

NATIONAL TAXPAYER ADVOCATE PUBLIC FORUM

May 5, 2016

Red Oak, Iowa

WHAT TAXPAYERS WANT AND NEED TO COMPLY WITH TAX OBLIGATIONS

Varel G. Bailey

55213 770th St

Anita, Iowa 50020

The relationship between IRS and society

- Responsibility of tax payers

- Responsibility of IRS

 - Fairly and efficiently collecting taxes

 - Moral duty to provide guidance to society

The role IRS plays in the interface between the U.S. government and the general public has always intrigued me. On one hand it has the force of law like the police but on the other hand it has responsibilities to shape the country economically, socially and very rarely politically. In fact the genesis of income tax came during the political turmoil of women's suffrage and prohibition. Politicians said prohibition could not work because the tax on liquor was a large portion of what financed the government. Political activists supported income tax as a good bargain to reduce the alcoholism in society. Prohibition didn't last but income tax and women's suffrage did.

After preparing my personal income tax for about sixty years and filing corporate taxes for fifty years I am amazed at the crescendo of complexity in preparing a return. I have vowed to continue all these years because it makes me a better manager. On my farm knowing the taxation rules on cash accounting, depreciation of capital purchases, conservation expensing, accelerated depreciation, CCC loans, co-op dividends, livestock capital gains, FICA, crop insurance indemnity deferral and many other items keeps me focused on sound economic/financial principles. The portion of returns that contain a Schedule F may be small compared to history but IRS needs to be aware that servicing special business areas such as agriculture is vital to the U.S. economy.

As I click through the questions in the income tax return software I use I am amazed at the complexity of the investment options available to citizens and their varying tax ramifications. There is an industry built around tax avoidance. It is too late since the IRA, 401K, REIT, quasi-insurance and Wall Street creations genie is out of the bottle and IRS must deal with what Congress and the Executive branch allow but standardization would be helpful for the private citizen at tax time.

When most tax payers answer the personal questions about the number of dependents, blindness, disability, charity donations, health insurance and expenses and self employment, the focus is always how can I answer the questions in a way to reduce my taxes. Little thought is given to realize this is government's way to guide society. They provide incentives or disincentives for investment, charity, healthcare, retirement, etc. The U.S. experience is much more subtle than the example I discovered in the 1980's in the Soviet Union. They had two serious social problems: a declining population and babies born into abject poverty. For the declining population when a woman raised one child, her income taxes were reduced by 50% for the rest of her life. A second child reduced them by 75%. For a third child she was income tax free the rest of her life. For the abject poverty problem, abortions were without a fee. Our system of Earned Income Credit, conservation expensing, charitable deductions, etc. is much softer but more effective than most people realize.

What the IRS may not realize is -- it is in the business of education. It is one thing to teach people how to cram real world numbers not a series of boxes but to have a fair and efficient tax collection system which includes all other messages that are built into the laws and regulation, people need to understand what the input numbers mean and the relationships with the final numbers. I am not a trained teacher but my experience as an officer in the Army Artillery made me realize when my troops understood the situation, had a solid grasp of the goal, logic, process and procedures, and had a deadline, they could hit the target. The other things I learned was the education process never ends and everyone learns in a slightly different way. When the error rate increases on a test (like an annual return) the problem is likely in the teaching rather than the student (tax payer).

Over all the returns I have filed I only recall several errors which were omissions and math errors. These were corrected with an exchange of letters.

With the increasing complexity of filing a return, this is not the time for IRS to reduce the communication interface with the public. Modern electronics provide a broad range of ways efficient ways to educate, instruct and solve problems. IRS should provide the full spectrum of communications from one-on-one phone calls, print media and internet support.

Maintaining the confidence and the support of the general public is of critical importance.