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Tuesday, April 13, 2010

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US Tax Compliance Costs Highlighted, by Mike Godfrey, Tax-News.com, Washington
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The Center for Freedom and Prosperity (CF&P) has released a video in an attempt to highlight how uncontrolled growth in the US tax code has stifled the US economy, creating a huge 'tax industry' in the process.

Entitled 'The Onerous Compliance Cost of the Internal Revenue Code,' the mini-documentary examines how special interest loopholes and rising paperwork force taxpayers to devote ever larger amounts of time, energy, resources, and money in the hope of figuring out the right number to put on their tax returns.

"The tax code is not only too complicated and arcane but also extremely ambiguous," said CF&P President Andrew Quinlan. "The average taxpayer is saddled with the burden of trying to figure out complex questions and often has very little hope of figuring out the right answer."

To illustrate this point, the presentation cites an annual survey formerly conducted by Money magazine which sent a hypothetical family tax return to 50 tax preparers, which, on one occasion, resulted in 50 different answers.

"The current system is anti-growth because of punitive tax rates, but that's just the economic cost," added Dan Mitchell, Cato Institute Senior Fellow and Chairman of CF&P. "Billions of hours and hundreds of billions of dollars are wasted each year on compliance."

This year, it is costing about USD12bn just to fund the Internal Revenue Service (IRS), and the Tax Foundation has calculated that US taxpayers will fork out a total of USD338bn to try and comply with the tax code.

With the tax code having grown from 718,000 pages in 1955 to more than 7 million in 2005, the IRS National Taxpayer Advocate has estimated that taxpayers spend a total of 7.6 billion hours per year complying with filing requirements. It would take 3.8 million full time workers to consume these hours, effectively making the tax industry one of the largest industries in the United States.

"All of the bad policies and complexity is the result of 97 years of social engineering which began on that dark day in 1913 when the income tax was created," says Hiwa Alaghebandian of the College of William and Mary in the video.

The CF&P advocates replacing the current progressive income tax system with a flat tax. In 1995, professor Arthur P. Hall estimated that the introduction of a flat tax would reduce compliance costs by 94%.

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