

## Obama's Tax Plan Is Not Simple

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Obama's tax plan would create "A Simpler, Fairer Tax Code," according to the official fact sheet. The president's budget uses "simplify" numerous times in describing the plan, and the president declared in his State of the Union address "let's simplify the system."

Alas, the White House political team decided what the spin would be before looking at the actual plan. President Obama's plan would make the tax code more complicated, not simpler. It would require more tax forms, more calculations, and more federal administration and enforcement, while necessitating more tax planning by families and businesses.

Here are some of President Obama's pro-complexity proposals:

- Tax 529 college savings plans. Luckily, this idea was dropped, but the episode illustrated the lack of thought Obama puts into imposing new tax compliance burdens.
- Expand the earned income tax credit (EITC). The fraud and error rate in the EITC is already more than 20 percent, partly because the credit is so complicated. Expanding benefits would boost fraud and errors.
- Create a \$500 tax credit for two-earner families. This would require a new tax form, generate more errors, and impose administrative burdens on the Internal Revenue Service (IRS).
- Tax capital gains at death. This would be much more complicated than the current system of stepping-up the basis of assets at death, partly because of all the rules related to income levels and exemptions under the plan.
- Impose a new bank tax. Such a tax would require new tax forms and a new division of expert administrators at the IRS. It would also impose compliance burdens on banks, and prompt them to design accounting structures to avoid the tax's costly bite.
- Expand the child care credit. This would induce more families to fill out the related tax forms, and would prompt more people to cheat because the credit would be tripled to \$3,000 per child. More cheating would generate higher IRS administration and enforcement costs.

- Impose a “Fair Share” or Buffett tax on high earners. This would add more calculations to tax forms and encourage accountants to create more tax shelters to avoid it. The new 28 percent limit on deductions for higher earners would also add complexity.
- Increase cigarette taxes by 94 cents per pack. Aside from hitting low-income Americans, this tax hike would increase organized crime in cigarette black markets. Perhaps the White House missed this in the *Washington Post* recently: “Smugglers with ties to terrorist groups are acquiring millions of dollars from illegal cigarette sales and funneling the cash to organizations such as al Qaeda and Hezbollah.” Higher cigarette taxes would prompt more terrorist financing, which in turn would generate more complicated and costly federal enforcement efforts.

These are only some of the pro-complexity items in Obama’s tax plan. The detailed list tax of proposals in his budget includes many new and expanded narrow breaks — such as a new “carbon dioxide investment and sequestration tax credit,” a new “manufacturing communities tax credit,” and a new “tax credit for the production of advanced technology vehicles.” I’m not sure whether the IRS’s 1960s-era computers could even handle all these complicated new hand-outs.

Obama’s budget also supports complex tax subsidies that aid businesses, but that masquerade as low-income breaks. The budget would expand Low-Income Housing Tax Credits, for example, even though studies have found that much of the benefits go to banks and developers, not low-income tenants.

Similarly, the budget would extend the New Markets Tax Credit (NMTC), which was blasted in former Senator Tom Coburn’s recent “Tax Decoder” report for being a giveaway to financial institutions. It is a hugely complex and nontransparent break. U.S. Bank alone employs two dozen people to administer NMTCs, which prompted Coburn report author Joelle Cannon to note that “the NMTC may be more effective in creating jobs for Wall Street bankers and tax lawyers than for those looking for work on Main Street.”

The president promised us “middle-class economics,” but his tax plan is more like H&R Block economics. The only winning “class” in society would be the tax accountants.

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