

Taxes and Death

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Benjamin Franklin said, "Of two things you can be certain: death and taxes." What was true in the 18th century is somewhat less so in 21st century America, at least where taxes are concerned. On this day, April 15, when most Americans are either submitting their annual tax returns or struggling to request extensions of the deadline, it is appropriate to consider the current state of taxation. It is widely reported that 47 percent of Americans pay no federal income tax, a number that has increased dramatically under the Bush and Obama presidencies. Yes, the members of this 47 percent remain subject to withholding for Social Security (pension) and Medicare (post-retirement health care) contributions, but they are exempt from personal income taxes. This obviously increases the burden on those who do pay taxes, but a far more important consequence is the establishment of a more or less permanent class of people who feel free to demand ever-more generous services from government knowing that someone else will pick up the tab. As a people we have already grown used to fighting wars in which other people will serve and die in our place, and we now have a society in which the demand for services is increasingly disconnected from any notion of responsibility to pay for them. This can't help but erode the notion of what it means to be a citizen.

The United States is certainly not the most highly-taxed country in the world – according to most sources that honor goes to Denmark, whose citizens pay an average of 48.4% of their income in taxes while top earners pay a whopping 68% – but it does have one of the most complicated tax systems on the planet. The U.S. tax code itself weighs in at a relatively svelte 8,500 pages, surpassed by the U.K.'s (11,520 pages) and India's (about 9,000), but according to the libertarian Cato Institute and other observers, the inclusion of all IRS regulations, rulings, and tax court decisions swells the total to more than 67,000 pages. The original 1913 tax code ran to 16 pages, barely the size of a footnote in today's legislation, and even with all the regulations and explanations amounted to a mere 400 pages. Our tax laws are now so complicated even the IRS Commissioner himself hires an accountant to prepare his tax return.

There is no observable correlation between complexity of tax legislation and tax revenue. Total U.K. tax revenue (including personal and corporate taxes, value-added taxes, and property taxes) amounts to 39.0% of GDP. Total U.S. tax revenue (also including state income taxes and sales taxes) amounts to 28.3% of GDP, while in India the state collects only 17.7% of its GDP in taxes. Other countries, including Denmark and Sweden, New Zealand, France, and Germany, all of which raise a substantially higher proportion of GDP in tax revenues, have shorter tax codes, which may also be simpler than ours, though I haven't had the chance to peruse them all.

Some emerging economies, whose tax codes have been drafted with the help of international experts, achieve a degree of **concision** rare in more mature economies. Georgia's tax law, which covers personal and **corporate income taxes**, value added tax, excise tax, natural resource taxes, social contributions and payroll taxes (similar to our Social Security and Medicare deductions), manages to say everything it needs to say in 153 pages and still manages to collect 21.5% of GDP in taxes.

Complicated tax codes exist mainly to feed special interests, be they government officials, corporations, labor unions, farmers, lawyers and accountants, or tax preparers. What they take away with one hand they then give back (in part) with the other. Though in Washington, DC there are only some 12,500 officially registered lobbyists, **James Thurber**, who heads the Center for Congressional and Presidential Studies at American University, estimates that the number is at least 90,000 when you count all the non-registered people like corporate executives, state and local government officials, and labor union officials who do substantial unofficial lobbying, but not counting support staff, which would at least double the number. That's bigger than the entire American steel industry, which employs fewer than 160,000.

The main activity of all these lobbyists is to push for special tax treatment of the industries they support or, in some cases, to push for higher taxes on things such as pollution, smoking, tanning salons, and saturated fat, of which they disapprove. Okay, the NRA also threatens to punish any legislator who votes for gun control, and the tobacco and alcohol lobbies are preoccupied with making sure their products remain legal, but for the most part the game is all about tax breaks and subsidies. Simplify the tax code and it puts a lot of lobbyists out of work and deprives politicians of one of their main sources of campaign funds. Simplify the tax code and it reduces the corrosive effects of money on the political process far more effectively than any kind of campaign finance reform, with the added advantage of leaving the First Amendment intact. It might, incidentally, lower tax rates for most people while also broadening the tax base. That could be considered elementary fairness. Experience also shows that it raises more revenue. As a side effect, it might also get more people to feel more connected to and responsible for their government and its actions.

No doubt there are arguments for maintaining the tax system just as it is, and I'd love to hear from anyone who can think of one.