

### **Why are taxes so complicated?**

Our tax system could be simple if its only purpose were to raise revenue. But it has other goals, including fairness, efficiency, and enforceability. And Congress has used the tax system to influence social policy as well as to deliver benefits for specific groups and industries.

Almost everyone agrees that the current tax system is too complicated, yet almost every year the system gets more complex, not less. Why? Tax simplicity almost always conflicts with other policy goals.

For example, the simplest—and least distorting—tax is a head tax, a fixed dollar tax on everyone. But a head tax would be unfair, taking no account of differences in the incomes and needs of individuals, families, and businesses.

### **COMPETING GOALS FOR A TAX SYSTEM**

Most people believe taxes should be fair, conducive to economic prosperity, and enforceable, as well as simple. But even people who agree on these goals often disagree about the relative importance of each. As a result, policies usually represent a balance among competing goals, and simplicity often loses out to other priorities.

For example, most countries tailor tax burdens to the characteristics of individual taxpayers. That can make taxes fairer, but more complex. Income has to be traced from businesses to individuals. Individual characteristics such as marital status and number of dependents, as well as the composition of expenditures or income, have to be reported and documented. These conflicting objectives appear to be especially relevant in the current tax code, where desires to channel tax cuts to particular groups have added significant complexity.

### **POLITICS OF TAX POLICY**

Politics compounds complexity. Interest groups—and thus politicians—support tax subsidies for particular groups or activities. And these targeted subsidies inevitably complicate the tax system by creating distinctions among taxpayers, and among sources and uses of income.

Moreover, bowing to pressure from a handful of antitax activists, many members of Congress have signed a pledge to never raise taxes. That promise makes it difficult to get rid of tax preferences that lower taxes for some taxpayers but complicate the tax system. Honoring the pledge means that any simplification that raises taxes must be offset with another change that lowers them. Meeting that goal can often mean further complicating the tax system.

### **OTHER GOALS**

Some complexity is necessary to deter tax avoidance. Taxpayers, of course, have the right to reduce their taxes by any legal means. But their doing so inevitably raises questions about whether particular activities or expenditures qualify for tax-preferred status. The Treasury Department responds with rules designed to limit avoidance. Taxpayers in turn adapt to skirt the new rules. This can create a vicious cycle that leads to more complicated rules and increasingly complex avoidance strategies beloved by high-priced accountants and lawyers.

Many complicated provisions were enacted to raise revenue or to limit revenue losses during times of rampant budget deficits. For example, the landmark Tax Reform Act of 1986—a remarkable accomplishment in many respects—gave up some simplifying changes to meet the goal of revenue neutrality. The act created several complicated phaseouts and hidden taxes to meet revenue and distributional targets.

## FURTHER READING

Gale, William. 2001. "[Tax Simplification: Issues and Options](#)," Testimony before the US House of Representatives, Committee on Ways and Means, July 17.

Gale, William G., and Janet Holtzblatt. 2000. "[The Role of Administrative Issues in Tax Reform: Simplicity, Compliance, and Administration](#)." In *United States Tax Reform in the 21st Century*, edited by George Zodrow and Peter Mieszkowski (179–214). Cambridge: Cambridge University Press.

Joint Committee on Taxation. 2015. "[Complexity in the Federal Tax System](#)." JCX-49-15. Washington, DC: Joint Committee on Taxation.

Maag, Elaine. 2011. "[Tax Simplification: Clarifying Work, Child, and Education Incentives](#)." Washington, DC: Urban-Brookings Tax Policy Center.

Steuerle, C. Eugene. 2001. "[Tax Simplification](#)." Testimony before the US House of Representatives, Subcommittee on Oversight Committee on Ways and Means, July 17.

US Senate, Committee on Finance. 2013. "[Simplifying the Tax System for Families and Businesses](#)." Washington, DC: US Senate.