

Taxes

“In this world, nothing can be said to be certain, except death and taxes,” attributed to Benjamin Franklin.

During this tax filing season, I volunteered as a tax preparer for a service providing free tax preparation and electronic filing. The service is available only to persons or families earning below the U.S. median income, which is \$52,000. For seniors, there is no income limit. We work under the auspices of the IRS, have to undergo training then pass a Standards of Conduct and a Certification test. The IRS may even send in a ringer, to test our expertise.

I was planning on writing an essay about this experience after the tax filing deadline, but there has been a lot of attention devoted to the subject of taxation this month, so I'm issuing earlier. Rep. Dave Camp (R-MI) introduced a tax reform bill, then wrote an op-ed piece in the Wall Street Journal. The WSJ followed with its own editorial, then another op-ed piece by a former Director of the bipartisan Congressional Budget Office. Rep. Camp proposes to replace the thousands of pages tax code (it depends on who is counting) with his own 979 page proposal. My proposal is much shorter.

Until the adoption of the 16th amendment in 1913, there were no income taxes in these United States. Revenue was generated by customs duties and excise taxes. I'll spare you the history of how the federal income tax changed over the next century, but change it did.

It takes an hour to prepare the simplest tax return. Simple in that the only sources of income are wages, salaries and some interest or stock dividend. For seniors, income would typically be social security, pensions, 401k and IRA distributions. This is where the fun starts. Besides the federal income tax, a return has to be filed for the state and the local government. (Our service does not provide for filing local taxes.) Sometimes the school district has a separate tax as well. But not all income is equal. All or part of Social Security could be taxed. Would you believe state unemployment is taxable income? What the state giveth, Uncle taketh. A taxpayer who itemizes their deductions is faced with a myriad of what is and what isn't deductible. The rules change every year. We have to make sure we don't miss any detail.

Our government has safety nets for lower income people. If their earned income (wages or salaries) fall below a certain amount, they are entitled to “earned income tax credit” or EITC. Starting with a single taxpayer the EITC escalates with increasing family size and income. At a certain income threshold, the credit cuts off. (President Obama's 2015 Budget proposes to expand this benefit.) Other credits are child tax credit, American opportunity credit for students, energy credits, etc. Some are “refundable credits” while some are “non-refundable credits.” Know the difference? No wonder thousands of people come to the 20 locations in greater Cincinnati to use our service.

The complexity of income tax preparation has been a boon to commercial tax preparers such as H & R Block, Jackson Hewitt, Liberty Tax Services and tax software providers like Intuit (TurboTax). But once taxpayers learn of our services, they quickly abandon the commercial

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preparers.

As much as we complain about taxes, Americans are relatively faithful in paying their taxes. I say relatively, compared to the rest of the world. There are some countries where the tax collection rate is abysmal. The U.S. has the lowest tax burden, in terms of % of GDP, among developed countries. It has the lowest "shadow economy." Americans ought to be proud.

It is now time for Orosa's simplified income tax revenue code. Designed to be "revenue neutral," the percentages may need some adjustment.

Income = Wages, salaries, pensions, 401k, IRA, dividends, royalties, commissions, stock grants, perks, etc. As a senior citizen, I hereby declare social security income as non-taxable. Deductions = \$30,000 for the first person, plus \$7,500 for every additional family member. Thus, a couple would have a deduction of \$37,500. That compares with a deduction of \$20,000 under present rates. A family of four's deduction is \$52,500 (\$27,800 today). Present deductions for interest, property taxes, charity, etc. are eliminated. So would tax credits of \$7,500 for millionaires buying a \$90,000 Tesla (or BMW i3).

Taxable income = Income - Deductions.

Tax rates:

Taxable income up to \$25,000 = 10%

Taxable income for next \$25,000 = 20%

Taxable income after \$50,000 = 30%

Millionaires will not be allowed to deduct losses (at least 1,000 millionaires do not pay any federal tax); corporate executives pays the 30% rate on stock options, bonuses and perks, which include use of the company jet for family vacations. Do you know that sports organizations like the NFL do not pay federal taxes? (Teams and players pay taxes, of course, but not the league office.) They are considered a 501(c)(6) tax-exempt trade organization. The National Hockey League, the Professional Golfers Association and the Association of Tennis Professionals are also under this rule, but Major League Baseball is not, having voluntarily given it up. The National Basketball Association considers itself for profit, not pretending to be a "trade organization." Hurray!

Let's apply these tax rates to some famous persons, like the First Family, who by virtue of the POTUS' salary belongs to the 1%. I only use them as an example because their tax records are public. The Obamas paid \$112,000 on an income of \$662,000. Under the new rules, their tax liability is \$175,000. The Vice President paid \$88,000 on an income of \$385,000. Their new tax liability would be \$96,750. As you can see, neither paid anywhere close to the 39.6% top tax rate under existing law. Any one of the 1% who pays the top rate needs to fire her or his accountant. Executives getting paid tens of millions would be taxed at close to 30% since the \$30,000 + \$7,500 deductions would be puny. They would be allowed no other deductions. Period. Bill Clinton once attempted charitable deductions for donating his underwear. Richard Nixon donated his presidential papers to the U.S. government and filed for a tax deduction, valuing his papers in the millions.

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Thus, you can prepare your taxes on a 3½ X 5 card or the back of an envelope. Note that Singapore has a top tax rate of 20% and you can calculate your taxes using a smartphone app. Us volunteers would have to find another cause. But I expect to be run out of town by every lobbying group there is, starting with charities. The NFL won't be far behind.

Mario E. Orosa

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N.B. I believe the IRS program, called VITA/TCE (volunteer income tax assistance, tax counseling for the elderly), is a valuable community service. If you know someone who could benefit from this program, please bring it to their attention. More information and location of the sites can be found at:

<http://www.irs.gov/Individuals/Free-Tax-Return-Preparation-for-You-by-Volunteers>