



TAXES, CHARITY, AND CONTROL

By Larry Butler ([about the author](#)) Page 1 of 1 page(s)

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With all the controversy surrounding government spending, why are we not focusing more upon the revenue side -- tax collections? The federal income tax model is inequitable, inefficient, and out of control. It needs to be dismantled and retired.

The US income tax system tries to do way too much. Its purposes today include three broad overt objectives: (1) collecting revenue; (2) distributing charity; and (3) controlling the populace. As a consequence of this mixed mission, it simply doesn't do anything well. Worse, its complexity enables the special interests that have successfully hijacked the broader economy in which the tax system functions.

Collecting revenue is a failed function of the IRS system. Personal income tax collections financed only about one-fourth of the FY2010 federal budget outlays; another one-fourth came from social security taxes; another one-eighth came from corporate income taxes and duties. The remaining portion of the \$3.7 trillion in outlays was financed through borrowing, thus adding to the national debt.

Charity begins at" the IRS?! Within the convoluted system of tax collections is a complex system of deductions, credits, and outright doles, only some of which benefits the poor of this country. Financial assistance can be found in tax credits triggered by earned income among poor wage earners, child and dependent care costs, first-time home purchases, and even in the structure of exemptions for large numbers of children in a family. But it can even be found in the corporate tax code as outright subsidies for oil

companies and agribusiness, the need for which is refuted by the income statements of the corporations in these sectors.

Controlling the decisions of the people has long been a function of our income tax system. The most fundamental life decisions -- including whether or not to marry, how many children to have, whether to own or rent our home -- are influenced by the incentives and penalties found within the tax code. Whenever we stop to consider the tax impact of a personal decision, we are handing over some of our freedom to those who want to control us. The government is like a kindly old uncle who stands ready to nudge our own values to make sure they conform to his own. But wait -- how kindly is an uncle who grants tax breaks to the richest and most influential of its citizens? Special treatment of dividends and capital gains favors the rich, and the rest of us pay for these favors in the form of higher taxes and continuing budget deficits.

A system that combines three conflicting objectives makes for inefficiency and complexity. Every time a special favor is negotiated for one tax segment, the political process requires that offsetting favors be included for other interests. Over the years the system has evolved into a giant labyrinth that harbors all manner of fraud and deceit. The IRS itself estimates that \$300 billion in taxes remain uncollected annually. The Beacon Hill Institute estimates that the cost of collecting taxes approaches 17% of the amount collected. And the Cato Institute estimates a price tag of another \$265 billion for record keeping, learning tax rules, and other compliance costs.

Collections, charity, and control -- these three objectives need to be separated from each other. Control should be left to the already bloated system of laws and regulations on the books. Charity should be disbursed as direct payments so that we can see exactly who gets how much money. And collections should be simplified into a flat tax, perhaps along the lines of the following example.

Each person would be allowed \$48,000 per year in tax-free income from any source, above which a tax rate of 24% would be applied. There would be no deductions, exemptions, or credits. Corporations would be treated the same, except that dividends paid would be deducted from taxable net income. The first result would be to cut the annual budget deficit nearly in half! With more money in the hands of those most likely to spend it, economic stimulus would follow. In addition, the army of IRS agents with nothing better to do could then turn their attention to the backlog of unpaid taxes from years gone by. Best of all, some of our personal freedoms would be restored by kicking Uncle Sam's kindly old butt out of our most personal financial decision processes.

None of these things can be accomplished by fine-tuning the existing tax code; it must be thrown out completely. I invite you to add your voice to mine, demanding a new and simple tax system that is dedicated solely to financing the operations of the federal government.