

Republican Perspective

8 April 2015

by Ed Manning

The Ever Growing Leviathan

“People try to live within their income so they can afford to pay taxes to a government that can't live within its income.” Robert Half

In 1984 the number was 26,300; in 1995 it was 40,500; in 2004 it was 60,044 and in 2013 it grew to 73,954. This is not the growth of a \$10,000 investment in a tax-sheltered IRA, 401(k) or 403(b). This is the growth in the number of pages of the US Federal Tax Code!

Politicians on both sides of the aisle will campaign for tax reform. However, once elected they only add to the complexity and the misery of tax filing. The IRS estimated that Americans spend 6 billion hours filling out tax forms annually. 6 billion hours equates to almost 3 million full-time jobs!

Many Republicans would like to see a simpler tax code that would stimulate economic growth. It has been nearly 30 years since there has been reform to the US tax code, the last being the Tax Reform Act of 1986. Over the past three decades, conservatives have proposed four different reforms based upon a consumption: a national sales tax, a business transfer tax, the Hoover Institution economic professors Hall-Rabushka flat tax and a consumed income tax. Any one of these proposals would replace our current system.

Other reform proposals have been proposed as well, such as the Fair Tax. The point is that Congress should have the intestinal fortitude to address tax reform to make it less complicated on the citizenry to pay its obligations while achieving the necessary revenue for government efficiency.

We have heard from the current Administration and the main-stream media mantra that the rich should pay their “fair share”. But what amount is fair share and who determines it? The top 1% of income earners paid 35% of all federal income taxes in 2011, the latest year that the IRS released data on personal income taxes. According to the Tax Foundation, the top 50% of earners paid 97% of all income taxes while the top 5% paid 57%.

What politicians will not tell you and go to great lengths to hide, is in order to feed their thirst for more revenue, the money needs to come from the middle class. There just are not enough high income earners to pay for all of government's largesse.

Our current progressive tax system is broken in many respects. Our tax laws are unnecessarily complex and loaded with numerous deductions, exemptions, credits, preferential rates, and other loopholes that distort economic decision-making and hurt our economy.

As if the task of navigating through countless pages of dense legal jargon wasn't formidable enough, consider this: on average, the U.S. tax code changes every day. The incomprehensibility of the tax code leads to predictable results: American taxpayers frequently fail to file returns on time, fail to pay reported taxes on time, or innocently underreport the amount of tax they owe. Collectively, this leads to a substantial difference between taxes owed and taxes paid on time, creating a form of revenue loss known as the tax gap. The size of the next tax gap is roughly \$452 billion, in 2012 dollars.

Should Congress tackle tax reform, let's be on guard that they do not lower tax rates on the one hand, then add a Value-Added Tax (VAT) on the other. A VAT is a consumption tax that is placed on a product whenever value is added at a stage of production and at final sale. It's used in the Euro Zone with most countries charging between 20-25 percent. Many Democrats love a VAT.

Just remember that the Leviathan continues to grow with an insatiable appetite for your money.