

## Top Ten Reasons to Scrap the Code

By: Matt Kibbe

Adam Smith famously noted in the [Wealth of Nations](#) that complex tax codes are "more burdensome to the people than they are beneficial to the sovereign." Our tax code is broken. It's unfair, complex, inhibits saving, investment and job creation, imposes a heavy burden on families, and undermines the integrity of the democratic process. We should scrap it and rebuild a simple, low, flat, fair, and honest tax code.

Here are 10 reasons to Scrap the Code:

### 1. THE CODE IS TOO COMPLEX.

The code is so big that [politicians can't even agree on how long it is](#). [Title 26](#), the Internal Revenue Service (IRS) code totals to about 3,400,000 million words. The non-partisan [Tax Foundation](#) reports that the entire tax code with regulations in 2005 was over [9,097,000 words](#). To put that in perspective, the Bible has 774,746 words. The code has grown in length between 1995 and 2005 by [18.9 percent](#). The directions for filing a typical form 1040 totals 161 pages. The "EZ" version is 41 pages.

### 2. THE CODE IS BEYOND COMPREHENSION.

No single person knows or understands the entire tax code--not even IRS Employees!

In 2008, the IRS was wrong on questions concerning tax law about [10 percent of the time](#). Myriads of accountants and lawyers are employed to decipher the cryptic tax code. It should be scrapped and simplified. No small modification to the code can remove the enormous complication.

### 3. THE IRS IS TOO BIG.

The IRS employed [90,647 people in 2008](#). It had operating costs of [\\$11,207,223,000](#). If we simplified the code, then many of those IRS employees could go into more productive lines of work, rather than checking up on whether or not the correct amount of money was extracted from hard working Americans. The money spent on the IRS is economic deadweight loss caused by the level of complication of the code. If it were scrapped and replaced, billions of taxpayer dollars could be saved just by reducing the size of the IRS--not to mention all the gains from productively employing former IRS staff members in the private sector.

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#### **4. THE CODE CORRUPTS THE CULTURE IN WASHINGTON. DC.**

Lobbying is the biggest business in Washington. About \$3.2 billion was spent in the 2008 on lobbying.

Many, if not the majority, of America's [15,139 registered lobbyists](#) are working on increasing the level of complication of the tax code by fighting for special loopholes and regulations that will save their company money or put their competitors out of business. Yet lobbying and ethics reform too often focuses on the symptoms, like gift bans, instead of the underlying cause. What would be America's single most effective move to clean up the swamp of special interests in Washington? Scrapping the code and replacing it with a fair and simple one.

#### **5. THE CODE TAXES SOME INCOME TWO OR MORE TIMES.**

Our code taxes certain types of income twice. For instance, a company pays taxes on dividends that it pays out and then when stock holders earn money from the dividends, they pay taxes on them again. When government taxes particular types of income more than others, it distorts the market economy by punishing certain kinds of behavior with double taxation. Absent government intervening through the tax code with the complicated and unfair system, the market economy would likely perform more efficiently.

#### **6. CONGRESS USES THE TAX CODE TO LEGISLATE MORALITY.**

Congress, with its recent passage of the SCHIP bill, raised taxes on cigarettes by [61 cents per pack](#). Our corrupt and easily manipulated tax system allows members of Congress to pass laws that increase the cost of certain behavior. In the case of SCHIP, they targeted smoking. In the case of AIG, they targeted bonuses. Frightening precedents are being set by Congress this session that will likely lead to even more explicit penalties for certain industries. President Obama claims that he will place a cap-and-trade tax on industry that will [eliminate construction of any new coal power plants](#). Under a fairer and less easily manipulated tax system, government couldn't pick winning and losing industries as we have witnessed recently.

#### **7. HIGH MARGINAL TAX RATES PENALIZE SUCCESS.**

Marginal income taxes are higher for each dollar workers earn. Our most productive members of society face federal taxes of [36 percent or higher](#). Under our system, the top 10 percent income earners pay 70 percent of federal income taxes. The president plans to increase top marginal rates to at least [39 percent](#)—and that's not even counting state income tax rates. In virtually every state in the country, high income workers would face top marginal tax rates that would rob them of more than 50 percent of their income. Our current code destroys the incentive of the most productive to work hard.

Shouldn't we be trying to give incentive to the most productive to continue working rather than taxing so much of their income away that they no longer think it's worth working hard? How many inventions or cures for diseases have we lost because the most productive stopped working when faced with 50 percent or higher rates on each additional hour of work?



## 8. COMPLYING WITH THE CODE COSTS AMERICANS BILLIONS.

Compliance is a multi-billion dollar industry and 59 percent of all individuals filing taxes hire someone else to do it for them totaling to 81 million returns done by accountants last year. If we scrapped the tax code for a simpler one, people could fill out their tax forms easily. The sum total benefit could be billions of dollars. All those accountants and lawyers who make their living off the level of complication of the tax code could go into more productive work that would benefit all Americans.

Compliance weighs more heavily on the poor—making our tax code more regressive than it appears.

Taxpayers with adjusted gross income (AGI) under \$20,000 pay 5.9 percent in compliance costs while those with an AGI of over \$200,000 pay .5 percent of their income for compliance.

## 9. THE CODE DRIVES POLITICAL DONATIONS

The Congressman on the House Ways and Means Committee Received \$55,157,458 in the 2008 Election Cycle.

The Ways and Means Committee deals with taxes. It's responsible for "raising the revenue required to finance the Federal Government. This includes individual and corporate income taxes, excise taxes, estate taxes, gift taxes, and other miscellaneous taxes." It's the busiest committee and it's membership during the 2008 election cycle received \$55,157,458 in campaign contributions.

If we scrapped the code, the committee members would lose their power to manipulate the code in order to pay off their campaign contributors. Our tax system leads to corruption and corporate capture of legislation .

## 10. LAWS SHOULD REST ON PRINCIPLES OF JUSTICE.

The tax code is modified every few years along no reasonable principle. The code is arbitrary and unpredictable, and is morphing from its stated purpose--efficiently raising government revenue--into an instrument that Congress uses to instill fear, punishment, and political control. The code should be scrapped and replaced with a more just system based on principles of fairness and equality before the law rather than on the whim of lobbyists and lawmakers.

