
Obama's Proposed New Tax Will Multiply Red Tape and Enrich Tax Lawyers and Accountants More than the Treasury

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I have argued that “[significant tax increases](#)” may be necessary as part of a deficit reduction deal, given the enormity of the deficit and America’s fiscal crisis. But Obama’s incredibly-complicated recent proposal to impose a new tax on some of the wealthy is a very inefficient and costly way to do that. [NOTE: The tax I am talking about here is the so-called “Buffett tax,” not the expiration of the Bush tax cuts for upper-income households, which Obama also supports]. As [Daniel J. Mitchell](#) notes, the tax increase might yield only \$19 billion or less annually for the U.S. Treasury, while resulting in lots of red tape, and wealthy people spending lots of money on structuring their affairs so as to avoid the new tax, to the point where lawyers and accountants who handle people’s taxes will “[celebrate](#)” due to all the new tax paperwork. Mitchell says that the new tax will cut the size of the economy, and wipe out jobs, while “accountants and tax lawyers (and don’t forget bankruptcy specialists) will get more business if Obama’s plan is implemented.”

The new tax resembles the Alternative Minimum Tax (AMT) in its wastefulness. The tax code already requires many wealthy and middle-class households to fill out Form 6251 to see if they are subject to the AMT, even though most discover after completing the form (which sometimes takes hours) that they are not in fact required to pay the AMT. The new Obama proposal will create a “[turbo-charged](#)” version of this red tape burden for wealthy households, requiring many to fill out a form that will ultimately require only a fraction of them to actually pay substantially increased taxes. It will also increase taxes on income that “[already is double taxed](#)” and punish thrift and investment by classifying “dividends and capital gains as ‘preference’ items.”

Obama’s new proposal seems to be motivated by a desire to redistribute wealth even at the cost of harming the economy and destroying jobs. That’s consistent with what Obama said in his 2008 campaign, when he admitted that he would [support increases in capital gains tax rates to redistribute wealth even if the increased rates resulted](#) in tax revenue going down due to reduced economic growth.

In addition to being more complicated than a simple increase in marginal tax rates, Obama’s proposal will also raise less revenue. The added red tape it creates will reduce economic growth and thus offset whatever additional revenue it might bring in. (Increasing marginal tax rates usually results in increased government revenue, although increases in capital-gains tax rates sometimes actually cut tax revenue by discouraging asset sales or reducing the value of the underlying asset. Contrary to conventional wisdom, capital gains are not effectively taxed at a lower rate than ordinary income, since capital gains taxes are levied on even phantom inflationary gains — if you sell an asset whose “value” rose only due to inflation, you have to pay the tax on the amount of the inflation — and since capital gains are subject to unfair “heads I win, tails you lose” rules by the government, such as arbitrary limits on recognition of net capital losses to a pitifully small \$3,000 per year, and exclusions of certain losses but not gains from taxable income due to various provisions like the “wash sale” rules).

While Obama's recent proposal to increase taxes on the wealthy is consistent with his campaign rhetoric, the same can't be said of some of his other tax and spending increases, which have violated many other campaign promises. For example, he violated his campaign pledge of a "net spending cut," through record spending increases and trillions in deficit spending. And he violated his pledge of no tax increase on people making less than \$250,000 a year by increasing excise taxes on the middle class, and by imposing a new tax on investment income that goes into effect in 2013, new Medicare taxes that will go into effect in 2013, and new healthcare taxes beginning in 2014.

Obama's proposed tax increase is part of his misnamed "American Jobs Act." That \$450 billion proposal would fail to create jobs, drive up the size of the national debt, and waste money on failed federal programs that increase welfare dependency and bad work habits. It would also discriminate against certain industries through the tax code, and subsidize pork and boondoggles and failed green-jobs schemes. The "American Jobs Act" ignores experts' suggestions about how to create jobs, such as long-overdue regulatory reform.

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