

# The Washington Times

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## Making tax day less painful

By Andrew L. Yarrow

Marie Antoinette is said to have asked Louis XVI's finance minister, "What are you going to do about the deficit?" To which, the good minister — not unlike many an American politician today — purportedly answered: "Nothing Madame. It is too serious."

As tax day approaches, it is worth considering the fate of the young queen, whose husband failed to implement reforms, and the words of the king's aide. At \$9.3 trillion and rapidly growing, federal debt is indeed serious, and failure to rein in spending or balance it with revenues portends serious long-term pain for the American people, economy and government if nothing is done.

It's no news that the elephant in the room is entitlement spending, as yesterday's Social Security Trustees' report makes clear, but, with April 15 looming, it is worth considering the role of our tax system, not tax rates, in exacerbating America's debt. Liberals and conservatives can disagree about tax rates or types of taxes, but it is hard to disagree that how the United States collects taxes could not be much more dysfunctional.

Almost no one likes taxes, despite Oliver Wendell Holmes' injunction that they are the price for a civilized society. Moreover, almost no taxpayer, expert, or politician likes the current U.S. tax system, which is insanely complex, grossly unfair and horribly inefficient. Even with TurboTax, the only ones who may benefit are

accountants.

Several basic problems are inherent in our current system: (1) filing taxes wastes stunning amounts of time and money; (2) huge amounts of owed taxes go uncollected because cheating has become as common as steroids in sports; (3) too many Americans simply pay no taxes; and (4) many tax subsidies are corporate and special-interest welfare.

Income taxes, with 900 or so IRS forms, devour 3.4 billion hours of Americans' lives every year, or 25 hours per taxpayer. They cost the average filer \$200 in out-of-pocket expenses, the U.S. economy untold billions in lost productivity, and IRS compliance costs are one-tenth to one-seventh of the amount of taxes collected. Between the costs of preparing taxes and the lost income from time that could be spent productively, or more enjoyably, paying taxes cost our country between \$240 billion and \$600 billion in 2005, according to the Government Accountability Office — all to raise about \$2 trillion.

Secondly, as Will Rogers once said, "The income tax has made more liars out of the American people than golf has." In one recent year, about \$300 billion in taxes owed — more than recent deficits — went uncollected, as citizens, so fed up with the IRS or so willing to cut ethical corners, fail to report income. Polls have found that at least one-fifth of Americans publicly say it's OK to cheat on your taxes. And that's only

those who admit, in essence, to being liars.

In addition, one-third of Americans pay no income taxes, up from one-fifth in the mid-20th century. While many are low-income, there are good citizenship reasons for all Americans to pay taxes, even if this is not a big revenue-raiser.

The fourth arena — called "corporate welfare" by Ralph Nader liberals and Cato Institute conservatives — involves hundreds of billions of dollars in forfeited revenues from market-distorting tax breaks to business and special interests.

Maya MacGuineas of the Committee for a Responsible Federal Budget says that these \$800 billion a year in "tax expenditures are really spending programs designed to look like tax cuts."

Some are reasonable; many are not. These range from farm subsidies for our mythic family farmers to the granddaddy of them all — the \$225 billion-a-year exclusion for employer-based health care. This exempts corporations and individuals from paying taxes on the value of health insurance, which, in turn, distorts and encourages health-care spending.

Though tax-reform ideas are as legion as pollen on a balmy spring day, addressing these four issues alone would go a long way toward reducing deficits. They also are where bipartisan agreement would be relatively easy.

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While the devil may be in the details, tax simplification is a no-brainer. We could eliminate most forms for most taxpayers; go to return-free filing, putting the onus on the government, as Grover Norquist has suggested; and/or adopt a Simplified Income Tax proposed by the Urban Institute's Leonard Burman, with a single family credit, a refundable work credit, a 15 percent mortgage credit, no state or local tax deduction and a built-in 401(k).

As for collecting owed taxes, if Americans were less angry about the system and honesty were encouraged by leaders, taxpayers might be less likely to cheat. If not, beef up enforcement. The Internal Revenue Service has lost 20,000 positions since 1992, with the audit rate falling from 2.15 percent in 1978 to 0.58 percent in 2001. No one likes audits, but they enforce the law and reduce deficits.

The employer health-care exclusion and many agricultural and corporate subsidies are often seen as prime candidates for exclusion. More controversial are much-loved deductions. Mr. Burman's simplified approach, or capping the mortgage deduction at, say, \$250,000, would bring simplicity, fairness and revenues.

Yes, reducing long-term debt requires many other reforms — most notably of entitlement spending — but Tax Day could help us focus on much easier, tax-system reforms that could win broad support across the political spectrum.

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