

» Sherline: Tax Facts 2011 Commentary

<http://www.gopusa.com/commentary/2011/04/19/sherline-tax-facts-2011/>

April 19, 2011

By **Harris R. Sherline** April 19, 2011 6:18 am



With the due date for filing individual income tax returns having just passed, this seems like a good time to reflect on the annual ritual of self-flagellation that Americans are forced to endure each year. The April deadline has become a sort of rite of passage for citizenship, although as things stand today almost half of all workers don't pay any income tax at all.

Following are some random facts (in no particular order) about our income tax laws, who pays and who doesn't, and the impacts our system of taxation has

on the nation's productivity:

When the 16th Amendment to the Constitution established the federal income tax in 1913, the intent was to tax only the very rich. Rates began at 1% and increased to 7% for taxpayers with income in excess of \$500,000 (\$10,888,595 in today's dollars). Less than 1% of the population paid any income tax at all, compared with almost 50% of taxpayers paying as much as 35% of their taxable income today.

The top 1% of wage earners pay almost 39% of total individual income taxes, while the top 25% pay about 86%, and the top 50% pay approximately 97%. Translation: Just half of all taxpayers pay almost 100% (96.93%) of all income taxes, while almost 50% pay no income taxes at all.

The Internal Revenue Service (IRS) has approximately 95,500 employees (FTEs or full-time equivalents), and a total budget of \$12.1 billion.

Estimates of unreported commercial activity in the U.S. amount to as much as one trillion dollars a year, and the IRS Oversight Board report for fiscal 2007 notes that the tax gap, "the difference between what is owed and what is collected...is estimated at \$345 billion of lost revenue annually." Question: If it's an underground economy, how does the IRS know how much income is not reported?

The Cato Institute reported that businesses and individuals now waste over 6.6 billion hours on federal tax compliance activities each year, which the Tax Foundation estimated amounted to \$265.1 billion in 2005. That's equivalent to over three million people working full time, just to deal with tax compliance. This amounted to a 22% tax compliance surcharge on the total amount collected through the tax system.

The Gettysburg Address is 269 words, the Declaration of Independence is 1,337 words, and the Holy Bible is 773,000 words. And, the tax law has grown from 11,400 words in 1913 to over 7 million words today. (Tax Lawyer's Blog, 10 Interesting Tax Facts). Our tax laws have become so complex and contradictory that no one, not even the most brilliant tax professionals, including IRS experts, fully understand them.

There are at least 480 different tax forms, each with many pages of instructions. Even the easiest form, 1040EZ, has 33 pages of instructions.

The IRS sends out 8 billion pages of forms and instructions each year. Laid end to end, they would circle the globe 28 times. 300,000 trees must be cut down every year to produce enough paper for all the IRS forms and instructions.

When the General Electric Co. filed the corporation's tax return electronically, it took 24,000 pages to document. The Associated Press (June 1, 2006) noted, "If GE had sent paper forms, the return would have staked up eight feet high..."

In 1993, the General Accounting Office (GAO) audited the IRS for the first time in its history and found widespread evidence of financial malfeasance and gross negligence, including the fact that the agency was not able to account for 64% of its congressional appropriation.

The Alternative Minimum Tax (AMT) "was created in 1969 to target 21 – yes, 21 – millionaires who had managed to avoid paying any taxes at all." (Wall Street Journal, April 14, 2007). "This year more than three million taxpayers will be hit by the Alternative Minimum Tax on the(ir) 2006 income. But next year (2007) that number could have increased to 23 million..." Note: it didn't, only because Congress passed a so-called "patch" to prevent it.

The federal income tax, currently as high as 35% of taxable income, is increased by as much as 9.3% in California income taxes, plus another 6.20% and 1.45% in social security and Medicare taxes, which makes the total tax burden for some taxpayers almost 52%, not including excise, sales and property taxes, along with a host of other taxes, assessments and fees too numerous to mention. Medieval serfs were required to give only one-third of their production to the lord of the manor, and they were considered slaves.

Households in the lowest 20% of income received about \$8.21 in federal, state and local government spending for every dollar of taxes paid (in 2004), while those in the top 20% received only 41 cents in benefits. (Tax Foundation Working Paper No. 1, March 2007).

It's worth noting, I think, that when I started practicing public accounting in the early 1960s, the filing deadline was March 15, not April 15, and only one 90-day extension was permitted. Today, the due date for filing is April 15, and it is possible to obtain a six-month extension - to October 15 - primarily because of the increased difficulty of obtaining the necessary information and the complexity of preparing and filing tax returns.

Some societies view taxation as a contest between tax collectors and citizens, with payment or avoiding payment of taxes as the prize. But we are different we are told, because Americans voluntarily, that is, willingly, file tax returns and pay their taxes. Baloney! If that's true, why do we hear so much about taxes not being paid by people who work or do business in the "underground economy"? Would you file a tax return if you were not afraid of the consequences of not filing?

Putting aside the government's hype and PR initiatives, the reason our income tax system is so successful is FEAR. Fear of being audited, fear of being assessed, fear of tactics employed to collect unpaid taxes, fear of intrusion into our personal affairs, fear of not being able to defend ourselves against the unlimited power of government in general and the IRS in particular.

I believe the IRS has carefully cultivated this image over a period of many years. Who can say that they don't have a sudden, albeit perhaps brief, fearful reaction when they find a letter or notice from the IRS in their mail? I know I do, and I'm a retired CPA. I don't want to hear from them, ever! When I do get some sort of communication from my friendly tax agency (federal or state), I just know it's going to cost me time, money and aggravation. Perhaps you've noticed over the years that around tax time it's common to see a spate of media stories about delinquent taxpayers. In my opinion, that's no accident. Case in point is an April 14 Sacramento Bee article about the Franchise Tax Board releasing its annual list of delinquent taxpayers, which adds up to over \$193 million. (See: <http://www.ftb.ca.gov/individuals/txdlnqnt.shtml>)

One of Ronald Reagan's many sage observations sums up the situation rather neatly: "The taxpayer: That's someone who works for the federal government but doesn't have to take the civil service examination."

For my part, I believe Americans are over-taxed and under served by our government, while our politicians are constantly looking for ways to impose new taxes under the radar of public scrutiny

and awareness. Will it ever end? Probably not, until we have allowed ourselves to be taxed into near or complete oblivion.

Read more of Harris Sherline's commentaries on his blog at www.opinionfest.com

VN:F [1.9.6_1107]

Rating: 10.0/**10** (2 votes cast)

Sherline: Tax Facts 2011, 10.0 out of 10 based on 2 ratings