



Written by [Veronique de Rugy](#) on March 23, 2017

There's Nothing Simple About Hiding the Burden of Taxes

The deadline for filing federal income tax returns is approaching fast. While this is understandably a frustrating time for many, it's also the one time during which many taxpayers are confronted with just how much of their earnings are captured by the government. Sens. Elizabeth Warren, D-Mass., and Bernie Sanders, I-Vt., think that is one time too many. They want the Internal Revenue Service to prepare tax returns on behalf of taxpayers instead of leaving it as an individual responsibility.



This idea is pitched as a “simplification.” And, to be fair, the complexity of our tax code is undeniable. It results in tax-compliance costs that can reach nearly \$1 trillion annually, according to my colleague Jason Fichtner. However, the solution to this complexity isn't to add to the opacity of the system and make the cost of government even less visible to those picking up the tab. There's already too much of that.

First, automatic tax withholding has gone a long way to hide the amount of taxes we pay annually. Also hidden is the fact that the burden of any tax falls on — and is paid by — people, whether they be consumers, investors or workers. Different types of taxes — individual, corporate, capital gains, dividends, estate, gift, etc. — are all borne by people but not necessarily by the person who cuts the check to the IRS. It results in a fiscal death by a thousand cuts without taxpayers noticing.

For example, consider payroll taxes, which are withheld from paychecks. Few people realize that this is likely the biggest tax they pay. It's also sold as something other than an income tax by taxing only qualified wages. Yet, because it's withheld from wages, the same ones that are used as part of the individual income tax base when filing your taxes in April, it's just a clever way to double-tax you without you even knowing. Furthermore, its full burden is hidden by pretending that half of the burden is carried by employers (employers pay 7.65 percent; workers pay 7.65 percent; and the self-employed pay the full 15.3 percent), when in reality, the burden of the employee share is shifted to workers in the form of lower salaries.

As a result, without putting serious time and effort into figuring it out, it's all but impossible to tally how much is truly coming out of your pocket. The solution to this cost, however, is not to let the IRS prepare our tax returns and require nothing but a signature of approval from the taxpayer. For one thing, the government's incentive is to maximize tax collection, whereas individuals generally prefer to pay the lowest amount legally possible. And second, the IRS isn't particularly good at understanding its own rules, yet taxpayers would still be held responsible for the errors. Considering the tremendous and one-sided power held by the IRS, many would be scared to question the accuracy of an IRS-created return even if it's warranted.

Automatic withholding was first proposed in the midst of World War II. It was considered an emergency wartime measure to fund a greater percentage of war costs with current taxes than was done during World War I, in hopes of avoiding the same degree of inflation seen during the prior war. Free market



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economist Milton Friedman was a young Treasury Department employee at the time, and he even helped develop the program.

Friedman would later lament, "It never occurred to me at the time that I was helping to develop machinery that would make possible a government that I would come to criticize severely as too large, too intrusive, too destructive of freedom." He did it by accident, as he never wanted the program to exist during peacetime. Sens. Warren and Sanders seek to do the same today but deliberately.

We don't need taxpayers less involved in funding the government. For those with the goal of shrinking government and reducing taxes, the aim should be the opposite: to make the costs of big government clearer to those who carry the burden of funding it. Finally, the best way to bring about simplification for taxpayers is to implement fundamental tax reform, not give more power to the IRS.

Veronique de Rugy is a senior research fellow at the Mercatus Center at George Mason University. To find out more about Veronique de Rugy and read features by other Creators Syndicate writers and cartoonists, visit the Creators Syndicate webpage at www.creators.com.

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