



Happy Tax Day! (or something)

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It's a day that nearly all of us dread. We have to make sure that our tax forms are filled out properly and all of our documents are correctly included and send them off to the Internal Revenue Service (IRS), hoping that we at least get some money back. Others of us cross our fingers and pray that we don't get audited on the return at some point later in the future.

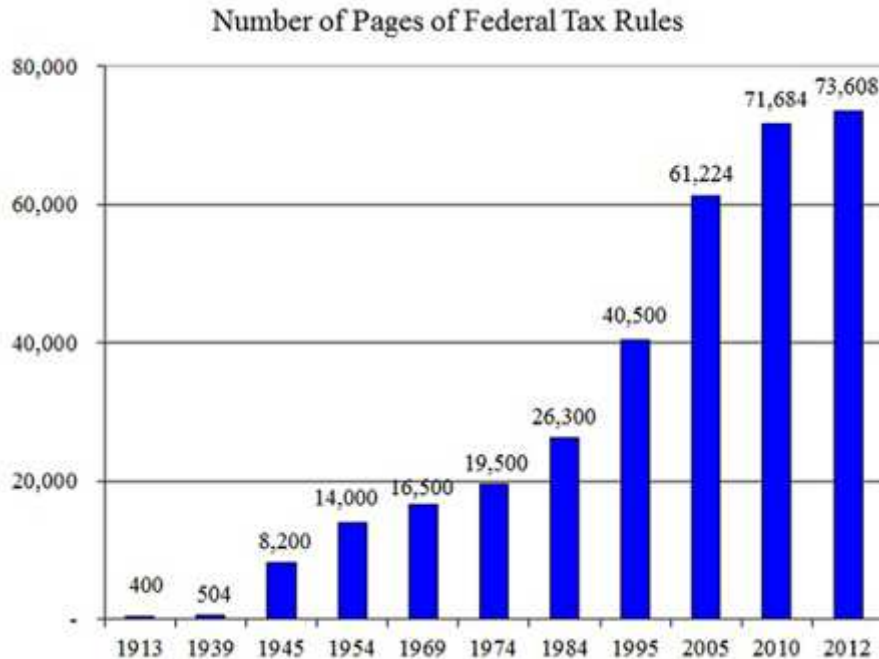
But Tax Day always gives us a chance to talk about tax reform, which almost seems like a unicorn in today's political climate. Some, including the White House, want to use the term as a way to raise taxes on politically convenient targets. Others, like Rep. Paul Ryan, are proposing a watered down, though mildly better, system that somewhat simplifies our tax code. Unfortunately, those of us wanting a system that eliminates ridiculous tax breaks and credits while at the same time creating a tax code that encourages investment and economic growth are left wanting.

Over at the [Cato Institute](#), Chris Edwards [explains why our current tax code is a complete mess](#) and how compliance costs are hurting the economy and taxpayers, no matter where they fall on the income scale:

The federal tax code is getting uglier every year as politicians from both parties add more credits, deductions and other special breaks. In the first year of the income tax in 1913, the 1040 tax form came with just one page of instructions. This year the instruction book for the 1040 is 189 pages long.

That's just one IRS tax form, but there are more than 500 others. Consider, for example, that the number of special tax breaks for energy has soared from 11 in 1995 to 26 today, and each break has separate tax forms, instructions, regulations and other paperwork.

The total quantity of federal tax rules is gigantic. Tax publisher CCH collects all the paperwork in one volume, and it currently spans 73,608 pages and covers nine feet of shelf space. That is more than triple the volume of tax rules as recently as the 1970s, as shown in the chart.



In a recent report, the IRS Taxpayer Advocate said that the compliance or paperwork costs for the federal tax code are more than \$160 billion a year. That cost represents pure waste to the economy — it's like throwing in the trash the entire retail sales of Target, Home Depot and Safeway every year.

[...]

All the different rates, deductions, credits and exemptions under the income tax create huge violations of the principle of equality under the law. For example, high earners typically pay a much higher share of their income in federal income taxes than do other Americans — despite President Obama's claims. IRS data show that households earning more than \$1 million annually pay about 25 percent of their income in federal income taxes, on average, which is more than double the average rate paid by middle-income households.

Even people with similar incomes are often treated unequally by the tax code because of all the special breaks for certain types of activities. The tax difference between a homeowner and renter with similar incomes, for example, could be thousands of dollars because of the special breaks for the former under the income tax.

The underlying cause of the tax-code mess is the political urge to socially engineer society. Many politicians are "class warriors," who favor penalizing high-income earners with complicated provisions such as the alternative minimum tax and Obama's

new Buffett rule. Class warriors also favor subsidizing low-income tax filers, such as with the earned income tax credit, which is so complicated that it has an error rate of more than 20 percent.

Other politicians are “subsidy warriors,” who push for special tax breaks to favored industries and favored types of families. They see the tax code as a tool to micromanage the economy — whether it is liberals pushing for solar power tax breaks or conservatives pushing for child tax breaks. We all end up being losers from this political activism because the resulting complex tax code wastes our time and reduces economic growth.

The good news is that some members of Congress are in favor of major reforms, such as scraping the current code in favor of a flat tax. The bad news is that tax reform has been blocked by other members who seem to have an insatiable urge to penalize some people and subsidize others. That damaging urge manifests itself on the spending side of the federal budget as well. In parallel with the rise of special tax breaks, the number of spending subsidy programs has soared from about 1,000 in the 1980s to more than 2,000 today.

Unfortunately, critics and class warriors would much rather demagogue the issue for political purposes instead of doing something that could make the United States the envy of the world once again. They would much [rather see the coming Taxmageddon](#) on January 1, 2013, when tax rates for all Americans will jump to pre-2001 levels and, [according to David Leonhardt](#), “after-tax income for the median household could fall next year to its 1998 level.”

Meaningful tax reform, such as a flat tax, could be what the United States needs to become a competitive economy, but until we have a president that stops playing games with our economy, real economic growth through the power of the market is unreachable.