STUDY GUIDE

LOWER TAXES, HIGHER REVENUE

KEY TERMS: taxes, revenue, tax-rate, economist, Laffer-Curve

NOTE-TAKING COLUMN: *Complete this section during the video. Include definitions and key terms.*	**CUE COLUMN:** *Complete this section after the video.*
What does the Laffer Curve illustrate?	What fundamental principles provide the foundation for the Laffer Curve?
What is the Laffer Curve?	What is the most important conclusion that anyone studying the Laffer Curve should draw?
What happened when Congress passed the Hawley-Smoot tariff bill?	

DISCUSSION & REVIEW QUESTIONS:

- We learn from Prof. Groseclose that if the curve of the Laffer Curve, "...slopes downward it implies something remarkable -- ... that when tax rates are high, if you make them higher, you'll actually bring in less revenue to the government." Why is this the case? What significant factors make this true?

- Why do you think the 'hump' occurs at 33%? Why not 24% or 41%? What do you think are the most important factors in making the hump at 33%? Why?

- Do you think the Laffer Curve applies to corporate taxes as well? Why or why not? If it does, how close to the 33% threshold do you believe the top of the hump would be for businesses paying taxes- would the 'hump' be lower or higher along the curve than that for individual tax payers? Why?

- What is the current federal tax rate for individuals and businesses? What are your state tax rates, if any? What are the consequences for not paying taxes? Are these consequences ever enforced? Could they be for every person or business that does not pay taxes? What would happen if almost everyone just refused to pay taxes anymore?

- Proponents of bigger government want the government to provide many services and programs to help citizens of our country, and want to raise the tax rate (especially on corporations and super wealthy people) because they believe that raising the tax rate will bring in more revenue to pay for even more programs that will help even more people. However, currently the government does not take in enough revenue- so the government is incurring more and more debt to pay for the programs. Further, we learn in the video that in the 1980's, "After President Reagan and Congress drastically reduced the tax rates on the rich, the tax revenue that came from the rich actually increased." Considering the major revelations and proven consequences of the Laffer Curve, why do you think anybody still argues for raising tax rates, especially on businesses and the rich, if the consequence will likely be the reduction of revenue and eventually the diminishing or elimination of the very programs they wish to fund (whereas lowering the rates on the rich would provide MORE money for their programs)? What do wealthy individuals and big corporations tend to do with their money when taxed too much? Why?

- Prof. Groseclose ends the video by stating, "Everyone of every political persuasion should pay attention to the Romer and Romer Study and its important implications." What are the important implications? Who do they apply to, directly and indirectly? Why?

EXTEND THE LEARNING:

CASE STUDY: Offshore Accounts

INSTRUCTIONS: Read the article “Offshore tax shelters not just for rich,” then answer the questions that follow.

- What do you think makes taking the risk of getting in trouble with the IRS for sheltering assets offshore worth it for some people?
- How can the IRS prove that a person or business is moving money into offshore accounts for the primary purpose of evading domestic taxes? What percentage of people that try this scheme get away with it, would you guess? Why do you think that they get away with it?
- Do you believe that it would immoral to shelter money in offshore accounts from tax liability, even if it is/was legal? Why or why not?

QUIZ

LOWER TAXES, HIGHER REVENUE

1. The Laffer Curve illustrates two important things we need to know about taxes:

a. How much money the government can raise from taxes.
b. What level of taxation the government might start getting less, not more, revenue.
c. What level of taxation is fair at certain tax brackets and how much money the government needs from taxes.
d. Both A and B.

2. At a low tax-rate, if the government keeps raising the tax rate, then:

a. The people will suffer.
b. The government's revenue continues to go up.
c. The income gap is smaller.
d. The income gap is larger.

3. According to the Laffer Curve, when tax rates are high, if the government pushes them higher, they will:

a. Actually bring in less revenue.
b. Bring it more money for the government.
c. Frustrate hard working people.
d. Not tax people making $20k per year.

4. All economists agree that there must be a "hump" in the graph, but disagree:

a. On basic economic principles.
b. About inflation's effect on taxation.
c. About where exactly the hump occurs.
d. About the Laffer Curve's goals.

5. New evidence suggests that the hump actually occurs at a tax rate of:

a. 33-40%
b. 25-27%
c. 70%
d. 30%

QUIZ - ANSWER KEY

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http://usatoday30.usatoday.com/money/perfi/taxes/2006-09-13-tax-shelter-usat_x.htm

Offshore tax shelters not just for the rich

By Kevin McCoy, USA TODAY

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Type the words "offshore assets" into an Internet search engine and the electronic sales pitches of a growing mini-industry appear on the computer screen.

"At last, the kind of offshore asset protection previously available only to the extremely wealthy! Make one phone call and sleep better tonight," says website Asset Protection Plus (assetprotection.ws).

"I am going to show you how to protect your money and all you own so nobody not even the government can get at it," says U of Money.com (uofmoney.com).

"Once your assets have been transferred to an offshore entity ... they are safe," says website Carib Offshore (carib-offshore.com). "You can't be taxed on them."

A network of brokers, accountants, attorneys and other providers is increasingly promoting offshore trusts and accounts as a way to avoid lawsuits, creditors and, in some cases, federal and local taxes in the USA. Riding the rapid expansion of the Internet, some parts of the mini-industry are making tax-avoidance techniques — once mainly offered to high-net-worth individuals in private conferences — available online to average Americans. "This growing access to people who aren't wealthy and are willing to pay a $3,000 fee ... to someone to help hide their assets offshore is getting to be a huge problem," says Sen. Carl Levin, D-Mich., ranking minority member of the Senate Permanent Subcommittee on Investigations, which in August released the latest in a series of reports on potential offshore abuses. "Honest taxpayers get socked with the bill" as tax avoiders transfer assets offshore, Levin said.

That cost is high.

Although no precise estimates are possible, as much as $1.6 trillion in North American wealth is likely held in offshore accounts, according to a 2005 report by the Tax Justice Network, an international group opposed to tax avoidance.

Americans with assets offshore probably avoid about $50 billion in taxes annually, according to an estimate by Reuven Avi-Yonah, head of the International Tax Master of Law Program at the University of Michigan Law School.

Hundreds of companies and promoters now use the Internet to guide Americans and others who transfer assets to offshore banks or trusts, according to the Senate subcommittee report. Money moves from domestic accounts to offshore tax havens such as Belize or the Bahamas, at times without any meetings between promoter and client.

Although placing assets in international trusts and banks is not illegal, using such transfers to avoid federal, state and local taxes while retaining control of the assets is considered a possible tax violation, one that the IRS pursues.

"With the increased use of the Internet, these types of tax strategies are more easily spread," said Selva Ozelli, an international tax lawyer and accountant in New York. "It has trickled down to the middle-income level."

A tax examination

Among the Internet guides to offshore companies is Equity Development Group, a Dallas-based firm run by Samuel Congdon. His company has worked for about 900 clients since its founding in 1999, according to a review by the Senate subcommittee. That review, federal court records and interviews with government officials and tax experts provide an inside look at one small cog in the mini-industry.

The IRS recently completed a tax examination of Congdon and his companies and may launch a similar examination of his clients, IRS documents and federal court records in Texas show. Additionally, the Senate subcommittee subpoenaed Congdon's client list and plans to give it to federal investigators.

In a written report released in August, the subcommittee said its review of Congdon showed that he "willfully remained ignorant of his clients' motives for moving money offshore." That stance, the committee concluded, enabled him to operate "in apparent compliance with federal law while facilitating potentially illegal activity."

Congdon's attorney, A. James Lynn, described the conclusion as unfair innuendo about an honest businessman who has had no involvement with tax avoidance.

"There has been no showing that any of his clients have violated the law. And he has not violated the law," said Lynn. "He's being penalized because he's here in the United States, making a living in the United States, paying taxes in the United States, and there are some people who want to run him out of business."

Congdon founded Equity Development Group in 1999 after earning an undergraduate degree at Hillsdale College in Michigan and an MBA at Southern Methodist University. He sought a marketing edge by paying Internet search engine Google "for a top position on certain searches ... to direct greater traffic to his site," the subcommittee said. Google would not comment but said many firms pay for the sponsored links that accompany search results.

"Why go offshore?" the Equity Development Group website asks. "Protection from lawsuits. Financial privacy. Regulatory advantages."

Warning that thousands of lawsuits are filed in the USA each week and citing disclosure laws, the website says, "Placing bank and brokerage accounts offshore will keep them off the asset collector's radar screen. Credit agencies and government agencies don't have access to foreign account records or transactions."

For $2,500, Equity Development Group offers a package that includes an offshore corporation formed in Belize, an offshore trust formed in the Bahamas, two offshore bank or brokerage accounts and mail forwarding for one year. Using several locations "weaves a network of anonymity which translates into rock-solid privacy and protection," the website says.

For additional security, the company also offers previously formed "shelf companies" — firms for those who want to show "that their offshore company has been in existence for several months or years" — for as much as $6,200.

In theory, use of a longstanding firm could avoid challenges that would arise if assets were shifted to a newly created offshore firm after a divorce or lawsuit notice.

U.S. and Canadian clients

Congdon told the subcommittee that most of Equity Development Group's clients come from the USA and Canada. Most contacts come via the website, which stated that the firm "has formed hundreds of offshore companies and trusts and opened hundreds of offshore bank and brokerage accounts worldwide representing millions of dollars."

That clientele enabled Congdon's firm to gross several hundred thousand dollars in 2003 and 2004 from markups on offshore packages and referrals from some international businesses, the subcommittee reported. Separately, a federal court record showed that another Congdon firm reported nearly $75,000 in taxable income for 2002.

Although Equity Development Group's website advertises that "there are no surprises or guesswork," some company details are not immediately apparent.

Although the firm identifies Congdon as its founder, the subcommittee said he is also its sole employee.

Although the firm lists offices in Dallas and the Bahamas, the subcommittee said Congdon conceded the second location is "a mailbox."

A federal court filing states that Congdon's firms neither provide nor advertise tax advice. But the Senate subcommittee found that during Congdon's first years in business, he used a presentation that said: "President Clinton vetoed the tax cut bill. Who cares? Offshore investors don't!"

The subcommittee also reported that an earlier version of the website featured an "offshore calculator" that contrasted the growth of an investment account in the USA with the higher gains that account would earn offshore. The calculator came with a disclaimer that warned, "You may be liable for taxes on foreign investments depending on your country of citizenship and/or residency."

The company's current website tells prospective clients that no matter what name is on offshore accounts formed through Equity Development Group, there's no question who controls the assets. "You do. The client is in complete and total control of all accounts at all times," the website states.

"Control is the key," said Ozelli, the tax lawyer. "If you control the assets, they're subject to taxation."

The Senate subcommittee concluded: "It is clear that Mr. Congdon knew that many of his clients moved their assets offshore to avoid U.S. taxation."

"I have no knowledge, none, that any of those clients were guilty of anything so much as a parking ticket," Lynn said.

Proving ownership and collecting taxes owed from those who have moved assets offshore isn't easy. In August testimony for the Senate subcommittee, IRS Commissioner Mark Everson wrote that the agency investigates alleged offshore tax abuses. But, wrote Everson, this "is an area where we still have a long way to go."

"The accounts are constructed in a way to make it almost impossible to prove who controls them," said James Kindler, chief assistant to Manhattan District Attorney Robert Morgenthau, who has filed numerous offshore-abuse cases.

When the IRS issued summonses for the names and addresses of Congdon's clients, Lynn filed a federal court motion to quash the demand on grounds of harassment.

If the IRS could show any clients were involved "in a tax avoidance scheme or some other violation of law" or "were committing crimes," Congdon "would promptly provide the information," the motion said.

"However, there has been no such showing."

Federal Magistrate Judge Irma Carrillo Ramirez denied the motion in a May 3 ruling that said client data were relevant to the tax examinations of Congdon and his firms. Lynn gave USA TODAY copies of IRS letters that said the exams had been completed with no new taxes levied. The IRS would not comment. A federal court brief filed in April stated that the IRS was not examining Congdon's clients at that time. But the brief said "that if the IRS had the names of the clients participating in offshore trusts it may (or may not) in the future investigate the client's tax liability."

Levin said the Senate subcommittee hopes to facilitate such an investigation by giving the subpoenaed client list to the Justice Department. He added that he and Sen. Norm Coleman, R-Minn., the subcommittee chairman, may introduce a bill to make it easier for the IRS to pursue offshore abuses.

Current law requires the federal government to prove that U.S. citizens control assets in offshore accounts before filing tax charges. Levin said the legislation he plans would reverse the legal burden.

"The presumption is that all the income is yours, and you've got to prove otherwise," Levin said.

WHERE THE MONEY GOES

These are among the offshore locations where people have hidden assets or transferred income:

• **Belize.** Caribbean nation has eight banks, one insurance company, 23 trust companies and 38,741 registered offshore corporations.
• **British Virgin Islands.** A territory of the United Kingdom, it has more than 500,000 registered offshore corporations.
• **Cayman Islands.** United Kingdom territory is home to more than 500 banks and trust companies, 7,100 mutual and hedge funds.
• **Isle of Man.** A crown dependency of the United Kingdom, the Irish Sea island is home to 171 offshore service providers.
• **Panama.** Central American nation has 34 offshore banks and about 350,000 offshore companies.
• **St. Kitts and Nevis.** A federation of two Caribbean islands that has one offshore bank, 50 trust and company service providers and 15,000 offshore corporations.

Source: Senate Permanent Subcommittee on Investigations, August 2006 report