxes, and they do clearly recognize payroll taxes as a kind of tax. Nor do they see Social Security and Medicare taxes as a

²⁶ The employee component of Social Security is calculated at 6.2% of wages (capped at \$113,700), compared to a 2.9% tax on wages for Medicare.

²⁷ Two others interviewees were also asked what taxes appeared on their paystub, but had a paystub on hand and read it aloud to me, so I could not judge which taxes they would have recalled without a reminder.

contribution to a personal account; interviewees knew that these are taxes that pay for current retirees.

Paradoxically, then, the payroll tax is both well understood and invisible. When asked, interviewees can explain the tax; they just don't think about it much. When I ask the interviewees directly about the payroll tax, I heard plenty of opinions about Social Security and Medicare,²⁸ but almost nothing about the tax itself. People had very few opinions about the payroll tax rate, structure, cost, or payment process.

The gas tax is a useful point of comparison. Interviewees would often mention that gas taxes were used to maintain the highways. But they would also talk about the tax directly – saying, for instance, that they thought it was too high, or did not like that it was folded into the price of gasoline. Amber, for instance, comments that the gas tax falls especially heavily on certain people, which is unfair when “it's their job if they drive a truck or something.” The gas tax is discussed both in terms of its collection and its use.

But almost no one talked about how or from whom the payroll tax is collected. One of the very few exceptions is Patsy, a strong Democrat who says she has only recently become interested in politics and has been “doing a lot of reading.” She talks about the need to raise the cap of Social Security contributions for high earners. But for most people, the structure and rules of the payroll tax are simply invisible. As Tracy puts it, “I haven't really thought about that one as much.”

Elements of the process itself appear to reduce the salience of payroll taxes. First, the taxes appear on one's paystub, but are often below the eye-catching federal income tax. For some people, the income tax may appear to be a larger expense than it is, since

²⁸ In Chapter 5, I discuss in far greater detail the interviewees' perceptions of government spending, including their views of Social Security and Medicare.

refunds at the end of the year will reduce their tax liability. Angel, for instance, is one of the interviewees for whom the payroll tax is likely his largest tax. Asked about the taxes on his paycheck, he remembers the state and federal, and then says, “The other ones are a little smaller though. So, they’re kind of negligible to me other than the big ones.”

In addition, most people do not have to take any active steps to pay their payroll taxes, a process that might draw greater attention to the payment. The only interviewee for whom the Social Security tax is major concern is Tom, who has until recently been working as an independent contractor. “And then for that whole period of time, my taxes were so complicated,” he says, describing the process of calculating and paying his own payroll taxes. “I couldn’t do them myself.” Tom talks about the Social Security tax vastly more than any other interviewee, raising the issue five times over the course of his interview. The only other person to talk about the Social Security tax on more than two occasions was Stacy, another independent contractor.

From the interviewees’ responses to the question about which tax is biggest, and their later comments when asked directly about the payroll tax, it seems likely that its design helps keep the payroll tax “submerged.” But the payroll tax is not the only tax whose visibility appears to be reduced because of the process by which it is paid. Though the interviewees were more aware of the sales tax than the payroll tax, the regressive implications of the sales tax were largely invisible to my respondents. In fact, many interviewees approved of the sales tax precisely because they perceive it as a progressive tax.

The Sales Tax: Wrongly Understood as Progressive

Many interviewees said the sales tax was something they rarely, if ever, think about. As Denise says, “The sales tax doesn't bother me as much because I feel like it's just something that is.” Asked which tax he thinks is best, Angel says, “probably the sales tax because I don't notice, in all honesty.”

Part of the convenience of the sales tax is that it is assessed in small increments on a regular basis, blending into an item's total price. For that reason, most interviewees see the cost of the sales tax as “nominal,” as Dawn puts it. Amber agrees, saying, “You just pay it every time you go to the store and you're expecting to pay so it doesn't hurt as badly.” The cost of the tax also gets wrapped into the pleasure of a new purchase. Ralph says, “I would probably say that maybe the best tax is if I go into a store, let's say, and I buy a physical product and I pay a tax, at least I'm getting something out of it.” Stacy lives in New Hampshire, and only pays sales tax out of state. Asked about the sales tax, she thinks about the total cost of her purchases. “It was very expensive to shop anywhere in Massachusetts. Everything's expensive. In Florida, I don't mind paying taxes because everything is much cheaper.”

But the sales tax becomes extremely visible to my interviewees when the purchase is large. Early in the interview, I asked people to describe an experience with taxation that made them think about taxes; eleven respondents talked about the surprise of the sales tax on a large purchase. Angel says, “I bought some shoes and they were, maybe, one fifty, and then the price just jumped up to like--, I forget what the tax was, like one-seventy or one something like that. So, usually on big purchases is where I see like, tax come into play.” Gabriel agrees:

When I bought a car, you know, I guess you don't realize how much taxes really are until it's a big purchase like that, and the difference ends up being a couple thousand dollars... that's probably when I realized that sales taxes actually make a difference, and if I were to look at all of my purchases for the year and how much I paid in sales tax, that that's actually a pretty good chunk of change and not just, you know, the extra dollar with groceries.

For most interviewees, then, the sales tax appears to be a small and reasonable expense, except perhaps when a purchase is very expensive. What interviewees appear to take from this experience, however, is a perception that the sales tax costs little to the poor, and a great deal to the rich.

In reality, the sales tax falls very heavily on the poor. Nationally, the poorest 20% of Americans spend an average of 7% of their income on sales and excise tax. Those in the top 1% spend less than 1% of their income on sales and excise taxes.²⁹ This fact was most apparent, of course, to the poor themselves; as I have already discussed, my poorest interviewees knew that the sales tax is the largest tax they pay (Table C). Many others on the lower end of the income ladder also worry about these costs. Alexa lives in Mississippi, where groceries are subject to sales tax. Her family was once on Food Stamps, but they are earning a little more these days, since her husband got a new job. The sting of the grocery tax is still fresh in her mind, however. "When I go visit my parents in Dallas, I'll still go grocery shop," Alexa says. "Anything that I can load in the back of my car and bring home with me to not have to pay an extra 8% when I get back home."³⁰ As Newman and O'Brien (2011) argue, "those who can least afford it face a heavy burden."

²⁹ For more on this, see Davis et al. 2009.

³⁰ Still, the total expense can be surprising. Throughout her interview, Alexa had shown herself to be exceptionally adept at mental arithmetic, so I asked her to give me a rough estimate of how much she spent on grocery tax each year. "Well, I spend about \$500 in groceries in a month, let's see times 7.25%... probably a good 500 dollars" a year, she concluded with audible surprise. "Yes and that's a whole lot. I

But my interviewees who were economically comfortable rarely recognized this reality. Though many people referred to their own surprise at the cost of the sales tax when they were purchasing something large, few made the leap to imagine the effect of the tax on people whose budget is small. Instead, they thought the sales tax to be especially expensive for those at the top of the income spectrum – the people who regularly buy big-ticket items. “I guess the rich will buy heck of more luxury stuff or whatever that they’ll get taxed on,” says Grace, a student in California, “whereas I won’t buy an expensive TV set or an expensive computer.” Lawrence, a hairdresser in Michigan, says, “If you’re buying a \$2,000 Louis Vuitton bag to match every outfit, that’s more than my sister’s purse from the Gap.” The interviewees focus on the effect of the sales tax on conspicuous consumption, rather than the daily increment taken from necessities.

This impression of the sales tax led many strong proponents of progressivity to endorse one of America’s most regressive taxes. Asked which tax he thinks is best, Kyle, a stay-at-home dad, says,

I think I’m going to go with sales tax and the reason why is because I think the sales tax is an equalizer in the sense that you can’t afford to buy a lot of things, you’re not being burdened with a lot of taxes. Whereas if you have wealth and the means to make large purchases, you’re going to pay a large amount of taxes so it keeps things equal.

Michael feels the same way. He says, “as far as the regular income tax goes,” he believes in a progressive tax. But if we had a national sales tax instead of an income tax, he believes, progressivity would not “be an issue” because “the people who bought more would end up paying more.” Of the thirteen interviewees most concerned about

never really think about it that way. So, yes, that’s a lot of money actually.” Alexa had previously guessed that the sales tax was the biggest tax her family paid, but even so, the total was not something she had taken into account.

progressivity – those who said the rich weren't paying enough both in their survey and their interview – more than half said the sales tax was the best tax. If anything, these interviewees expressed *higher* support for the sales tax than other interviewees, less than a third of whom named the sales tax as best.

The explanation for this misperception is not – or at least, not entirely – a failure to grasp the idea of progressivity. After reviewing the existing research, Zelenak (2009) concludes that though the *level* of progressivity Americans support varies with question wording, a majority believe in progressive taxation whether one asks the question in dollar amounts or as a percentage.³¹ This finding holds true in my survey sample as well; most interviewees clearly distinguished a flat tax from a progressive tax. For instance, Gloria from Kansas considers the cost of a flat tax: “10% of \$100 is a lot more hardship than 10% of a million dollars.” Only a very few of my interviewees, mostly at the lowest end of the education spectrum, seemed unable to make this distinction. Those seeing the sales tax as progressive do not appear to have been especially confused as to the meaning of progressivity, moreover. Michael, for instance, talks knowledgeably about how tax rates rise with tax brackets, and worries that these brackets might not be “granular” enough.

If Michael knows what a progressive tax is, why does he believe the sales tax falls heavily on the rich? What he fails to recognize is simply the fact that the poor spend nearly all of their income, while the rich have enough money to save. Or, as Daniel puts it: “If you go from making \$30,000 a year to \$150,000 a year... you might eat more fancy,” but that “doesn't make it so that your grocery bill is five times as great.” Daniel is one of the only interviewees to recognize that consumption does not scale with income.

³¹ I discuss the interviewees' opinions about progressivity, wealth, and work in Chapter 7.

While the design of the sales tax has convinced a substantial number of my interviewees that the tax is progressive, the income tax, which makes America's tax system one of the most progressive in the developed world (Prasad and Deng 2009), does not get much credit for its progressivity from those who think the rich should pay more.

The Income Tax and the Salience of "Loopholes" over Rates

The income taxpaying process is one of the most salient aspects of American taxation. Taxpayers spend about 3.5 billion hours each year working on their tax returns, an experience that surely raises the "tax consciousness" of the American people (Zelenak 2013, p. 2-3). So central is the income tax filing process to American public life that one question on the U.S. naturalization exam for new citizens, alongside those asking about the Declaration of Independence and the branches of government, is "When is the last day you can send in federal income tax forms?" The filing deadline reaches the status of Americana. No surprise, then, that the tax is at the forefront of nearly every interviewee's mind.

The income tax filing process can also help us understand the popularity of the flat tax. According to Slemrod (2006), many people believe that the income tax is *regressive*, and a substantial portion of survey support for a flat tax comes from this fundamental misconception. My interviews suggest why Americans who recognize that tax rates go up as one earns more money can simultaneously believe that a flat tax might increase taxes on the rich. The income tax filing process, I find, leaves many interviewees far more focused on "loopholes" than on rates. The prominence of loopholes leads them to believe that the rich can evade a large portion of their tax responsibilities, no matter

what nominal rate they are supposed to be paying. As a result, some of those who would like the rich to pay more are willing to trade higher rates for fewer loopholes.

The tax filing process, with its annual hunt for deductions, breaks and credits, focuses my interviewees' attention on loopholes rather than rates. Of the taxpaying process, Kimberly says, "It's stressful. I feel like even after it's done and over, I'm thinking, *What could I have added? What else could I have counted? What else could I have done?*" Adam, 26, doesn't mind filling out his income taxes, seeing it instead as "a little puzzle," figuring out how to be as "innovative" as possible when it comes to finding savings. It is not only middle- and upper-income people who are seeking these deductions. Wilma, for instance, recalls vividly the year that she missed the cut-off for the Earned Income Tax Credit because she "made five dollars too much."

Many interviewees make the mental leap from their own small exemptions to the accounting tricks of the very wealthy, which only confirms for them that the wealthy are paying far less than their share. Rosemary talks first about herself going to "some kind of H&R Block expert," and then notes that the wealthy can afford to hire a "hotshot accountant" to "hide" their money much more effectively than average people. Lawrence agrees. "I know that I'm probably paying too much because of how I get my taxes done. The H&R Block lady is probably not the best at finding loopholes. That's probably not one of the classes that they attend." Even apparently unrelated questions about the income tax filing process can provoke people's concerns about the wealthy underpaying their taxes. Asked what he thought of the IRS, Kyle responds, "Red tape and bureaucracy. And... I think that everything's so convoluted that only people that are in very good financial situations are able to use the system to their advantage when it comes

to the IRS and tax loopholes that kind of thing.” The complexity of income tax filing is a reminder that other people are getting away with something.

Many interviewees, and particularly those concerned that the rich are not paying enough, see these loopholes as the reason some wealthy people are not paying their share. I asked the interviewees who they thought was paying too little in taxes. Grace says, “the rich pay too little because of all the loopholes they have.” Michael agrees, saying, “I think the richest pays too little nowadays. They've got their resources to exploit all the loopholes and they end up paying too little.”

Even when people raise concerns that seem to be about tax rates, they still conceive of the problem in terms of loopholes. Tracy believes that the rich don't pay enough because investments are taxed differently from regular wage income. “I don't have money that I make money on,” she says. “All of my money is taxable.” Tracy is correct that investments are taxed at a lower rate. But she still sees this as a problem of “tax breaks and a lot of loopholes.” In my interviewees' understanding, then, the word “loopholes” includes a very wide array of policies, and is applied even in instances that might otherwise be understood in terms of a need to raise the tax rate.

In all, twenty-eight interviewees talk specifically about “loopholes;” only two interviewees, Kenneth and Joe, both highly educated Democrats, talk about tax rates for the wealthy. Joe says, “I don't know why we can't go back to the tax rates during the Clinton years.” Kenneth talks about tax rates on the wealthy being low, by historical standards. But comments like this are extremely rare.

So convinced are people that the rich currently escape their income taxes that many believe a flat tax would be as or more progressive than the current system. Gabriel

thinks a flat tax would not substantially alter the amount rich people pay. “If the loopholes were closed and they were actually paying that percentage, as opposed to, you know, having the best lawyers and the best accountants that could find a way to not pay, then I think they would be paying about the same.” Jessica goes further. “I think that, for example, a flat tax would wind up with the super-rich paying less but if there were no loopholes, I’m not sure,” she says. “They might end up paying more even it were a lower percentage.”

Thus the desire for wealthy people to pay more in taxes is focused on a preference for the closing of loopholes, rather than the raising of rates, to the point that some people who want the rich to pay more believe a flat tax might be the right policy solution. But the focus on tax breaks has another surprising effect on perceptions of progressivity. At the lower end of the income spectrum, certain exemptions for the poor are perhaps more salient than has been previously reported.

How “Hidden” Are Low Income Tax Credits?

In 1993, Christopher Howard included the Earned Income Tax Credit (EITC) and the Child Tax Credit among the tax expenditures that made up the “hidden welfare state.” During my interviews in 2013 and 2014, however, these tax credits were actually relatively salient. I did not ask directly about tax credits, but nonetheless, sixteen interviewees referred to some form of tax credit for low- and moderate-income people. Interviewees could not always recall the precise name of the relevant policy, but it was widely recognized that lower-income working people, particularly those with children, could get substantial amounts back from their income taxes – often more than they paid in.

Many comments came from beneficiaries. Alexa, for instance, says, “So the past couple of years we got back everything, plus the child care credit, plus whatever that’s called, the work credit.” For Alexa’s family, the EITC functions like a “free savings account,” she says, one that allows them to make larger purchases that would otherwise be out of reach. “This year we’re buying a new dryer,” Alexa concludes.

A few people supported the policies without describing themselves as beneficiaries. Erick, for instance, says, “I believe people that are in poverty shouldn’t pay anything or they should get that money back at the end of the year. They sort of do now, earned income credit, which I think is good.” But others who spoke about tax credits were not receiving these credits personally and several expressed strong displeasure with the policy. Lawrence from Michigan says,

I had a cousin who had two part-time jobs and the people who hired her got paid by the state to hire her. She was at a gas station. It was no big amount of money and she had three kids. She didn’t make five grand and she got seven thousand dollars back at the end of the year. How’s that something that happens?

Overall, the interviewees referred to tax credits about as often as many other programs targeted at low-income people. Figure 2 summarizes these relative frequencies. As you can see, fewer people referred to Medicaid and Social Security disability than referred to low-income tax credits, but more people referred to Food Stamps, or spoke in general terms about “welfare.”

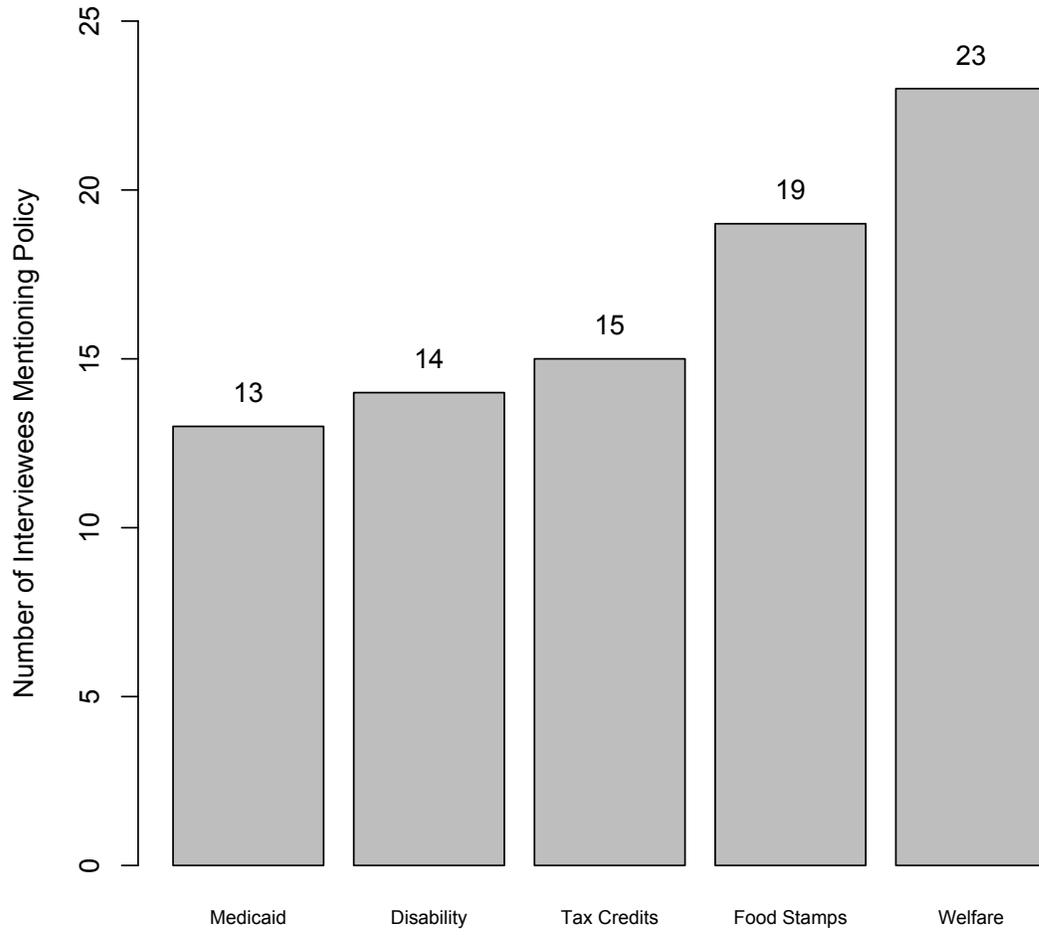


Figure 2: Salience of Expenditures on Low-Income People

Of course, the fact that I was conducting an interview about taxation surely brought tax policies to the fore. Had I framed the interviews as an exploration of “government spending,” or “government social programs,” the numbers would quite likely be different (Mettler 2010). Nonetheless, the low-income tax credits are familiar to many interviewees; a sizeable minority of respondents do recognize these policies as substantial government transfers to the working poor.

The negative comments I heard about the EITC sounded rather similar to those opposing more traditional welfare programs. Like Lawrence, Stella does not use the term “Earned Income Tax Credit,” but she clearly understands, and disapproves of, the program.

For instance, when people get their refund checks. And it’s usually more than what they even put into it. And then they act like it’s-- like they earned it. “Oh, I’m going to buy a car. Or, look at what I just bought.” *What do you mean you bought a car?* I’m thinking about some people that I do know. Like, wow, that must be nice. They can sit there and get a tax refund is like five thousand or six. Specifically, I don’t know what people get back, but I think it’s quite a bit. Especially if you have children under a certain age and your income’s a little bit lower.

Compare Stella’s comments to Bridget’s discussion of someone she knows who is receiving direct government aid:

[She] is on government assistance and disability, but can raise two kids and wants to have another one, and they spend all their money on just doing things like going out and just buying frivolous things. And, she says she’s not capable of working, yet she can raise two kids and plan to have another one and do all these types of events. ...I’m personally offended by that because I feel like some of my money is going there to support her and her family and she can work.

Both Bridget and Stella are angry that a low-income person with children is receiving a windfall they have not earned, and are spending the money frivolously. That Stella’s acquaintance has received her benefits through the tax code has not, at least in this case,

hidden the transfer of funds or improved her opinion of it. Thus large transfers made through the tax code are not intrinsically invisible. But this is not simply a matter of policy design. Unsurprisingly, both Stella and Bridget are Republicans – and as we will see in the next section, Republicans have a very particular perspective on the tax system. For conservatives, the income tax is so prominent as to obscure other forms of taxation.

The Income Tax through a Partisan Lens

It is not just the filing process that makes the income tax salient; sales and payroll taxes are also the subject of far less political controversy. Opposition to the income tax has, for the last several decades, helped define the agenda of the Republican Party (Martin 2008, Campbell 2009, Martin 2013). The impact of this mobilization is very evident in my interviews; when asked about taxes, Republicans think almost exclusively of the income tax – to the point where they fail to recall the other taxes they themselves pay.

Very early in the interview, before discussing any specific taxes, I asked the interviewees to recall the last time they paid “any kind of tax at all.” In most cases, that tax should be a sales or excise tax, since most people make purchases on a regular basis. Angel, for instance, remembers that, “I just went to 7-Eleven two hours ago, paid the sales tax.” Daniel says, “I think I put gas in my car the other day.” But this relatively straightforward recollection is heavily shaped by partisanship. Democrats are substantially more likely to think of the sales tax when asked what tax they paid most recently. Republicans are much more likely to forget about the sales and gas taxes, and think instead about taxes on their income or property. Marjorie and Stella, for instance, say they last paid any kind of tax “last year” when they filed their income taxes, while

Steve says the last tax he paid was “land tax” in “January,” several months prior to his interview. Overall, 77% of Democrats, compared to 45% of Republicans, recalled a sales or excise tax as the most recent tax they paid.³²

Of course, there are times when the last tax one has paid was actually the income or property tax. I conducted many interviews in the spring, and so someone might just have sent a check to the IRS. An interviewee who does not drive a car or own a house, and lives in a state without a sales tax, might indeed pay few taxes other than the federal income tax. Finally, one might think of income taxpaying as an ongoing process.

Brandon for instance, says he pays his income taxes “every two weeks,” when he gets paid. But even excluding all the interviewees who might, by any stretch of their wording, been accurate in saying that they most recently paid income or property taxes, the correlation remains strong; 80% of Democrats compared to 52% of Republicans say they most recently paid a tax on purchases.³³

One might think that Democrats recall taxes like the sales tax because they tend to be poorer than Republicans (Gelman et al. 2007). But it is not income that distinguishes those who recall a sales or excise tax as the most recent tax they paid. About 63% of interviewees in households earning less than \$50,000 a year recalled a sales or excise tax as their most recent tax, compared to 65% of interviewees in households earning more than \$50,000 a year. It is Democrats who remember that they recently paid sales or excise taxes, while Republicans tend to think only of income and property taxes.³⁴

³² In a t-test, this reaches traditional levels of statistical significance, $p=.03$.

³³ In a t-test, this approaches traditional levels of statistical significant, $p=.07$.

³⁴ Similar results can be found for measures of education and employment. A logit regression of this data is in the online appendix available at <http://scholar.harvard.edu/williamson/working-papers>; the estimate for partisanship is statistically significant even with controls for income, education and unemployment. Due to the small size of my sample, and the fact that it is not perfectly representative of the country as a whole, I have chosen not to present that regression here.

Looking at my interviewees' very first thoughts offers some confirmation of this hypothesis. I began the interview by asking each of the interviewees, after they introduced themselves, to tell me what they first thought of when I said the word *taxes*. For most people, their first thoughts involved the taxes on their wages, which were far more salient than the taxes on purchases or property. Thirty-one respondents explicitly mentioned taxes on their paychecks in their first thoughts.³⁵ Even among Democrats, the federal income tax is highly salient. Eileen says, "I don't instantly think of what I pay in sales taxes and property taxes and that kind of stuff." Instead, she thinks of taxes at the "federal level." But while Democrats may begin by talking about federal income taxes, they also recall other kinds of taxes. Republicans, by contrast, are far more likely to think of taxes uniquely in terms of the income tax. In all, 38% of Democrats I spoke to mentioned more than one kind of tax off the top of their heads; only 9% of Republicans did.

Given this focus on the income tax, it is no surprise that many Republican interviewees believe that the poor are not paying enough in taxes. If one thinks exclusively in terms of the federal income tax, the poor are indeed paying very little or no taxes. Only 8% of Democrats among my interviewees thought the poor were paying too little, compared with 37% of Republicans.³⁶ Bridget, a Republican from Pennsylvania, says people in "lower paying jobs" are paying less than they should, while Craig, a Republican in Florida, argues that "people who don't work" are not paying their share. "And I don't mean stay at home moms," he clarifies. This concern that the poor and

³⁵ This may partly be due to the fact that a majority of the interviews were conducted in the spring, when most people are thinking about filing their income taxes. But most of my interviewees who participated in the fall also mentioned taxes on their wages in their first thoughts.

³⁶ Again, this is a correlation that holds with controls for income and education.

unemployed do not pay enough is not limited to my interviewees; it is also evident in national survey data. Over 20% of Gallup respondents in the 2010s say that lower income people pay too little in taxes.³⁷

Perhaps the most striking comments come from Gloria, who is both very poor and strongly Republican. When I ask Gloria, who is active in her local Tea Party group and living in Section 8 housing, if she thinks there are people who do not pay “any kind of tax at all,” she says, “People like me. The very poor and disabled.” Gloria had earlier discussed the extent to which grocery and utility taxes strained her tiny budget; when I remind her of this discussion she says, “Yeah, but I mean like income taxes. I was thinking income tax.”

In sum, though the income tax is salient for almost all interviewees, Republicans perceive this tax almost to the exclusion of other forms of taxation. The salience of the income tax is so high that Republicans fail to recall their own other tax responsibilities, and are especially likely to perceive the poor as paying too little.

Systematic Misperceptions of Tax Policy

My interviews have resulted in four findings regarding how partisanship and the taxpaying process shape what people know about taxation, and therefore the tax policies they support.

- *The payroll tax is well understood, but invisible.* Almost no interviewees had opinions about the structure of the payroll tax or the process by which it is collected, and the cost of this tax was systematically underestimated.

³⁷ Gallup asks: “As I read off some different groups, please tell me if you think they are paying their fair share in federal taxes, paying too much or paying too little... how about lower-income people?” In April 1992, 8% of Americans thought lower-income people paid too little. In April 2012, 24% thought lower-income people paid too little.

- *Only the poor recognize that low-income people bear the cost of the sales tax.* Middle- and upper-income people only notice the sales tax when they are buying an expensive item, which leads many to believe this tax is progressive.
- *The visibility of “loopholes,” rather than tax rates, leads respondents to underrate the progressivity of the income tax system.* This focus on loopholes explains how people who understand the mathematics of progressivity can still believe a flat tax might raise taxes on the rich.
- *The focus on the income tax is magnified by a partisan lens.* Republicans are far more focused on income taxes than Democrats, at times to the exclusion of other taxes they themselves pay. At the same time, tax credits for working families, which may once have been hidden from view, are now quite evident to many interviewees, and strongly opposed by some conservatives.

Interestingly, these four results bias Americans’ tax attitudes in a single direction.

The net effect is that taxes paid by lower income people are largely invisible. While Democrats (and others who believe the rich should pay more) sometimes misconnect their preferences with regressive policies, Republicans fail to perceive the ways in which the poor already contribute to the public coffers.

Conclusion

Tax policy is not entirely submerged; instead, different aspects of the tax system have very different levels of salience for my interviewees. Partially, this is a result of policy design that has made some kinds of taxpaying arduous and therefore noticeable, and other kinds of taxpaying easy and easily overlooked.

My results suggest the need for a deeper examination of the causes of public policy ignorance. We must take into account not only individual variation in education and political knowledge, but also the political factors that shape the availability of accurate policy information. We should not throw up our hands at the ignorance and error of the American public; in fact, my interviewees' knowledge is relatively sound for matters that are brought to their attention by regular experience, and their errors are systematic and comprehensible. My findings suggest that relatively minor changes in taxpaying procedure could have a substantial and salutary effect on tax literacy and perhaps even democratic responsiveness.

Appendix

Survey Instrument

1. Do you regard the income tax that you will have to pay this year as fair? *
2. Do you think that people in the government waste a lot of the money we pay in taxes, waste some of it, or don't waste very much of it? *
3. Which of the following bothers you most about taxes? [randomized order] (The large amount I pay / The complexity / The feeling that some people get away with not paying their fair share / None of the above / Not sure / no opinion) *
4. For these different groups, please tell me if you think they are paying their fair share in federal taxes, paying too much or paying too little? (Lower income people / Middle income people / Upper income people / Corporations / Small businesses) *
5. Do you think that people with high incomes should pay a larger percentage of their income in taxes than those with low incomes, the same percentage, or a smaller percentage? *
6. When deciding who to vote for, how important is a candidate's tax policy? (Very important / Somewhat important / Not very important / Not sure / no opinion) *
7. What is the worst tax -- that is, the least fair? [randomized order] (Federal income tax / Federal Social Security tax / State income tax / State sales tax / Local property tax) *
8. What is the best tax -- that is, the most fair? [randomized order] (Federal income tax / Federal Social Security tax / State income tax / State sales tax / Local property tax) *
9. Do you happen to know what job or political office is now held by Joe Biden? [randomized order] (Vice President / President / Chief Justice of the Supreme Court / Don't know / Not sure) *
10. Do you happen to know which party had the most members in the House of Representatives in Washington? [randomized order] (Democratic Party / Republican Party / Don't know / Not sure) *
11. Which one of the parties is more conservative than the other at the national level? (Democratic Party / Republican Party / Don't know / Not sure) *
12. How often do you get news from the following sources: newspapers, TV, radio, online (daily, regularly, occasionally, rarely, never)? [If not never:] Which particular news sources do use most often? *
13. In which state do you live?
14. What is your zip code? **
15. What is your gender?
16. What is your current age?
17. What is your race/ethnicity? Check all that apply.
18. Generally speaking, do you usually think of yourself as a Republican, a Democrat, an Independent or what? [If D or R]: Would you call yourself a strong [Democrat/Republican] or a not very strong [Democrat/Republican]? [If

Independent:] Do you think of yourself as closer to the Democratic or Republican Party?

19. What is the highest level of education you have completed?
20. What is your combined annual household income?
21. Are you currently employed? (Full-time employed / Part-time employed / Retired / Self-employed / Unemployed and seeking employment / Unemployed and not currently seeking employment) **
22. Are you a U.S. citizen?
23. Do you own your home?
24. Do you attend religious services every week, almost every week, once or twice a month, a few times a year, or never?
25. Are you a current or former member of the U.S. military?
26. Would you be willing to participate in a one-hour phone interview about taxation? Participants will be paid \$15 for their time. [If yes:] Please enter a valid email address, so that you can be contacted if you are selected for an interview.

* Asked in Rounds 1 and 3

** Asked in Round 3 only

Interview Guide

I'm a graduate student, studying what Americans think about taxes. As we discussed, the transcript of your interview will be kept confidential, without your name attached, and the recording will be destroyed when my research is complete. The interview should take a little less than one hour. Any questions?

1. Tell me a little about yourself.

Before we get to the specific questions, I'd like to get some first impressions.

2. When you hear the word "taxes," what does it make you think about?
3. When did you last pay any kind of tax?
4. Which tax makes up the biggest part of your budget?
5. A lot of times, you pay a tax and don't think much about it. But can you remember a specific experience with taxation that made you really think about taxes?
6. Imagine a "taxpayer" – what comes to mind? Do you tend to think of yourself as a taxpayer?

Ok. Now I'd like to ask you some questions about different kinds of taxes.

7. What about taxes like sales tax and the gas tax?
8. What about income taxes?
9. (If not yet answered:) When it comes to the income tax, do you think everyone should pay the same percentage of their income, or should people with more money pay a higher percentage of their income?

10. (if question of earning money raised) What does it mean, to you, to earn money? (if work mentioned) What does it mean to work hard?
11. When you look at your paycheck, there are usually several different taxes on it. Do you happen to remember which ones appear on your paystub? *[or]* There are also payroll taxes that you have probably seen on your paystub, the taxes that pay for Social Security and Medicare. What do you think of those taxes?
12. What do you think about property taxes?
13. Is there another kind of tax you pay that I haven't mentioned?
14. Thinking of all the different kinds of taxes, which is the best? Which is the worst? Why?
15. Let's put aside practical concerns for a minute and think about principles. If implementation weren't a problem, and if people didn't try and game the system, what tax would be fairest?
16. Do you think most people pay about the right amount in taxes, too little, or too much? Who pays too little in taxes? Who pays too much? People who don't pay taxes?
17. Have you ever thought about taxes in the state you live in now, compared to in other places?

Now we've talked about where tax money comes from, I'd like to talk a little about where that money goes.

18. What are you glad your tax dollars pay for? [for each item:] why is it important to you to pay for [item]? What upsets you about where your tax dollars go? how much of every dollar spent on things you like / dislike?
19. This is just a personal opinion, but about how much of every dollar do you think the government wastes? [when you were thinking of government waste, what came to your mind?]
20. Do you feel you personally have benefitted from the tax dollars you've paid?
21. Are there people who benefit more than their share from government spending? Who?

[Tax Avoidance / Responsibility]

22. If someone can find a legal way to avoid paying much in taxes, is it ethically right to do so?
23. (If responsibility has been mentioned:) We've been talking about responsibility. If taxpaying is a responsibility, a responsibility to who?
24. (If not mentioned:) Do you think of taxpaying as a responsibility? (If yes:) A responsibility to who?
25. If paying your taxes is part of your responsibility to (respondent's answer, e.g. the country, ourselves), what other responsibilities (e.g. we have to each other / to our country)?
26. If someone wanted to make the tax system better, how do you think they could go about doing that in your local community?

Now let's talk a little about the income tax-paying process.

1. How do you feel when you are filling out your income taxes? What about afterwards?
2. When you think of the IRS, what do you imagine?
3. Ever been audited? Know anyone who has?

Ok, I have one last question for you.

4. As you know, I'm studying Americans' views of taxation, and my plan is to eventually write a book. If it were your book, what would be the most important chapter?

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