

It's Spring, and Our Thoughts Turn to...Taxes (*SB News-Press*)

(April 27, 2013) Flowers, tree blossoms, warmer weather – it's tax season. Having just endured my own April 15th exercise in tedium-compliance, a quick reminder notes that many Americans worked the first 3 and 1/2 months of 2013 just to pay their annual taxes. That's right, someone earning say, \$47,500 will owe around \$12,300 in combined federal (\$5,800), state (\$2,900), and FICA-payroll (\$3,600) taxes – requiring about 14 weeks to earn that much pay.

However, the *Tax Policy Institute* reports that in 2011, 46.4 percent of all U.S. households paid NO federal taxes. Yes, of the 145 million tax-filers, 67 million paid no income tax. The *National Taxpayers Union* notes the top quarter (36 million individuals) pays 87 percent of all federal income tax collected, while 37 percent of all taxes (\$900 billion) comes from just 1.45 million taxpayers – the top 1 percent of Americans – with adjusted gross income over \$344,000.

The current tax system is outdated and terribly inefficient. There are 73,680 pages in the I.R.S. code – up from 400 pages in 1913, and almost triple the 26,000 pages from 1984 – with more than 4,400 changes added since 2002. The classic novel “War And Peace” is 1,440 pages (less than 2 percent of these regulations), while the New American Standard Bible has just over 750 pages (less than 1 percent). My last book – *Crisis Of Confidence* – has ten chapters and 172 pages, but just the *Instructions* for completing IRS Form-1040 cover 142 pages!

The IRS has over 500 separate tax forms! A typical taxpayer probably fills out Form-1040 plus Schedules: A (itemized deductions), B (interest and dividend income), C (business profit and loss), SE (self-employment tax), D (capital gains and losses), E (supplemental income and loss), G (owning voting common stock), and H (household employment taxes). These eight extra forms have 103 pages of *Instructions* (we haven't even covered the California 540 and supplemental forms). Some of the more ridiculous forms are: Form-8834 Qualified Electric Vehicle Credit, 6478 Credit For Alcohol Used As Fuel, and 4868 Automatic Extension for filing. I always wonder if you're REALLY busy, can you file a form to get an extension on filing Form-4868 for an extension?

There are seven personal tax rates, ranging from 10 percent to 39.6 percent (remember, almost half the country doesn't even pay that 10 percent). There are 8 tax brackets for corporations – the average is 35 percent, the highest statutory rate in the world (Japan just lowered its corporate rates). While only a percentage of U.S. firms pay at the 35 percent rate, EVERY firm does have to come up with its own complicated tax strategy to legally avoid paying at that highest rate. The IRS even has an Alternative Minimum Tax (AMT) that kicks in if an individual uses the tax code to take various deductions to legally reduce taxes owed, but the IRS then decides to disallow those legitimate deductions for certain income levels, requiring the individual to pay the higher AMT.

Doing taxes has become an industry unto itself. There are 1.2 million individuals in the U.S. who do tax preparation – compared to 1.4 million active-duty troops in the U.S. military. And something is very wrong with a system where one can earn a Master's of Science degree in taxation (?!), a Law degree with a specialization in tax litigation, or

even a PhD in tax strategy. The *National Taxpayer Advocate* reported that in 2011, individuals and firms wasted 6.1 billion hours in tax compliance. At 40 hours per week, that's the equivalent working productivity of over 3 million full-time employees – larger than our nation's Manufacturing (11.5 million workers), Retail (14.4 million), Healthcare (18 million), and Construction (9.7 million) industries. A 2011 report: *Economic Burden Caused By Tax Code Complexity*, found that almost \$400 billion is wasted on personnel, software, people's time, and paperwork in annual tax compliance in the U.S. And while companies will always need professionals to do accounting (payroll, revenue and expenses, payables and receivables), reforming and simplifying the tax system would generate significant savings to households and businesses, as well as huge reductions in wasted time and costs, all of which would then be reallocated to productive commercial enterprise activities like designing new products, expanding marketing channels, improving communications-IT infrastructure, and hiring more workers.

The IRS has an annual budget of \$12.8 billion for just over 100,000 employees, and is already hiring another 16,500 agents to enforce Obamacare compliance and collect penalties. This current system is too complex, hurts investment and savings, and is unfair on multiple levels. What's needed is a common sense simplified system that brings in the exact same REVENUE as the current code, but derives that from one flat rate on all individuals and businesses. Earnings below a certain minimum cut-off point would pay no taxes, and everyone else would pay at the flat rate. Several well-respected economists, including Art Laffer (he worked with Jerry Brown on a flat-tax in 1992) have developed excellent 12-percent models. I did an informal survey of 14 local colleagues about how much they paid in federal and state income taxes as a percentage of gross earnings in

2012. The range was between 10.78 percent and 14.23 percent. Imagine a system where employers deduct the 12 percent before paying their workers, and that's it. Employees could then spend and save their take-home pay however they choose, and there's nothing for an individual to file at year-end. All businesses would have a similar easy system of recording sales minus direct costs to arrive at gross profit, minus fixed overhead costs then arrive at pre-tax operating income, on which they'd send in 12 percent each quarter, and again, that would be it. Flat-tax reform would have an immediate positive impact on the U.S. economy, but all we're getting from Washington are higher tax rates, more types of taxes (Obamacare), and continued deficit-spending at record levels. So while 2013 tax revenues are expected to be \$2.71 trillion, President Obama will spend \$3.68 trillion, and add a \$972 billion deficit to the national debt.