



The Growth in Tax Complexity

by David Hogberg

Is the federal tax code hopelessly complex? That is the contention of James L. Payne in “Explaining the Persistent Growth in Tax Complexity,” a chapter from *POLITICS, TAXATION, AND THE RULE OF LAW*, a new book from Public Interest Institute. With the thousands of pages in the Internal Revenue Code, the thousands of pages of interpretive regulations added each year by Treasury officials, and the ever-rising number of court cases involving tax law, Payne contends no one “truly knows what is legal, valid, or correct in the federal tax system.”¹

Most observers feel that the complexity of the modern federal tax system is something, although annoying, we can live with. Payne does not share their complacency. He worries that an increasingly complex tax code results in growing cynicism among the public:

People need to feel that tax burdens are the product of rational, consistent rules about who pays how much. In a highly complicated system, this certitude is lacking. Taxes become a function of inside knowledge, tax breaks, and even bad luck. In such a system, everyone is encouraged to conclude that the tax system is unfair, that he is paying more taxes than he “should,” and that others — especially envied others — are not paying their “fair share.” Once the tax system is perceived to be without rectitude, no one — not taxpayers, nor tax officials, nor lawmakers — will be disposed to uphold it.²

Payne also notes increases in the indicators of tax complexity. A 1988 government study found that the nation spent 5.4 billion man-hours on tax compliance work. This number likely understated the extent of the problem, as the study did not account for the time consumed by professional tax preparers, and the time that taxpayers devote to tax planning activities. Payne estimates that the true figure may be closer to 7-10 billion man-hours. The number of returns being filed has also increased during the 1980-2000 period. Individual returns increased 37%, from 93 million to 127 million, while corporate returns nearly doubled, from 2.7 million to 5.3 million. The use of tax preparers has also risen. “In 1981, 41 percent of individual taxpayers were using the services of paid professionals; in 1999, the corresponding figure was 56 percent.”³

Payne argues that complexity lowers moral standards. Complexity results in all manner of tax avoidance such as shelters, padded deductions, and omitted income. People begin to view paying taxes not as a civic duty, but as a system to be gamed.

What drives tax complexity? Payne contends that one explanation is the need for the tax system to be humane. In ancient times, taxes were often collected at the end of a sword. “As civilization evolved, this vicious process was gradually tamed. Lawmakers put down on paper the rules which stipulated the amount of tax owed.”⁴ While this greatly humanized the tax system, it came at the cost of increased paperwork.

A Publication of:

Public Interest Institute at Iowa Wesleyan College

600 North Jackson Street

Mt. Pleasant, Iowa 52641-1328

Phone: 319-385-3462 Fax: 319-385-3799

E-Mail: public.interest.institute@limitedgovernment.org Web Site: www.limitedgovernment.org

What also drives tax complexity is the quest for “fairness.” The concept of fairness is infinitely complex. Payne suggests that the principle that people with equal incomes should pay an equal amount in taxes seems fair. “But suppose one taxpayer has a child with a crippling disease that is very expensive to treat.”⁵ Given the extensive medical costs, it would seem unfair to require this taxpayer to pay the same amount as someone who earns an equal income but has no crippled child to provide for. Thus, an exception for medical expenses is created. Payne then states:

But look what the creation of this exception means for the complexity of the tax code. Regulations have to be written defining which medical expenses are included, and taxpayers have to master these regulations, collect records, add up expenses, make calculations, and fill in the extra lines on the tax form.⁶

Ultimately, Payne is pessimistic that tax complexity will end. He states, “No one is willing to face the hard truth, of course, because taxation has become so central to modern social and economic arrangements.”⁷ As such, it may be a long time before our country engages in serious tax simplification.

ENDNOTES:

¹James L. Payne, “Explaining the Persistent Growth in Tax Complexity,” in Donald P. Racheter and Richard E. Wagner (eds.), Politics, Taxation, and the Rule of Law: The Power to Tax in Constitutional Perspective, Kluwer Academic Publishers, Boston, 2002, p. 167.

²Ibid., p. 168-69.

³Ibid., p. 170.

⁴Ibid., p. 178.

⁵Ibid., p. 181.

⁶Ibid.

⁷Ibid., p. 184

This Institute Brief is one in a series on the chapters of a recently published book, POLITICS, TAXATION, AND THE RULE OF LAW, edited by Dr. Don Racheter, President of Public Interest Institute, and Dr. Richard Wagner, Economics Professor at George Mason University and Chairman of the Institute’s Academic Advisory Board. POLITICS, TAXATION, AND THE RULE OF LAW looks at the balance between providing government with the power to operate while preserving and protecting our rights of person and property.

The author of this chapter of POLITICS, TAXATION, AND THE RULE OF LAW is James L. Payne, President of Lytton Research at Sandpoint, Idaho.

This summary of Mr. Payne’s chapter was written by David Hogberg, a Research Analyst with Public Interest Institute.

Permission to reprint or copy in whole or part is granted, provided a version of this credit line is used: "Reprinted by permission from INSTITUTE BRIEF, a publication of Public Interest Institute." The views expressed in this publication are those of the author and not necessarily those of Public Interest Institute. They are brought to you in the interest of a better-informed citizenry.