

# **Tax “Reform” Only A Tiny Step In The Right Direction**

**By Roy Minet** (Rev. 11/29/17)

Fearing that a strong central government would grow out of control, our Founding Fathers severely limited the federal government’s ability to tax its citizens (US Constitution, Article I, Section 9). Thus, for about our first 125 years, import duties supplemented by some excise taxes sufficed to operate the federal government quite nicely. Total federal taxes were only about 3% of GDP!

Sadly, the 16<sup>th</sup> Amendment, ratified in 1913, essentially removed any limitation to taxing authority. Taxes quickly jumped up to about 5% of GDP, and since 1942 have ranged between 15% and 20% of GDP!

The worst nightmares of the Founding Fathers have come true. Crappy establishment politicians have used the tax code to grant favors (tax deductions, credits, loopholes, etc.) to special interest groups, frequently in exchange for contributions which help keep them in office. They also “buy votes” through feel-good “social engineering” to aid “deserving” classes of people who are then motivated to re-elect such politicians.

Of course, it is impossible to improve the lot of one group without hurting others. Ayn Rand said it best: “Every government interference in the economy consists of giving an unearned benefit, extorted by force, to some men at the expense of others.”

Fighting over the details, people fail to see the forest for the trees. A vague sense that there is a problem is evidenced by the “anti-establishment” sentiment that showed up first in the TEA Party movement, and more dramatically, in the 2016 election.

Now, along come the Republicans hoping to leverage this growing sentiment to their advantage. They claim with great fanfare that they will both reduce and simplify taxes. They will do none of the former and precious little of the latter.

The only way taxes can be reduced is to cut spending. If current taxes are reduced, but spending remains the same, the deficit and our debt must increase. The debt must be paid by future taxpayers (plus interest, of course). So this boils down to be just another variant in the game of shifting around who pays the taxes.

Politicians love shifting taxes onto future taxpayers because they don’t seem to have strong lobbyists and aren’t making campaign contributions this year. The trouble is that so much shifting has been done that the debt has grown to the point where it threatens our country’s solvency. Everyone desperately hopes growth will increase enough to make this a smaller percentage problem.

Reducing business taxes is the core proposal that is most likely to increase growth. It would be even better not to tax businesses at all. Only people pay taxes, not businesses. Taxing businesses is just another way to hide how much people are being taxed as it is ultimately some combination of the owners, employees and customers who actually pay these taxes.

President Trump appears to be sincere about reducing stifling regulations and the size of government. However, it is clear that, no matter what they may say, both establishment Republicans and Democrats want to increase spending as much as they can get away with. Just look at their track record.

Any proposed simplification wakes up the constituency which succeeded in getting that deduction, credit or loophole into the tax code in the first place. They scream, threaten and cry. Politicians don't have much stomach for that.

Just one illustrative example is the deduction for state and local taxes. If that deduction were to be eliminated, those in states which have even higher taxes than we do in Pennsylvania (California, New York, New Jersey) would have to pay more federal income tax. That's not fair! But look at the flip side. Is it fair that people in states with lower taxes are being forced to subsidize the high-tax states?

Politicians are quick to cite the mind-blowing 70,000-page length of the tax code which is required to define all the chicanery. Have you heard any estimates as to how many pages the code will be after the "simplification"? Will it then be only 1,000 pages? 10,000 pages? 50,000 pages? Crickets.

Here's a clue: the bill to "simplify" the tax code is itself well over 400 pages and growing. The tax code will still be in the 70,000-page range.

There is a tremendous cost to such complexity. We spend over \$400 billion each year on record keeping, time filling out all the @\$%^&\*! forms and paying tax professionals for help.

If politicians were serious about helping us and had the guts to do it, they'd pass a short bill that just repeals the whole 70,000-page inscrutable mess and replaces it with something truly simple.

How about an extremely simple, fair, pay-as-you-go, no-forms-to-file federal sales tax? If anyone is concerned that a sales tax is not "progressive" enough, just don't charge tax on basic necessities such as food and clothing. This would be something that even politicians couldn't screw up.

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