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Filing While Rich: The IRS Vs. Success

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Taxes: This time of year you hear a lot of politicians call for an end to discrimination. Maybe the IRS should spread some holiday spirit and stop discriminating against successful Americans.

When police are accused of racial profiling, critics call it making an arrest for DWB -- driving while black -- as opposed to DWI -- driving while intoxicated. But another government law enforcement agency, the Internal Revenue Service, habitually discriminates against taxpayers based not on the color of their skin, but on the content of their paychecks.

In other words, FWR -- or filing while rich -- is the crime.

If you make more than \$200,000 annually, the IRS apparently assumes you are likelier to be a financial criminal than those of modest incomes. According to the enforcement numbers released last week by the agency, 99% of those who make less than that don't get audited; go above it, and your chances triple -- from 1% to 3%.

Make more than \$1 million a year, and that 3% doubles to 6%. And there seems to be a substantial increase this year in the tax man's harassment of those at higher incomes, with audits up 30% from 2008 to 2009 for those above \$1 million a year, and 11% for those above \$200,000.

Does that mean a corresponding drop in auditing for those below \$200,000? Of course not: Of the 1.4 million enforcement actions the IRS carried out during the last fiscal year, the number targeting those with more modest income has remained about the same.

Tax-exempt organizations are also being targeted more often by the IRS, with more than 10,000 of them examined in 2009; fewer than 8,000 were scrutinized in 2008.

The IRS is strutting its compassion during this season of good cheer, telling AP that "while our assessments were up, the ability to pay went down drastically" because of the recession, as IRS deputy commissioner for enforcement Steve Miller put it.

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"We can have them pay partially, over time," Miller said. "We have to ensure there's a balance between our responsibility to collect taxes with economic realities. We give people more time and determine how fast they can pay and whether they can pay."

The funny thing is, with the big increase in audits for the wealthier, total revenues collected from IRS enforcement actions have substantially dropped. The agency collected less than \$50 billion in fiscal 2009 compared with more than \$56 billion in 2008 and nearly \$60 billion in 2007.

The temptation to be resentful of the successful may be a permanent feature of human nature. But is there anything that violates the Christmas spirit more? Practicing charity means rejoicing at the good fortune of our neighbors, especially when it's due to their talent and industriousness.

What's more, much of the success of this country's increasingly threatened system of economic freedom stems from the practice of exactly this spirit -- during every season. As Ebenezer Scrooge's second ghostly visitor tells him, the spirit of this season should not "live in men's hearts only one day of the year, but all the days of the year."

Cato Institute senior fellow Daniel Mitchell notes: "Unlike European welfare states crippled by redistributionist policies, the United States has prospered because success is admired rather than envied."

Yet a CBS News-New York Times poll earlier this year found that 74% of Americans favored raising taxes on those making more than \$250,000. And in the midst of all this envy and jealousy, the richest 1% of Americans pay more than 40% of all income taxes, according to the most recent IRS statistics; the richest 5% pay nearly 61% of income taxes; the richest 10% pay 71% of income taxes; and the top 50% pay no less than 97% of all income taxes.

Meanwhile, the bottom 50% -- we can call them our "better half" as far as taxation goes -- pay less than 3% of total income tax revenues.

This holiday season, as we count our blessings, let's hope the S in IRS won't someday stand for Scrooge.

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