

A Taxing Trend: The Rise in Complexity, Forms, and Paperwork Burdens

NTU Policy Paper #134
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April 14, 2014

Introduction

Like the parable about the slow-boiled frog, tax complexity has been creeping up on us. We may not notice it one year at a time, but a review of past years' tax documents compared to today's forms and instructions reveals just how shockingly complicated taxes have become. And the situation won't improve significantly without a major overhaul of the tax laws.

According to the IRS's National Taxpayer Advocate, the most recent estimate of the annual paperwork burden generated by the federal personal and corporate tax system is 6.1 billion hours. That is the equivalent of about 3.05 million employees working 40-hour weeks year-round with just two weeks off. Incredibly, that is more than the number of workers at the three biggest retailers among Fortune 500 companies – more than all the workers at Wal-Mart Stores, McDonald's and Target combined! It's roughly four times the number of workers employed at the top four banks – Bank of America Corp., Wells Fargo, Citigroup, and J.P. Morgan Chase & Co.

If this unseen army of taxpayers worked full-time as an occupation in "tax compliance," it would rival or outrank many familiar jobs. The latest figures from the Bureau of Labor Statistics report a total of 3.34 million working as "Cashiers" in non-gaming establishments, one of the ten largest private-sector categories. A total of 3.03 million work in "Building Cleaning," while 3.02 million are classified as "Combined Food Preparation and Serving Workers, Including Fast Food." About 3.02 million Americans work as elementary, middle, or secondary school teachers (non-special education), while 2.66 million are Registered Nurses.

The value of the labor behind the 6.1 billion hours amounts to a jaw-dropping **\$192.6 billion**, when calculated with the most recently reported average employer cost for non-federal civilian workers by the Bureau of Labor Statistics: \$31.57 per hour. Add in the \$31.7 billion spent on tax software and other out-of-pocket costs for individuals and the total is **\$224.3 billion** a year.

The \$31.7 billion in out-of-pocket expenses includes "tax return preparation and submission fees, postage and photocopying costs, and tax preparation software costs," according to a February IRS regulatory filing.

Counting this money, plus the component in the time figure above pertaining just to individual filers for various Form 1040s and supporting forms and schedules, the compliance burden would total \$90.3 billion for these taxpayers alone.

These costs do not account for numerous hours taxpayers spend on state and local taxes, pursuing tax minimization strategies, or responding to IRS notices and audits; nor do they include the huge “growth penalty” imposed on the nation’s economy by high tax rates.

By NTU’s last count, the most recently published Tax Code had a mind-boggling 3,951,104 words, an increase of more than 112,000 words from February 1, 2010. Other sources put the number past 4 million words. To put the increase in perspective, according to Wikipedia, “Many universities limit Ph.D. theses to at most 100,000 words, barring special permission for exceeding this limit.”

Furthermore, those 3.95 million words are about seven times the length of Leo Tolstoy’s *War and Peace*, one of the longest novels ever written. Significant changes from tax statutes have yet to be completely assimilated into the government’s official Tax Code, but you can bet the next publication will have thousands more words.

And that’s just the law. To help provide additional detail there are 20 volumes of regulations spanning over 14,000 pages with 10.48 million words, meaning the law and regulations now top 14.4 million words in all.

One illustration of how a few changes (or even one change) in the tax law can wreak complexity havoc can be found in the tax agency’s annual Data Books. The IRS reported that taxpayers made an astounding 10.6 million math errors on their Tax Year 2009 returns*, 61 percent of which were due to a single provision: the so-called “Making Work Pay” credit enacted as part of the stimulus law. During the second year of the credit’s existence, math errors attributable to it on Tax Year 2010 returns had dropped to a mere 49.5 percent of the total (3.3 million out of 6.6 million). One complication: millions of taxpayers did not believe they even qualified for the credit, so the IRS calculated the amount for them.

In “normal” tax filing years, the number of math errors the IRS claims to detect has been smaller, and shrinking. A total of 4.1 million errors were initially logged on Tax Year 2005 returns, compared to 2.6 million on Tax Year 2012 returns (subsequent years’ audits might detect more errors on these documents). Yet, even this level is incredibly high, considering that between 2005 and 2012 more and more Americans are turning to paid preparers and/or computers to complete their tax forms.

Then again, it’s difficult to track this problem, since it goes both ways: the National Taxpayer Advocate has observed that “IRS math error notices also are sometimes inaccurate.”

**Important methodological note: a return filed for a “Tax Year” is usually filed in the calendar year that follows, e.g., Tax Year 2009 returns were filed in Calendar Year 2010, etc.*

Line by Line, Complexity Is Rising

Ever since being charged with making an annual evaluation of “The Most Serious Problems Facing Taxpayers,” the National Taxpayer Advocate has repeatedly put “complexity of the Internal Revenue Code” at the center of many issues she has uncovered, from the quality of taxpayer assistance to appropriate agency staffing levels. But even the Advocate seems to have grown weary of repeatedly citing complexity, as evidenced in her December 2010 report, where she wrote, “The National Taxpayer Advocate on numerous occasions has identified the complexity of the Tax Code as the most serious problem facing taxpayers and urged Congress to simplify it.”

The National Taxpayer Advocate’s December 2012 Annual Report to Congress noted that “[T]here have been approximately 4,680 changes to the tax code since 2001, an average of more than one a day.” She pointed out, “For every one of these changes, the IRS must explain the new provision to taxpayers, write computer code so it can process returns affected by the provision, and train its auditors so that improper claims can be identified.”

Her December 2013 report contains no better news about the complexity conundrum, observing that “[t]he existing [Tax] [C]ode ... imposes [an] unconscionable burden on taxpayers.”

Some 80 years ago, the Form 1040 instructions were just two pages long. Even when the income tax became a mass tax during World War II, the instructions were just four pages. Today, taxpayers must wade through 206 pages of instructions, about five times the number in 1975, and almost quadruple the number in 1985, the year before taxes were “simplified.”

That’s a small dip from the number of pages in previous year’s instructions, but it doesn’t mean taxes are getting easier to comprehend. One change that accounts for the slimmer 2013 instruction booklet: the look-up table for the Earned Income Credit was put into a two-column format, saving multiple pages of space versus 2012. On the other hand, the 2013 booklet still has significantly more pages than the 2011 or 2010 versions. One culprit might be the inclusion in the brochure of instructions for recently-introduced forms to report investment activities and child tax credits.

Today’s *short* form, at 46 lines, has nearly double the number of lines on the 1945 version of the *standard* 1040 tax return. The short form’s instructions total 88 pages, more than the long form’s entire booklet from 1995!

Form 1040 – Form and Instructions

Tax Year	Lines/1040	Form Pages/1040	Instruction Booklet Pages/1040
2013	77	2	206*
2012	77	2	214
2011	77	2	189
2010	77	2	179
2005	76	2	142
2000	70	2	117
1995	66	2	84
1985	68	2	52
1975	67	2	39
1965	54	2	17
1955	28	2	16
1945	24	2	4
1935	34	1	2

*Excludes one extra page in the IRS's online PDF version for Typhoon Haiyan relief contributions.

If anything, this table understates the growing complexity of the form. For example, lately many “lines” have had their own sub-lines for parts a, b, c, or even d. This is also the case with many of the schedules that must be filed with the forms. The forms also ask for information without numbering the line item, such as check boxes for Presidential campaign funding and a personal ID number for a “third party designee” if the filer wants the IRS to ask someone else about information on the tax return.

Need help with all these tax forms? The IRS now lists 1,974 publications, forms, and instructions for download from its website – up from the 1,770 National Taxpayers Union logged five years ago (in 2009).

Calling the tax agency could be an equally daunting proposition. A Government Accountability Office (GAO) report on the last tax filing season (from December of 2013) found that the average wait time for the IRS's telephone assistance line was 15.5 minutes, down 90 seconds from 2012 but still far longer than in any of the other years GAO tracked (2008-2011). No wonder 29 percent of the 93.5 million calls (both for live help and for the automated tax hotline) to the IRS last year were classified as “abandoned, busies, and disconnects.” According to the IRS Oversight Board, a minimum acceptable “level of service” (LOS) for taxpayers seeking help from the live Customer Service Representative portion of this operation should be 80 percent. Last year the level was 68 percent, basically unchanged from 2012.

The Taxpayer Advocate’s 2013 report gave more direct criticism than GAO could ever offer in assessing this situation: “At the risk of vast understatement, it is a sad state of affairs when the government writes tax laws as complex as ours – and then is unable to answer any questions beyond ‘basic’ ones from baffled citizens who are doing their best to comply.”

But most ironically, GAO found that the IRS itself is having trouble keeping up with its own paperwork. Of the 21 million pieces of “paper” correspondence the tax agency received last year, 47 percent was considered “overage” – meaning, the IRS failed to respond with 45 days of receipt. That’s up by seven full percentage points from Fiscal Year 2012. The tardiness is compounding over time. Between 2009 and 2013 the volume of correspondence the tax agency received rose by 10.5 percent, but the overage amount jumped by 88 percent. The bureaucracy blames budget constraints for the slippage, but other forces might be at work. As GAO noted, even IRS officials admitted that “more complex taxpayer inquiries” had a role too. When the agency took a non-scientific sample of correspondence cases, it discovered that “its own processes, such as the wording of notices or requirements for a paper signature, influenced taxpayers to write in.”

For those seeking something in between the “basic” 1040 instruction booklets and a pile of detailed material, the IRS offers Publication 17, *Your Federal Income Tax*, which according to its introduction “covers the general rules for filing a federal income tax return.” Even though the IRS has previously warned that Publication 17 “does not cover every situation,” the current Tax Year 2013 version manages to encompass 289 pages (counting the cover and a special one-page notice about contributions for Typhoon Haiyan relief efforts). As they attempt to digest this behemoth “general” booklet, ecology-minded taxpayers can take comfort. The current Publication 17 is a whole three pages shorter than its 2012 predecessor!

Shifting IRS Methodologies Makes Tax Complexity More Complex

The IRS has spent several years updating its methodology to measure the compliance burden of filing tax returns, which includes recordkeeping, preparation of the form, and tax planning. Unfortunately, these new scorekeeping rules make comparisons with prior years impossible. Other statistical examinations, however, are still instructive.

For many years the Office of Management and Budget (OMB) has published an Information Collection Budget tracking the compliance burdens of federal laws and regulations on individuals and businesses. Although this information also relies to some extent on IRS scorekeeping, making multi-year analyses difficult, it can provide some useful illustrations.

Normally, many factors affect these OMB figures, some from acts of policymakers, and others due to economics and demographics. For example, in a slow economy the number of households liable for completing a tax return can actually drop because their incomes fall below established filing thresholds.

But even an examination of the most current available year's Information Collection Budget shows that the tax laws generate a greater volume of red tape for citizens than anything else Washington does. As OMB states in its latest report, from 2013:

Paperwork burdens vary greatly across agencies. Treasury by itself accounted for 6.7 billion hours of burden in FY 2011, or 74 percent of the government-wide total. Most of Treasury's burden hours are the result of the implementation of tax-related statutes. No other agency accounted for more than 6 percent of total burden hours.

While certain components of paperwork estimates will ebb and flow, ultimately Congress is responsible for most of the upward movement. All told, according to OMB, statutory acts alone (as opposed to other reported "adjustments") increased the government-wide regulatory burden in Fiscal Year 2011 by 359.5 million hours. Changes under the Treasury's rubric accounted for 345.8 million hours, or 96 percent, of the total. In a spot-on illustration of the fact that "free money" from Washington is never free, two increases in the paperwork load were 40.2 million hours from the Credit for Small Employer Health Insurance Premiums, and an extra 13.8 million hours due to the New Hire Retention Credit.

The IRS Taxpayer Advocate's Report to Congress, issued in December 2013, estimates that "individuals and businesses spend about 6.1 billion hours a year complying with tax-filing requirements." The cited source for this figure is the Director of Technical Analysis and Guidance for the agency. It is difficult to determine how this estimate might differ in methodology from OMB's, but the Treasury Department certainly would generate paperwork burdens not directly associated with income tax laws.

U.S. Tax Compliance Time Burden Ranks 61st Worldwide

Tax rates and complexity certainly aren't distinguishing the U.S. among its competitors around the world. America ranked 61st-best out of 189 countries worldwide for time spent complying with corporate tax filings, according to "Paying Taxes 2014," a study jointly published by the accounting firm PricewaterhouseCoopers and the World Bank Group. In this analysis, a ranking of "1" would mean a country's economy had the *lowest* rate and *least* onerous compliance regime, respectively. Our time-to-comply ranking logged only a slight improvement compared to 2013, when it was 63rd (out of 185 countries surveyed).

The study examined tax compliance burdens faced by a hypothetical flower pot manufacturer and retailer with 60 employees. It estimates that such a company in the U.S. would spend 175 hours filing taxes. By comparison, the company in Canada (131 hours), Hong Kong (78 hours), the United Kingdom (110 hours), or France (132 hours), would devote less time to paying taxes. The time-spent burden for America puts it in rough parity with nations such as Cambodia, the Russian Federation, and Tanzania.

Tellingly, the U.S. did even worse when ranked by total tax rate (corporate, payroll, and other taxes) alone – 132nd-best out of 189, barely changed from 2013 (132/185). Five years ago,

the U.S.'s ranking was 92nd out of 181, a stark indication that our country is falling behind in global tax competition. Nor is the United States a leader even in its own region of North America. While all three countries in the area were reported to have experienced labor tax increases during the nine-year timespan of PwC's research, the regional drop in total tax rate (including profit and other taxes) was "driven by Canada." Meanwhile, the biggest credit for the drop in North American compliance time belonged to Mexico, "thanks to reforms that made paying taxes easier."

A total of 32 countries made corporate taxpaying less of a strain last year by cutting rates or streamlining filing processes. Unfortunately, America could not be counted among them.

The 24,000-Page Tax Return

If you think your tax return is difficult, be thankful you're not in charge of taxes at General Electric. In 2006, this leading corporation filed what is believed to be the nation's longest tax return, over 24,000 pages had it been printed on paper. It was filed as part of a new mandate that large corporations submit their tax returns electronically.

GE's tax return may be even longer today. When NTU's researchers contacted GE's media relations staff in 2010, we were told that the firm's tax department had stopped counting after the filing documents routinely beat the 24,000-page mark every year!

Paid Professionals or Computers Now Prepare Most Tax Returns

As the tax system's complexity has grown, more taxpayers have turned to their computers or to professionals to prepare their returns. The number of taxpayers using paid professionals has climbed by about half since 1980 and by nearly one-fifth since 1990. While some of this increase can be attributed to rising incomes, most of it is likely due to complexity.

The growth in the use of paid preparers can be accurately tracked because from 1977 onward, tax professionals have been required to sign returns.

Tax Returns Signed by Paid Preparers

Tax Year	Paid Preparer Returns (Percent)
1980	38.0
1985	45.9
1990	47.9
1995	49.9
2000	57.5
2005*	59.6
2010*	56.8
2011*	55.7

1980 to 2000 Data: Taxpayer Usage Study report of the IRS. *IRS Statistics of Income Division – Historical Data Tables; 2011 figure based on preliminary data.

The steady-to-declining percentage of paid-preparer returns since 2005 likely is related to “do it yourself” options. Tax preparation software has grown in sophistication, enabling more taxpayers to sit in front of a computer and answer a seemingly endless stream of questions while the computer figures out how to prepare the return. In 1980 no individual taxpayers used computers to prepare their taxes. Yet today, when accounting for paid preparers and computer returns combined, the vast majority of forms – at least 9 out of 10 – are prepared with such assistance. The latest data from the IRS, for the week ending March 28, shows that 90.8 percent of all returns received this year have been filed electronically, which by definition were either completed using a taxpayer’s home computer or a paid preparer’s computer. By adding this 90.8 percent to the number of paper returns that were completed by a professional offline (or were printed off a home computer and mailed), the figure so far in this filing season might very well approach 95 percent. This is a telltale sign of tax complexity problems.

Tax Preparation Costs and Fees Have Been Rising

Tax preparation fees have also increased substantially, largely due to the greater complexity of the average tax return.

A good way of tracking the trend is to examine the average fee charged by H&R Block, a publicly traded company. It remains the nation’s largest tax preparation firm. According to

about.com, in 2013 the company’s average fee “per return” (including various services) was \$198, which would indicate an increase of 3.0 percent versus 2012. One reason the amount may have climbed less steeply than in the past is that the company is facing robust competition from tax software options. Furthermore, H&R Block has been barred from offering Refund Anticipation Loans, which significantly add to the fees the company can charge many of its clients, but new services are being developed. Between 1980 and today, the average H&R Block tax preparation fee increased by more than double after accounting for inflation. Since 2000, the inflation-adjusted fee has risen by over 35 percent.

The uptick in fees has occurred despite a huge increase in the capability of tax return software and the speed of printers, which may have temporarily cut the inflation-adjusted cost of tax preparation in the late 1980s and early 1990s. The efficiency gain of computers and printers has been overwhelmed by the increases in complexity.

Average Fee Charged by H&R Block

Calendar Year	Nominal Dollars
1980	\$27.36
1985	\$45.39
1990	\$49.99
1995	\$61.77
2000	\$101.40
2005*	\$145.08
2008*	\$170.28
2009*	\$183.79
2010#	\$187.93
2011#	\$179.07
2012**	\$192
2013***	\$198

*Through March 15. #Through March 30. In 2004, H&R Block appears to have changed its method for calculating its average fee. These figures include other services, such as Refund Anticipation Loans (except no Refund Anticipation Loan services were included for 2011 and later). **Reported by about.com, citing H&R Block’s 2012 report to shareholders.
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A survey from the National Society of Accountants pegged the average fee for a 1040 itemized tax return with Schedule A (plus a state return) filed this year at \$261, an increase of 6.1 percent versus the previous year. But woe to the small business owner, who would have to pay extra for forms like the 1040 Schedule C (\$218) or the Form 1120S for a Subchapter S

Corporation (\$761). These amounts represent similar jumps over returns filed in 2013 (6.3 percent and 6.1 percent, respectively).

Preparer Fees Vary Widely for Different Taxpayers

Even official sources show how, schedule by schedule, the fees can add up quickly. In 2006, the last time such a list was published, the IRS estimated the typical costs paid by taxpayers who had their taxes prepared by a professional. Here are some of the common combinations of tax forms filed by taxpayers and their estimated out-of-pocket costs. Bear in mind that tax preparation fees can vary widely, according to the IRS, “depending on the taxpayer’s tax situation and issues, the type of professional preparer, and the geographic area.”

Preparer Fees by Form and Schedule

Form	Fee
Form 1040 and other forms and schedules, but not Schedule A or D	\$121
Form 1040, Schedule A, and other forms and schedules, but not Schedule D	\$174
Form 1040, Schedule D, and other forms and schedules, but not Schedule A	\$125
Form 1040, Schedules A and D, and other forms and schedules	\$313
Form 1040, Schedule C or C-EZ, and other forms and schedules, but not Schedule E or F or Form 2106 or 2106-EZ	\$329
Form 1040, Schedule E, and other forms and schedules, but not Schedule C, C-EZ, or F or Form 2106 or 2106-EZ	\$685
Form 1040, Schedule F, and other forms and schedules, but not Schedule C, C-EZ, or E or Form 2106 or 2106-EZ	\$296
Form 1040, Form 2106 or 2106-EZ, and other forms and schedules, but not Schedule C, C-EZ, E, or F	\$349
Form 1040 and forms and schedules including more than one Schedule C, C-EZ, E, or F, or Form 2106 or 2106-EZ	\$866
Note: Here is a brief explanation of each Schedule listed above: Schedule A – itemized deductions; Schedule C – self-employment income; Schedule D – capital gains and losses; Schedule E – supplemental income from partnerships, rents, royalties, trusts, etc; Schedule F – farm income; and, Schedule 2106 – employee business expenses.	

“Taxmageddon” Avoided – Or Was It?

Tax complexity probably will get worse before it gets better. Although legislation signed into law in 2001 and 2003 cut tax rates, both increased complexity. Major portions of those laws were made permanent through the American Taxpayer Relief Act of 2012 (enacted January 2 of 2013) but this “fiscal cliff” avoidance package introduced new pitfalls. The highest statutory tax rate for Tax Year 2013, effective for returns now being filed, is 39.6 percent. Plus, it only

extended certain provisions such as the deduction for state and local income taxes and favorable small business expensing until the end of 2013, guaranteeing more “cliffs” ahead. Worse, it reestablished phase-outs of the personal exemption and itemized deductions for upper-income earners, and with it more complex filing rules. Plus, two new taxes were lumped into the code. According to the IRS, the “[a]dditional Medicare Tax applies to wages, railroad retirement (RRTA) compensation, and self-employment income over certain thresholds.” The IRS also notes there is a new “Net Investment Income Tax... imposed by section 1411 of the Internal Revenue Code,” or NIIT for short.

Congress’s habitual spending sprees and the record levels of debt add an even greater potential for tax complexity, driven by a political desire to obfuscate about tax increases. For example, President Barack Obama has proposed to cap tax deductions to their value at the 28 percent tax bracket, which will clearly raise the top tax rate higher than the 39.6 percent set by the fiscal cliff package. Add to this the 2010 health care law’s surtaxes, plus the itemized deduction limit already reflected for the first time on returns filed this year. Though each of the current-law provisions – the higher rate, the “ObamaCare” surtaxes, and the limits on exemptions and deductions – was designed to hit higher earners, they will kick in at variously defined income levels from \$200,000 to \$450,000. Unlucky taxpayers who aren’t sure whether they fall over these thresholds have a lot of work to do on their returns in the 2014 filing season to determine their fate.

The 2012 taxpayer relief law was also supposed to settle the disposition of the federal estate and inheritance tax. Beginning in 2013, the death tax rate was permanently increased from 35 to 40 percent, while the exemption (adjusted for inflation in the future) would be set at \$5 million. Unfortunately, barely four months after he signed the fiscal cliff package, President Obama sought to sharpen the tax’s bite. His FY 2014 budget proposed a 45 percent rate and a \$3.5 million exemption beginning in 2019. The FY 2015 budget released in March proposes much the same. No wonder businesses and individuals have spent, and likely will spend, a great deal of time and effort on tax minimization strategies designed to stay on the “right side” of any exemption.

At least one measurement in this “Taxing Trend” report might give taxpayers some cause for cheer. Last year the Congressional Joint Committee on Taxation (JCT) published its *General Explanation of Tax Legislation Enacted in the 112th Congress*. This spanned 261 pages, making House and Senate Members serving in 2011-2012 look like tax-policy pikers compared to their predecessors. JCT’s document for the 111th Congress occupied 747 pages, while the 110th publication ate up 642 pages. What will the 2013-2014 publication hold? Time will tell, when JCT releases its exhaustive assessment early next year.

But lest taxpayers get too comfortable, there is still plenty of tinkering with the tax laws for Congress to do in the remaining months of 2014. Despite the extension of more than 50 tax provisions in the January 2013 fiscal cliff legislation, no fewer than 56 parts of the law were left to expire on December 31, 2013. These items, ranging from the American Samoa economic development credit to the three-year depreciation for race horses two years and younger –

became the subject of what is an annual lobbying ritual in Washington: “tax extenders” legislation.

Not that all of these expiring pieces of tax law affect only narrow interests. At stake were items such as the deductions for state and local sales taxes (claimed by 10.9 million filers in 2011), mortgage insurance premiums (4.5 million), and educator expenses (3.8 million). Also under threat: a small business expensing write-off that fell from \$500,000 to \$25,000 on January 1.

Whether these portions of the Tax Code have merit in a simplified system may be debatable, but one thing is clear: many taxpayers have been left up in the air over important tax planning decisions for nearly half of 2014, regarding matters such as how to take a distribution from an IRA or whether to invest in additional research. As Jeffrey Porter, Chair of the American Institute of CPAs Tax Executive Committee noted, clients are usually advised on tax planning in the fall of the prior year. Without prior knowledge of what the next year’s tax laws will be, a guessing game ensues:

It’s not unusual for the expiring provisions to be reinstated retroactively, also adding to the uncertainty and the complexity for long-term planning. Many taxpayers have come to anticipate that these expiring provisions are going to be retroactively reinstated. If they’re incorrect, that can prove to be a very costly decision. . . .

Earlier this month, during markup of an extenders bill, newly-named Senate Finance Committee Chairman Ron Wyden (D-OR) made the incredible observation that he was presiding over Congress’s “fifteenth time renewing the stop-and-go tax cuts” that typically go into this legislation. Will the sixteenth time prove to be the charm? It’s difficult to be optimistic. The Senate bill, hopefully entitled the “Expiring Provisions Improvement, Reform, and Efficiency Act” was reported from the Finance Committee with virtually no substantive changes to the current roster of extenders.

At least the bill would put the provisions on a two-year timetable, leaving the next Congress with some time to rationally sort them out and discuss whether they’re worthwhile.

Nonetheless, taxpayers should remain concerned over future tax-filing season delays due to last-minute dithering in Congress. After all, the end-of-year wrangling in Washington over the fiscal cliff in late 2012 and early 2013 caused a snafu in finalizing various compliance rules. The upshot was a pushback in tax filing until January 30, and even later for other forms.

Because Congress put off action on key tax-law questions all the way into the New Year, the IRS was saddled with even later-than-usual updates to a variety of publications. While the average taxpayer was moderately affected, the forms that were significantly held up ran a wide gamut, from education credits to mortgage interest and an electrical vehicle credit.

This wasn’t the first time tax filers were frustrated. Congress and the President waited until December 2010 to decide whether to enact another “patch” sparing millions of Americans from having to wrestle with the Alternative Minimum Tax (AMT, see below). Based on past

experience – including a law enacted in the final weeks of 2007 – the IRS proceeded with reprogramming and testing its systems earlier in 2010 with the assumption that Congress would eventually get around to renewing the AMT protections. Yet, this proved to be a pyrrhic victory, because lawmakers approved several other extensions the IRS hadn't planned on processing. As a result, millions of taxpayers – including those reporting itemized deductions on Schedule A of Form 1040 – were told to wait until mid-February of 2011 to begin filing their returns.

Fast forward to the current 2014 tax filing season, which was again put off, this time until January 31. One official reason given was the 16-day government shutdown that occurred in the fall of 2013. As then-acting IRS Commissioner Danny Werfel explained, “The late January opening gives us enough time to get things right with our programming, testing and systems validation. It’s a complex process... .” Yet, as in the past, while the government needed more time get its act together, private tax-software companies were able to stay on track. That’s a fortunate thing for taxpayers, who must file their returns (or ask for an extension) by the April 15 statutory deadline no matter how long Congress and the IRS drag their feet.

In past decades, when most Americans filed paper tax returns and relied more heavily on instruction booklets through “snail mail,” tax-law changes generally had to be accommodated in the IRS’s printed materials by the fall prior to tax filing season to avoid massive confusion. Today, those paper materials are less critical as most taxpayers file electronically. Leave it to Congress, however, to test the limits of high-tech filing tools. Ultimately, these types of problems will continue to arise with a Tax Code that is too complex to handle any disruption.

Alternative Minimum Tax Threat Recedes ... and Others Arise

For many years Americans faced the specter of the AMT, a parallel and complex tax system once aimed at ensuring the rich paid a substantial tax bill. The AMT already snares over 4 million taxpayers; however, the Congressional Budget Office’s (CBO’s) baseline had projected that under laws presumed to be in effect by 2022, more than 47 million tax filers would have been affected by the AMT. The National Taxpayer Advocate has noted that the AMT is “so complicated that many taxpayers are not aware that they may be subject to it.”

In many cases, taxpayers must decipher a separate instruction booklet, and then fill out a 60-line form, only to discover they don’t owe the AMT. This exercise is a major detour in tax preparation. No wonder about eight in 10 taxpayers who owe the AMT pay a tax professional to compute their taxes.

Though tax rate brackets, personal exemptions, and the standard deduction rise with inflation, the AMT tax structure had long remained frozen (outside of periodic “patches” to provide temporary relief). Thus, over time, the AMT would identify a growing number of taxpayers as “rich” even though their real incomes hadn’t changed. That situation was finally rectified with the American Taxpayer Relief Act (ATRA) of 2012, which put a permanent patch into place. Now, the AMT will affect about 90 percent fewer filers than CBO had once forecast.

Ultimately the best solution for the AMT is to simply get rid of it altogether, a remedy recommended by the National Taxpayer Advocate every year since 2001. In her most recent report, issued after ATRA's enactment, the Advocate wrote:

While this change reduces the number of people subject to the AMT, it does nothing to fix the system's flaws. Today's AMT primarily affects taxpayers for paying state and local taxes and having children. . . . Moreover, the complexity of the AMT reduces the transparency of the tax system, making it more difficult for people to know their marginal tax rate and predict what they will owe. When people owe more than anticipated, voluntary compliance suffers.

Thus, the "fix" elected officials made last year may have spared tens of millions of unsuspecting families from this tax complexity monster, but its teeth are sharper than ever for those still bitten by it.

If only there weren't other monsters emerging from the shadows. For example, the 2010 health care law's surtaxes of 0.9 percent and 3.8 percent on earned and "unearned" income, respectively, contain a nasty secret. The income thresholds for these new taxes, such as \$250,000 for a joint-filing household, will not be automatically indexed for inflation each year. Just like the AMT once did over a period of decades, rising numbers of taxpayers will fall into the surtax trap.

For his part, President Obama doesn't seem content with leaving the issue alone. As it did last year, the White House's FY 2015 budget proposal would hatch a new AMT-like scheme based on the so-called "Buffett Rule" aimed at ensuring the very wealthy pay a high tax rate. The complexity of this new plan comes shining through in this following description, taken straight from the White House's own FY 2014 budget documents:

The Administration proposes a new minimum tax, called the Fair Share Tax (FST), for high income taxpayers. The tentative FST equals 30 percent of AGI less a charitable credit. The charitable credit equals 28 percent of itemized charitable contributions allowed after the overall limitation on itemized deductions (Pease). The final FST is the excess, if any, of the tentative FST over regular income tax (after certain credits, including the AMT and the 3.8 percent surtax on investment income) and the employee portion of payroll taxes. The set of certain credits subtracted from regular income tax excludes the foreign tax credit, the credit for tax withheld on wages, and the credit for certain uses of gasoline and special fuels. The tax is phased in linearly starting at \$1 million of AGI (\$500,000 in the case of a married individual filing a separate return). The tax is fully phased in at \$2 million of AGI (\$1 million in the case of a married individual filing a separate return).

This provision would not affect many taxpayers, but the amount of instructions, forms, and worksheet to implement it, if it were ever to become law, would be considerable. So would the "deadweight loss" to the economy as "the rich" employ accountants to figure it all out (or try to avoid it).

The federal government's obsession with tax avoidance is leading to other tax complexity nightmares, one of which is aimed at Americans of all income levels who work or live abroad. As a 2013 article from Doug Kellogg posted on NTU's Government Bytes blog noted, the Foreign Account Tax Compliance Act (FATCA) contains such a massive heap of disclosure and reporting regulations for those holding deposits in non-U.S. banks, the banks themselves are motivated to turn away American customers from opening or keeping accounts. The threshold for the new rules – at least \$10,000 total in non-U.S. banks – means that many more than just “fat cats” in search of offshore tax havens are being burdened.

In the current National Taxpayer Advocate Report, FATCA is listed among the 25 “Most Serious Problems” facing taxpayers because of its “[p]otential to be [b]urdensome, [o]verly [b]road, and [d]etrimental to [t]axpayer [r]ights.” She pointed out that more than a few informed stakeholders in the issue “have questioned, from both a financial and tax policy perspective, whether the benefits of FATCA, including the additional tax revenue it is estimated to raise, are sufficient to justify the compliance burdens and economic hardships to which it subjects individuals and business entities.”

“ObamaCare”: A Tax Complexity Debacle in Itself

The 2010 health care law has been imposing financial burdens on Americans for some time, but this year it is getting a lot more painful. New headaches include surtaxes on upper-income households, an excise tax on the manufacture of certain medical devices, and a new limit on itemized deductions for medical expenses. Although opponents of “Obamacare” expressed fears that it would expand the duties and powers of the Internal Revenue Service (IRS), the topic received scant media coverage. That's why a special report entitled “Implementing National Health Care” from tax litigation consultant and author Dan Pilla is so important. Pilla laid out in excellent detail the “administrative and compliance challenges facing taxpayers and the IRS.” They include:

- Aside from “ordinary income” and Alternative Minimum Tax income, the IRS will have to contend with a new definition called “household income,” with implications for tax returns, data storage, and reporting. This income would also have to be checked against what citizens would report to the new health care exchanges.
- Because the IRS would need to verify minimum health care coverage, the agency “must proactively engage in collecting data from private insurance companies – something never before done.”
- Compliance with the new Small Business Tax Credit is requiring much more IRS collection of information.
- The tax agency will have heightened interaction with other federal entities such as the Departments of Health and Human Services as well as Homeland Security.
- Handling tax return information disclosures will raise new privacy concerns.

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- The restriction on the IRS’s lien and levy power to collect “penalties” for not purchasing individual coverage (which according to the Supreme Court, amount to taxes) “is a hollow benefit”.

Pilla outlined many other pitfalls of the health care law, not the least of which is that the National Taxpayer Advocate has been given little input into the implementation process. This means that new rules and procedures are likely being designed more for the comfort of the government rather than ordinary Americans. His concerns, outlined nearly two years ago, have proven prescient. Complexity in the tax system is being taken to a whole new level.

Experts Agree They Can’t Agree on Tax Bills

The Tax Code is so convoluted that no one inside or outside the IRS understands it. In 2007, *USA Today* famously asked five professionals to calculate a family’s tax bill, and of course, they all got a different answer! After reviewing each other’s work, they couldn’t agree on who was right. The newspaper reported, “As the Tax Code turns ever more unwieldy, deciphering it has become more art than science, tax experts say.”

The person who designed the test had the highest tax bill for mom and dad, but the lowest overall family tax bill. He got the biggest refund for the family by having the “23-year-old [son] claim his 16-year-old sister as a dependent.” This anomaly is the result of some tax goof-up in Congress, and is entirely legal, if a bit strange.

As *USA Today* reported:

In 2004, Congress sought to clarify the definition of a ‘qualifying child’ for parents and others who claim various tax breaks. In the process, though, lawmakers inadvertently created a loophole: It lets young working adults who are living with their parents claim younger siblings.

For many years, *Money* magazine’s annual test of tax preparers for a hypothetical household proved that paid professionals often make huge mistakes. In 1998, the last year *Money* administered the test, all 46 tested tax professionals got a different answer, and none got it right. The professional who directed the test admitted “that his computation is not the only possible correct answer” since the tax law is so murky. The tax computed by these professionals “ranged from \$34,240 to \$68,912.” The closest answer still erred in the government’s favor by \$610.

Information revealed in a 2006 GAO report provides little comfort that the inaccuracies among preparers have dramatically improved. GAO auditors, posing as taxpayers, retained the services of major tax preparation firms at 19 outlets in a major metropolitan area, and found:

- 10 of the 19 preparers failed to report business income information.

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- In five of the 10 instances where the “client” *might* qualify to claim the Earned Income Credit, preparers claimed an ineligible child.
 - Preparers filed inadequate deductions or failed to itemize in seven of nine applicable cases.

GAO noted that had the IRS reviewed these mock returns, several of the preparers could owe serious penalties for their mistakes.

Alas, just like *Money* magazine’s test, GAO could not guarantee that its own findings were on the mark. After consulting with Congress’s JCT to develop “correct” answers to the scenarios the auditors were to pose, JCT “cautioned that a paid preparer might reach a reasonable conclusion different from JCT’s on certain issues... .”

This year, GAO performed an updated examination, selecting 19 sites in a major metro area belonging to commercial paid preparation firms that had at least 10 locations. The new findings are certainly not encouraging:

- Although 17 of the 19 preparers chose the right type of return to file for the undercover GAO “clients,” only 2 of the 19 were able to get the correct theoretical refund amount that government auditors calculated. Some errors were minor, but the large overstatement amounts ranged from \$654 to \$3,718.
- In 12 of 19 instances the preparers failed to report “non- Form W-2 (e.g., cash tips)” income on the returns they filled out.
- In the 10 applicable cases, ineligible children were claimed for the Earned Income Credit three times.

Some Members of Congress might be tempted to seize upon these statistics as reason for a massive tax-preparer regulation regime, especially after a recent court ruling that the IRS did not have the authority to pursue such rules on its own. GAO included as a “Matter for Congressional Consideration” the potential for “legislation granting the IRS authority to regulate paid tax preparers.” Perhaps Congress’s time would be better spent on simplifying the laws and making it easier for every taxpayer to complete a return – with or without a paid preparer.

The Internal Revenue Service runs a Volunteer Program that serves “low-income to moderate-income, elderly, disabled, and limited-English-proficient taxpayers,” according to the Treasury Inspector General for Tax Administration (TIGTA). “These taxpayers are frequently involved in complex family situations that make it difficult to correctly understand and apply tax law.” TIGTA audited the program for accuracy and in a September 2012 report noted that “we had 39 tax returns prepared with a 49 percent accuracy rate, which is higher than the 39 percent accuracy rate we reported for the 2011 Filing Season.” To most Americans, accuracy below 50 percent is still nothing to cheer.

The April 2010 edition of *Tax Savings Report*, a newsletter formerly published under the National Taxpayers Union Foundation, described just one of the many bizarre quirks in the laws

with which taxpayers might have to contend. Nationally recognized tax expert Bill Bischoff authored an article which outlined the tax implications of converting a home into a rental property, and the complexities involved in determining the tax basis for purposes of depreciation and tax losses once the property is sold.

As Bischoff wrote:

When selling, the tax results might surprise you. *Reason:* You must use the ‘special basis rule’ to calculate any deductible tax loss, but use the ‘regular basis rule’ for purposes of calculating any taxable gain. If following these two rules results in two different basis numbers, you can potentially wind up in no man’s land where you have neither a tax gain nor a tax loss. That will happen when the sale price falls between the two basis numbers.

Based on the complexity of the examples Bischoff used to illustrate his point, it’s clear that some taxpayers might go through a series of costly and time-consuming tax-calculation gymnastics, only to have no reportable transaction.

The confusion continues. In the tradition of *Money*’s test, in 2012 writer Joel Stein held his own “contest” among four tax preparation services for a feature in *Bloomberg Businessweek*. Using his own personal financial circumstances, Stein quizzed TaxSlayer.com (an online self-preparation site), H&R Block, his regular accountant in Staten Island, NY, and RBZ, an accounting firm in Los Angeles. The results were all over the map. By one reckoning (RBZ) he owed the feds as much \$2,592, while at the other end he had a refund of \$92,309 coming (TaxSlayer.com). After his visit with H&R Block, Stein took another turn on TaxSlayer.com and wound up with a smaller federal refund than initially indicated – \$16,695. The federal refund would have been more than offset by what he owed the state of California.

Tax Software Doesn’t Always Compute

Some reports have given anecdotal evidence that computer tax preparation software can come up with the wrong tax. In March 2009, *PC World* performed a *Money* magazine-style test updated for the Information Age. In this case the hypothetical taxpaying family was a couple with: one child, base income of \$100,000, an additional \$1,000 of interest income, \$6,000 of IRA contributions, and deductions for child care, student loan interest, and mortgage interest. The family also made donations of clothing and household items, sold some stock they acquired that same year, and sold a modest vacation home. *PC World* then ran the scenario through five of the most popular online self-guided tax preparation sites, and found:

Each site told us that the family owed a different amount in taxes, and the difference between the lowest and highest bill was almost \$2000, or about 10 percent of the family’s total tax bill.

Which site was correct? It's hard to say. The disparity in the returns (on a total tax bill of more than \$20,000) stemmed from the instructions the tax sites provided (or failed to provide), but it also reflected a lack of concrete guidance from the IRS.

Other software reviewers report different problems. On March 14, 2010, *The Washington Post's* Personal Technology Columnist Rob Pegoraro reported, "It's alarming and maddening, then, if you cannot count on two different tax applications to yield the same figure. But that's what happened in both last year's review of tax-prep programs and in this year's test." The two online programs tested with fairly simple returns showed a \$13 difference. He did not test complicated returns, but the variance hardly builds confidence in the clarity of tax laws.

On April 7, 2010, a *New York Times* report noted that "a flaw in the most recent version of TurboTax, the nation's most popular tax-preparation software, may have caused thousands of retired federal employees to overstate their medical deductions and unwittingly underpay" the IRS by hundreds of dollars. A taxpayer who noticed an odd result actually was the one to report the error. Government auditors were initially unable to duplicate the scenario, but after press inquiries the IRS issued a statement confirming the error.

In 2011, IDG News Service reported that a TurboTax programming error "recently resulted in a number of Ohio residents receiving letters indicating that eye-popping sums were en route – in one reported case, a cool \$200 million." The flaw was quickly fixed by the manufacturer.

The Treasury Inspector General for Tax Administration's interim report on the 2013 tax filing season highlighted a software error that has received widespread media attention although again, the error has been rapidly addressed. Some tax software was producing insufficient feedback on Form 8863 to help the IRS determine if filers were eligible to claim the education-related American Opportunity Tax Credit. Tax agency officials told TIGTA that about 10 percent of all returns claiming the credit were affected, resulting in processing delays.

While private companies measure remedies for glitches or security problems with their tax software in days or even hours, the IRS's own, much larger technological issues have taken years to address. In 2013, GAO reported that it had removed the IRS's Business Systems Modernization effort from its "High Risk List" for vulnerability of failure due to waste or mismanagement. Yet, a separate report issued shortly thereafter noted that the tax agency had failed to implement over one-fifth of GAO's recommendations to improve IRS information security systems.

Incentives Needed for Simplification

While the 1998 IRS Restructuring and Reform Act requires Congress to at least consider complexity before passing tax legislation, that has not provided enough incentive for lawmakers to avoid additional complexity or encourage simplification. The tax-writing committees should

be required to quantify the burdens of proposals that add complexity or the savings from proposals that simplify the law.

The National Commission on Restructuring the IRS suggested that Congress consider a quadrennial simplification process, which could be implemented through legislation or executive order. The Commission found that many members of the private sector tax community were willing to volunteer substantial time to make suggestions for simplification.

A quadrennial simplification commission would do a more thorough job of harnessing volunteer activity and give a broad group of people on the inside and outside of government more incentive to work for the adoption of simplification rules. This quadrennial commission would also give the JCT and the Treasury Department more incentive to suggest simplification of the law.

One scheme that would take tax simplification in the wrong direction is the “return-free” concept, which would effectively allow the IRS to create returns for taxpayers to sign. Aside from the potential for bureaucratic foul-ups and putting the tax collection agency in the tax preparation business, in late 2011 an NTU letter to Congress warned that:

One overarching goal of fundamental tax reform should be a system that allows all Americans to understand how their individual tax liabilities are calculated and allows them to hold their elected officials accountable for such liabilities. Return-free subverts the concept of transparency by further placing the machinery of the tax laws away from public view – in the process condemning informed debate over the proper size of government to an obscure periphery of the public square.

NTU-backed legislation known as the Free File Program Act has been introduced by Rep. Peter Roskam (R-IL) in this Congress. The bill would help to protect the current, highly successful Free File program, a public-private consortium with 16 software companies that allows some 70 percent of all filers to submit their returns electronically at no charge to themselves or the federal government. His proposal also specifically prohibits the IRS from pursuing its own return-free scheme.

Conclusion: A New Approach to Taxes Is Needed

A fundamental overhaul of our tax system remains a national priority. As the Internal Revenue Code becomes increasingly incomprehensible, the intrusive measures provided to the IRS for enforcing it become even more disturbing. Every detail of a taxpayer’s private financial life is open for government inspection. IRS employees can make extraordinary demands on taxpayers and can take extraordinary actions against them. The trend will accelerate as additional portions of the 2010 health care law – particularly the individual mandate – take effect. Mixing such broad powers with a vague and complex law is a recipe for a civil liberty catastrophe. The threat of abuse is always present. Meanwhile, our economy continues to suffer needless compliance costs that divert resources away from innovation and investment.

In February, House Ways and Means Committee Chairman Dave Camp (R-MI) offered a promising prescription to at least help alleviate some of this pain, with a comprehensive tax reform discussion draft. The blueprint would, among other things:

- Reduce the number of individual income tax brackets from seven to three, while expanding the standard deduction to the point where as many as 95 percent of taxpayers would find it financially advantageous to file using a new “short” form rather than itemizing deductions.
- Streamline education tax credits as well as retirement account provisions.
- Eliminate the hideous AMT for individuals and businesses.
- Cut the top corporate tax rate to 25 percent, while simplifying the base of income subject to tax.

The plan is certainly not perfect, and could benefit from some additional remedial steps. For example, many of the phase-outs of credits and deductions take place on a speedier timetable than the phase-ins of lower rates, creating “tax bubbles” for certain taxpayers. In addition, the draft admirably proposes tax-rate parity for small and large businesses, but only for small businesses involved in manufacturing.

There are plenty of alternative approaches to tax reform as well. In past years House Budget Committee Chairman Paul Ryan (R-WI) has proposed an ambitious plan that includes a simplified two-bracket personal tax with rates of 10 and 25 percent, as well as a streamlined corporate tax featuring a 25 percent federal rate. President Obama has called for a 28 percent corporate rate, though with serious tinkering (in sectors like energy) that would still let government pick winners and losers through tax policy. More comprehensive approaches include replacing the personal and corporate system with a flat-rate arrangement or a consumption tax. The latter proposal is reflected in the Fair Tax Act authored by Rep. Rob Woodall (R-GA) and Saxby Chambliss (R-GA) with 63 House and seven Senate cosponsors, respectively. NTU has long supported this legislation.

Another path begun several years ago continues to show modest promise today. In late 2006, Senator Ron Wyden (D-OR) reached out to liberal and conservative organizations with a long history of involvement in tax issues to help form the Cleanse the Code coalition. Some of these groups participated in the 1986 tax reform campaign that broadened the base of the income tax while lowering and simplifying rates. The signatories included the Progressive Policy Institute, American Conservative Union, National Taxpayers Union, Citizens for Tax Justice, Taxpayers for Common Sense, and the Center on Budget and Policy Priorities. All of the groups rallied around three principles that will “provide guidance for debate as we move forward with a substantial revision to the U.S. Tax Code:”

- **Simplification, Transparency, and Certainty.** “Most taxpayers should be able to calculate their taxes on a single form or no form at all, and in most cases by themselves, with a few hours or less of preparation. ... A more transparent Tax Code would make it

easier for individuals and businesses to pay the taxes that they owe, and for the IRS to help them comply with their obligations under the Tax Code.”

- **Opportunity for All Americans to Get Ahead.** “All Americans deserve a fair tax system that gives them a chance to get ahead in a marketplace economy. A Tax Code riddled with loopholes is not fair. Any reform effort needs to ... ensure that special preferences are not given to the few at the expense of the many.”
- **Fiscal Responsibility.** “... [O]ver the long-term the amount of revenue government collects and spends cannot be determined independently from each other. As a result of this interplay of revenue and spending, the goal of tax reform must be pursued in a fiscally responsible manner.”

In 2011 Senator Wyden joined Senator Dan Coats (R-IN) in unveiling legislation reflecting these tenets: The Bipartisan Tax Fairness and Simplification Act. NTU was especially supportive of the bill’s provisions to repeal the personal and corporate Alternative Minimum Tax, abolish the recently reinstated Personal Exemption Phaseout and Pease limits on itemized deductions, consolidate and expand retirement savings vehicles, and establish a single, low corporate tax rate. Still, the legislation had its flaws, such as continuing the uncompetitive policy of double-taxing income earned abroad by U.S. citizens and businesses. Every other major industrialized country shuns this practice in favor of a “territorial” tax system. Senator Wyden, who is now Chairman of the Senate Finance Committee, has made systemic tax reform a priority for next year.

Although the National Taxpayer Advocate has also recommended tax reform and simplification in past communications to lawmakers, her current initiative more forcefully revives a concept she has stressed since 2007: adoption of a new “Taxpayer Bill of Rights” that would clearly convey the procedures, protections, transparency, and accountability in administration of the tax system. Proposed elements include:

- The right to be informed, through “clear explanations of the law and IRS procedures in all tax forms, instructions, publications, notices, and correspondence.”
- The right to quality service, such as “clear and easily understandable communications from the IRS.”
- The right to finality, e.g., knowing the maximum time the IRS has to initiate an audit and knowing when the audit has been concluded.
- The right to confidentiality in all dealings with the IRS, and the expectation that agency employees who fail to respect this principle will be disciplined.
- The right to a fair and just tax system that will “consider facts and circumstances that might affect their underlying liabilities, ability to pay, or ability to provide information timely.”

Yet, a root cause of these worthy suggestions remains complexity. For more than three decades NTU has been the leading citizen group to advocate on behalf of codified taxpayer rights and safeguards, culminating in the first Taxpayer Bill of Rights (in 1988), “T2” (1996), and the IRS Restructuring and Reform Act of 1998. The effectiveness of these three legislative

packages – and the Taxpayer Advocate’s latest proposal – has and will be directly tied to the relative simplicity of the tax laws themselves.

Politicians often succeed at hiding the pain of *paying* taxes, but it remains much more evident to the average American than the pain of *complying* with taxes. This can help to explain why an Associated Press-GfK poll released the week before April 15 reported that 58 percent of respondents found filing their federal tax returns easy. But there might be other forces at work too – Americans could simply be resigned to the notion that meeting the demands of the tax laws will always cost them time and money. Furthermore, taxpayers seem skeptical of politicians who promise a simpler tax system but have other motives in mind. About 90 percent of those surveyed said they would not be willing to pay a higher tax bill in exchange for a less difficult filing process.

Nonetheless, as this study has hopefully shown, people are already paying plenty for a complex tax system, sometimes directly out of their own pockets, other times through less tangible ways – in the form of lost economic productivity and diminished personal freedoms. That’s why reforming our tax system, and reducing its complexity, must remain at the top of Washington’s policy agenda.

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