

NATIONAL REVIEW

It's Time to End Automatic Tax Withholding

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Tax Day marks the culmination of a season steeped in dread and procrastination for many Americans. This annual ritual should serve as a stark reminder of our relationship with the government. Yet, the meaning of Tax Day has been distorted by an institution we take for granted: automatic withholding.

Introduced during World War II to ensure a steady revenue stream for federal projects, income-tax withholding greased the wheels for an expansion of the income tax and decades of government growth.

By automatically deducting taxes from employees' earnings each pay period, withholding seemingly alleviates the burden of saving for a lump-sum payment when the tax man comes calling. This "out of sight, out of mind" approach to tax collection obscures the true cost of the income tax. And because most people over-withhold throughout the year, two-thirds of Americans get a check from the government when they file their taxes — an Orwellian spectacle of fiscal misdirection.

Before 1943, Americans paid the previous year's taxes as a lump sum on April 15 or through installments over the following year. The transition to a pay-as-you-go withholding model posed a dilemma: It necessitated paying taxes for two years out of one year's earnings. Congress's solution was to forgive 1942 tax bills and start pay-as-you-go collection the following year. Automatic withholding was called a tax cut. Public resistance dissipated.

This shift aided the transformation of the income tax from a "class tax" paid only by the rich to a "mass tax" paid by most working Americans. Originally a limited tax on a few high earners, the income tax expanded over time, first as top tax rates were raised and then as the tax base was broadened to include more middle-class incomes. Collecting taxes as a routine part of wage payments made this expansion easier.

Withholding's fiscal confusion doesn't just cut one way. Following the 2017 tax cuts, the IRS adjusted withholding guidelines, giving people a tax cut in real time in each paycheck. But come April 15, many Americans, including some U.S. senators, thought taxes had increased. Why? Despite paying thousands of dollars less in taxes, some people found that their refunds had shrunk from the previous year.

Our tax system's complexity makes it nearly impossible for Americans to discern their tax liabilities. When employers act as intermediaries in tax collection, they obscure understanding and confuse the act of tax paying.

Now, there are efforts in Congress — and a pilot program at the IRS — to further entrench automatic taxation by letting the government calculate taxes for individuals, ostensibly simplifying the process. Yet, this proposal rings all too familiar, echoing the justifications for automatic withholding — convenience at the expense of transparency and autonomy.

Democracy thrives on engagement and accountability, qualities undermined by automating such a significant civic duty as tax payment. While convenient, the practice of income-tax withholding, or worse, automatic tax filing, distances citizens from the financial workings of their government, diluting their sense of participation and oversight.

It's time for Congress to stop conscripting employers as tax collectors. Americans should pay their own taxes, even when it's costly. Many Americans might conclude that they pay too much, or the tax system is too complex.

Ending income-tax withholding could invigorate the principles of democracy itself, restoring a sense of direct contribution and oversight over government spending and taxation.

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