

Absurdum est Vita et Tributa

This is my fourth year as a VITA TCE (Volunteer Income Tax Assistance, Tax Counseling for the Elderly) tax preparer. Each year, I write an essay describing my experience. I thought I had covered everything, but there are absurdities in our system that the average taxpayer isn't aware of. Thus, the title. There is no pun intended with regards to the Vita (Latin for life) program.

For the past three years, the law mandates that we check with clients whether or not they have health insurance, as required by PP ACA (Patient Protection Affordable Care Act), more popularly called Obamacare. Anyone not having health insurance must have a compelling reason, such as unaffordability, or face a penalty. (You're also excused if you're in jail; regulators sure think of everything.) Starting from a modest fine of \$95, the penalty has been escalating and for the 2016 tax year is the higher of either 2.5% of your AGI (adjusted gross income) or \$695 per individual claimed on the return (maximum of \$2,085 fine per family). For lower income people without health insurance, that is a big chunk and most often exceeds their Federal income tax liability. Or their earned income tax credit, if they qualify.

Since the uninsured, by choice, are mostly young men earning not much over the minimum wage, the net effect is that poor taxpayers are paying most of the fines mandated by the ACA. For the first two years, they laughed off the fine, but now it is serious. According to the IRS, 8 million taxpayers paid the fine. Call it a special tax on the poor. Another 12 million claimed an exemption. This is the point at which the government has not communicated well. For lower income people, ACA provides a "Premium Tax Credit" to make insurance affordable. For a few hundred \$\$ more than the fine, they could purchase health insurance through ACA. Thus 20 million of our poorer citizens could have had insurance. Of course the PTC would add billions to the ACA budget. I think it's worth it. Thirty two out of thirty three developed countries have universal health coverage. Guess which one doesn't?

We can attribute it to civic mindedness or simply a fear of Big Government, but I always encounter a handful of people who come in for tax preparation, not being aware, or refusing to believe, that they don't have to file. They are typically elderly, living on social security alone or sometimes supplemented by a very modest pension. I wind up profiling these conscientious seniors, asking them about their income before even starting their returns. Most thank me and leave. Others are adamant about submitting their returns. "But I was told I had to file!" To assuage their concerns, I typically prepare a return, which would show zero tax liability, then printing it out for the client to take with them and show to whoever is telling them to file. Then we delete the return from our records.

A large sector that has emerged in our economy is what's being referred to as a gig economy. Think Uber and Lyft, but that includes visiting nurses, home health aides, cleaning people, handyperson services, hairdressers, etc. That's a good deal for the companies, but not so much for the contractor. They are not employees, but independent contractors. This means they pay both their and what would be the company's matching share of social security and medicare taxes, which is 7.65%. The companies provide no health insurance, no pension, no vacation or

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holiday. Of course they can deduct their expenses, which includes a generous mileage allowance. But in the case of Uber and Lyft, the drivers barely earn minimum wage after deducting the company's fees and self employment tax.

The last absurdity is probably the saddest. If an employee stops working and draws disability from the employer before the company's normal retirement age, then that income is not taxable. However, once they are past retirement age, the disability income becomes taxable. Note that disability income from an employer is different from social security disability. Just when a person needs it most, their meager income suddenly becomes taxable.

There are promises to reform the tax code. But every beneficiary of every tax break - think homeowners with their interest deduction, contributions to charity, state, local and property taxes, put up strong resistance. Thus, reforms never get implemented. Even the IRS recognizes the code's complexity.

Nina E. Olson is the "national taxpayer advocate" in the IRS since 2001. She wrote a column suggesting steps to simplify the code, published in the April 17th edition of the Wall Street Journal. Appropriately, that's around the end of the filing date, traditionally April 15 (April 18 this year). Perhaps some members of Congress might read it.

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