



# The Tax System Explained...in Beer!

Suppose that every day, ten men go out for beer and the bill for all ten comes to \$100. The men decided to pay their bill the way we pay our taxes, which went something like this...

- The first four men (the poorest) would pay nothing
- The fifth would pay \$1
- The sixth would pay \$3
- The seventh would pay \$7
- The eighth would pay \$12
- The ninth would pay \$18
- The tenth man (the richest) would pay \$59

The ten men drank in the bar every day and were happy with the arrangement, until one day, the owner threw them a curve ball - "Since you are all such good customers," he said, "I'm going to reduce the cost of your daily beer by \$20". From \$100 to \$80.

The group still wanted to pay their bill the way we pay our taxes. So the first four men were unaffected. They would still drink for free. But what about the other six men? How could they divide the \$20 windfall so that everyone would get his fair share?

The bar owner suggested that it would be fair to reduce each man's bill by a higher percentage the poorer he was, to follow the principle of the tax system they had been using, and he proceeded to work out the amounts he suggested that each should now pay. And so...

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| The fifth man, like the first four, now paid nothing | (100% savings). |
| The sixth now paid \$2 instead of \$3                | (33% savings).  |
| The seventh now paid \$5 instead of \$7              | (28% savings).  |
| The eighth now paid \$9 instead of \$12              | (25% savings).  |
| The ninth now paid \$14 instead of \$18              | (22% savings).  |
| The tenth now paid \$49 instead of \$59              | (16% savings).  |

Each of the six was better off than before. And the first four continued to drink for free. But, once they left the bar, the men began to compare their savings.

"I only got a dollar out of the \$20 saving," declared the sixth man. He pointed to the tenth man, "but he got \$10!"

"Yeah, that's right," exclaimed the fifth man. "I only saved a dollar too. It's unfair that he got ten times more benefit than me!"

"That's true!" shouted the seventh man. "Why should he get \$10 back, when I got only \$2? The wealthy get all the breaks!"

"Wait a minute," yelled the first four men in unison, "we didn't get anything at all. This new tax system exploits the poor!"

The nine men surrounded the tenth and beat him up.

The next night the tenth man didn't show up for drinks so the nine sat down and had their beers without him. But when it came time to pay the bill, they discovered something important. They didn't have enough money between all of them for even half of the bill!

And that is how our tax system works. The people who already pay the highest taxes will naturally get the most benefit from a tax reduction. Tax them too much, attack them for being wealthy, and they just may not show up anymore!

