



## **“Is the U.S. Government Discriminating Against Black American Individual Income Taxpayers?”**

What others intend for evil, God can transform into good.

This morning, I went to a local farmers’ market to purchase fresh fruits and vegetables. During a transaction for five bananas and a papaya, the business operator smiled and said “ just \$8.00 for you sir.” Now I know that prices in Hawaii are high, but they are not that high. So having a small background in mathematics, I performed a mental calculation, and then enquired, “How much were the bananas?” Well that set off a whole round of new calculations and the determination that I had been overcharged by \$2.75. I should add that the operator was a Korean.

Of course, I was rather perturbed by the whole affair. But I should not have been. Why? Earlier research (see E. Chang and J Diaz-Veizades (1999), *Ethnic Peace in the American City: Building Community in Los Angeles and Beyond*) had informed me that Koreans are predisposed to the idea that Blacks are not “business minded.” That is, Blacks can be cheated. I let the operator know in no uncertain terms that there was a price to pay for her “mistake.”

In thinking about the event and what might be done about it, I began to surmise that, if she cheated me, then she is probably cheating the good ole U.S. of A. How? She, like so many other sole proprietors “misreport” (a fancy word for cheat) on their income tax returns. That got me to thinking back to a previous job where I provided oversight for measuring U.S. gross domestic income. I recalled that very large factors are used to account for misreported income among sole proprietors and partners.

I visited a government Web site today and found that for 2007 that the “Net profit (less loss) of nonfarm proprietorships and partnerships, plus payments to partners” was \$626.5 billion. The adjustment for misreporting on income tax returns was \$494.6 billion. By any measure, the misreporting is very large relative to the size of actually reported income.

In large measure, individual income tax payers don’t have the liberty to misreport income. Individuals mainly receive wages and salaries, a W-2 form that goes directly to the IRS, which is matched against income tax returns. It is difficult for an individual to deny receipt of wages and salaries that appear on a W-2 form. Sole proprietors however, are at a great advantage when it comes to evading taxes. Only they have a record of their true earnings.

Which leads us to the questions: “Which ethnic groups in the U.S. comprise most of the sole proprietor population? If the U.S. Government knows that sole proprietors are reporting a much lower percentage of their actual income than individual taxpayers, yet enforces a higher level of compliance on individual tax payers, then “is this equal treatment under the law?”

A point for Black Americans is that we comprise a relatively small percentage of sole proprietors with net incomes, and we are mainly individual income tax payers. “Are we being discriminated against.?” If so, then “Is this another partial explanation for the wealth gap that persists in the U.S.?” Less take-home pay (legal or illegal) leads to less saving, less investment, and less wealth.

These questions seem to require answers.

I invite clarification of the tax law in this regard and answers to, and comments on, the questions that have been raised. .

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