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YOUR VIEW

Simplifying U.S. tax code could benefit everyone

November 08, 2010

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The elections are over! And the American people now expect substantial bipartisan progress on critical challenges facing the country. Where should Congress and the president begin? Substantial [tax](#) simplification will be difficult but provides an opportunity for changes that will immediately benefit most Americans without requiring either party walk a political plank.

The current complexity of paying [taxes](#) imposes a real burden on taxpayers much greater than the actual revenue collected by Uncle Sam.

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First, there is the time and money spent preparing one's taxes. This cost of tax compliance is expected to reach an estimated \$390 billion in 2011. In other words, in addition to the more than \$1.2 trillion collected in personal income taxes, we or our employers will pay an additional \$390 billion to prepare our taxes — almost \$1,300 per person. But the burden of our incredibly complex tax system is not limited to the difficulty of completing a return.

Second, in an attempt to avoid taxes, individuals and firms make different — and less than optimal — choices. For example, having more than 25 employees requires more complex tax-related record keeping. So a small business may decide not to hire a 26th employee but rather require overtime from existing employees or substitute a computer for a worker. This leads to less [efficiency](#) and higher unemployment.

Third, our current system leads to great frustration among honest taxpayers who just want to pay their fair share — no more and no less. As a frustrated neighbor said last April, "I'm never sure whether I'm a tax crook or a tax sap!"

The almost 72,000 pages (56 times longer than Tolstoy's "War and Peace") in the [federal tax](#) code are difficult for the average citizen to understand but also baffle government officials. Treasury Secretary Timothy Geithner, who runs the Internal Revenue Service, discovered just before his confirmation hearings that he owed more than \$42,000 in back taxes. More recently, it was reported that 41 aides in President Obama's White House owe the IRS about \$831,000. In fact, federal government employees (including some IRS workers!) and government retirees owe more than \$3 billion in back taxes.

Finally, our confusing tax system injures the international competitiveness of U.S. firms. The World Bank's annual "Ease of Doing Business" publication reports that the United States is one of the best 25 countries for business in nine out of 10 categories. The only exception is [paying taxes](#), where the United States ranks 61st. And our situation is deteriorating; last year we were 54th. According to the World Bank, a New York City firm with 60 employees must pay taxes to 12 different government entities. Preparing, filing and paying these taxes take a typical U.S. firm three times longer than similar firms in Switzerland or New Zealand.

Sharply reducing the complexity of the federal tax law has the potential of cutting the tax burden, increasing efficiency, reducing frustration for firms and individuals, and increasing international competitiveness without reducing government

Tax Code
Tax System

revenue. But previous attempts at substantial tax simplification have always runs into the same obstruction: Love of loopholes.

While we would all benefit from a radical tax simplification, individual firms and persons would profit greatly if their loophole survives. This supports a rapacious industry of lobbyists, lawyers and accountants dedicated to preserving or expanding tax loopholes for their clients. As a result, attempts to gradually rationalize the tax code are doomed to failure since each small improvement fails to rally the public and yet is vigorously resisted by those adversely affected. For example, the closing of a firm's \$100 million loophole might have a major impact on the firm's profitability, but the savings to the rest of the country of closing this loophole is about 33 cents a person per year.

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What is needed is a radical rewriting of the tax code that will slaughter all sacred tax cows simultaneously. The benefits to each taxpayer of such a dramatic simplification would be large and energize voters to push their members of Congress to resist special interests or use tax simplification as a smokescreen to raise taxes.

There is no lack of detailed guidance on how to simplify our taxes. The fair tax movement, along with dozens of business, academic and think-tank studies, has discussed the critical tradeoffs in detail. What has been lacking so far is political will. And tax simplification is almost unique since its success or failure will be immediately apparent to almost every voter. Imagine the reaction if instead of the mind-numbing complexity of the current system, most taxpayers in April 2012 were able to fill out a single-page tax form without having to use a human or computer adviser. Congress might even be popular!

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