

# The Washington Times

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## Tax traps

By Richard W. Rahn

Published March 28, 2007

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Are you absolutely sure you paid the exact amount of income tax you owed last year -- not too much and not too little?

I am willing to bet the vast majority of those reading this paid either too much or too little -- not because they intended to but because the tax code is so complex it is almost impossible to know precisely the right number. As Americans sit down to file their taxes before the April 17 deadline, most will feel some anxiety and many will feel trapped. It is not only the taxpayer who is trapped, but also the Internal Revenue Service folks and even the political class that created the mess.

Most taxpayers realize they are forced to pay far too much for what they actually receive from government, because of mismanagement, waste and badly designed programs. (In the private sector, this is called consumer fraud.)

Taxpayers feel anxiety and a sense of powerlessness because the tax system is far too complex for them to understand. (Years ago, a brilliant tax lawyer who had been Treasury undersecretary for taxes told me there was much in the code that not even he understood -- and it is much worse now.) The IRS requires a level of recordkeeping most people are not capable of (at least psychologically).

Most of us toss those records we think are important in a drawer -- and because we are human, many documents are lost or misfiled. We then take our files to a professional or use tax preparation software. We assume the software and the tax professionals are correct, but we really don't know. The tax preparation people once were on the side of the taxpayer and would tend to err in the taxpayers' favor. However, this is no longer true, because the IRS has attacked the tax lawyers, accountants and the software suppliers. So many tend to err on the side of the IRS in order to protect themselves. Thus taxpayers are trapped in a system they cannot understand, nor can they obtain the help that will fairly represent them against the government or protect them against having their hard earned monies misspent.

The IRS employees are also trapped. Most of them did not aspire to be tax collectors, but took the job because it paid better than other alternatives. (As a former professor, I never knew or even heard of a student whose life goal was to work for the IRS.) Some IRS employees genuinely believe they are doing a necessary public service. Others have grown to understand they may be creating far more misery than benefit for society,

because much of the money they collect would be far better used if left to those who earned it, and the collection process is economically destructive.

The press occasionally has reports of someone driven to suicide because of IRS harassment. How much psychological and physical health damage has the IRS caused Americans over the years? The people at the IRS are under constant pressure to increase collections, which means more paperwork, more harassment and more abusive audits of taxpayers. This puts the IRS employees at odds with many of their fellow Americans, some of whom believe the tax collectors are not much better than Tony Soprano's shakedown artists.

Furthermore, the IRS code and regulations are so complex the IRS employees cannot understand them, which is demonstrated by the surveys showing a very high percentage of answers given to taxpayers are wrong. And this is why the IRS tells taxpayers they cannot rely on what they are told by IRS agents. In sum, the IRS employees are trapped in a job which is impossible to perform in a responsible, compassionate and economically undestructive manner.

Finally, there are the politicians who created the mess, and who are so trapped by their own sense of guilt and denial that they refuse the clean up and simplify the tax code -- despite repeated pledges to do so. At the moment, some in Congress are on a rant about the unsupported claim that more than \$300 billion in taxes due last year were not collected, and demanding even more coercive measures. Even if this number were true, it is tiny compared to the misspending and overspending by government, which these elected politicians have control over but do nothing about.

Why is there not equal outrage about all the Americans who pay too much each year because they cannot understand, or the IRS has made it too costly to obtain, the deductions to which they are legally entitled? How often have you heard people say they deliberately overpay their taxes because they are afraid of an IRS audit or of a provision that requires too much or unavailable paperwork?

The Oscar-winning movie, "The Lives of Others," dealing with the East German secret police (Stasi), brilliantly shows how a coercive reporting system can only become more repressive and less productive. Notable people, before determination of guilt, are "exposed" and their careers ruined, as a way of keeping others from speaking out. I wonder why I immediately thought of the IRS and the political class in Washington upon seeing the movie?

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