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US tax system is broken, ridiculously complex and horribly costly (<http://bdtonline.com/columns/x333447125/US-tax-system-is-broken-ridiculously-complex-and-horribly-costly>)

By **JAMES H. "SMOKEY" SHOTT**
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"The fundamental principles of economics are not hard to understand," writes Hoover Institute fellow and economist Dr. Thomas Sowell, "but they are easy to forget, especially amid the heady rhetoric of politics and the media." Perhaps that helps to explain why so many Americans seem to think a \$14 trillion national debt and annual deficits of \$1.5 trillion aren't really a problem.

Misunderstanding or misapplying sensible economic principles is easily observed in the U.S. government, the governments of several of the United States, as well as the socialist governments of several European countries (that our leaders for some odd reason seem to think we should emulate). There is ample evidence illustrating that the path we are on leads over a very steep cliff, but many of our elected public servants seem undisturbed by this.

Current "progressive" reasoning holds that everyone should be financially equal. There should not be rich, poor and middle class; everyone should be middle class. Despite the fact that achieving this fairy tale is not possible, many in government attempt to equalize financial circumstances, but they do so by treating people unequally, which seems to be a logical inconsistency of that flawed philosophy.

Logical inconsistency and hypocritical processes are apparently OK when you are trying to impose equality on people who are legitimately and inherently unequal.

In order to make Peter, a physician earning \$250,000 a year, and Paul, a high school dropout who can't hold a job, equal, the American government has been tailored to take money from Peter through a high income tax rate and give it to Paul in the form of government support like welfare or unemployment payments. Socialist playwright George Bernard Shaw explained this concept thusly: "A government which robs Peter to pay Paul, can always count on the support of Paul."

This viewpoint has produced one of the most progressive tax systems in the world, according to Cato Institute senior fellow Richard Rahn, one that has become much more progressive in the past 30 years.

A "progressive" tax system is one in which higher income earners pay higher tax rates than lower income earners, never mind that wealthier individuals pay more dollars in taxes than those earning less, even if they aren't targeted with a higher tax rate.

Not only does our tax system depend upon unequal treatment to make everyone equal, its

complexity robs the economy of billions of dollars. Economist Arthur Laffer notes that taxpayers pay an amount approximately equal to 30 percent of total collected income tax to comply with and administer the U.S. tax code, about \$431 billion. Of that amount the Internal Revenue Service requires \$12.4 billion in administrative costs, and racks up another \$9.3 billion in costs for comprehensive audits.

And so, Mr. Rahn writes in *The Washington Times*, whereas the top 1 percent of taxpayers earns just 20 percent of total income, it pays 38 percent of all income taxes; the top 10 percent earns 46 percent of total income, but pays 70 percent of income taxes; and the bottom 50 percent earns 13 percent of total income, but pays less than 3 percent of income taxes. At some earnings level people do not make enough to warrant taxing them, but currently 47 percent of American households pay no income taxes. Is that right and fair? What stake do the non-payers have in how their government works?

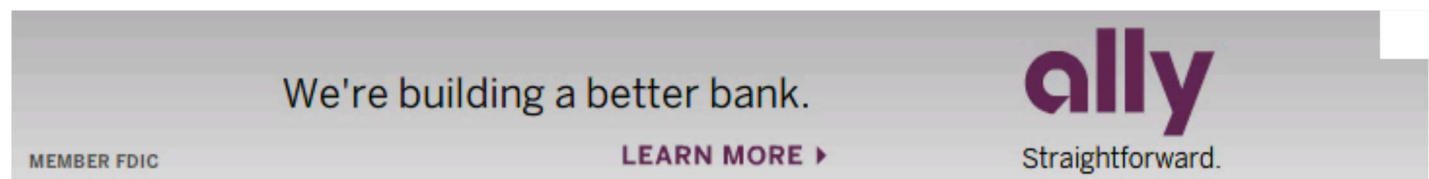
Those who foment class warfare look foolish when they screech about the rich not paying enough: they already pay far more than anyone else; 38 times their proportion among taxpayers.

Mr. Rahn says that when a relatively small minority of taxpayers pays the bulk of the taxes and most Americans pay little or no income tax, there's an increasing disconnect between benefits from government and what most citizens pay for. "One result is a greater polarization in the political realm where a majority of citizens increasingly demand (sic) more government benefits for which they want others to pay," he wrote.

Furthermore, "the Swedes were on this same destructive path, but they reversed course over the last couple of decades and made their tax system far less progressive ...," he noted. "The result has been a tempering of demand for new government services as people at all income levels realize they will be the ones paying for those services and not some mythical 'rich' person. The side benefit is that Sweden, as a result of tax and other reforms, now has one of the highest economic growth rates in the world."

President Obama, who was against extending the Bush tax cuts for all taxpayers before he took credit for extending them, now has a "debt reduction" plan of his own that would supposedly cut \$4 trillion from the national debt. If this sounds strange coming from someone who had to be dragged kicking and screaming to acknowledge that spending had to be brought under control, don't think a transformation has occurred. His plan relies on tax increases, including ending the Bush tax cuts for everyone and increasing taxes on those making more than \$200,000 a year, not spending cuts, the opposite of what worked for Sweden.

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