

by Gene Steuerle

## President Turns to IRS to Raise Levels of Math Education

The president's effort to "Leave No Child Behind" has run into opposition on a variety of fronts. The Congress complained that the money was too little, insisted that the president spend less to reduce the deficit, and then passed the Omnibus Reconciliation and Giveaway Acts of 2003 and 2004, otherwise known as ORGY-2003 and ORGY-2004. The term, "Reconciliation" in these and similar budget bills refers to the process whereby the two political parties come together in a penitential lovefest, where each member helps his legislative sister pass some special interest provisions that helps her get re-elected. Meanwhile, back on the educational frontier, Republican and Democratic governors have demanded that the federal government should not overrule state and local standards, which they claim represent a history of failure from which "we can all learn." Not to be outdone, superintendents of education around the country have redefined "child" to exclude any child who can't pass any new federal test in the first place, thus ensuring that no child is left behind and feeling unwanted. Additional federal dollars for counseling, however, are being provided, just in case.

In desperation, the president has done what all modern presidents have done when they cannot achieve their goals through direct appropriations: Turn to the IRS for help. In a secret meeting, the president's chief economics adviser, Karl Rove, sought advice from his friend and advocate for the public interest, Grover Norquist, who suggested that tax cuts had already solved the problem of terrorism and unemployment, and that only a nitwit would fail to see the direct connection between educational policy and more tax cuts. Seeking advice from his predecessor, President Bush touched base with "Education Bill" Clinton, who explained how he had tried to subsidize local school construction through the federal tax code and signed into law the oxymoronic educational individual retirement accounts (both are true — I swear).

But what to do this time? Lowering taxes for the superrich was no longer an option. Thanks to the elimination of the estate tax, which was the only way families with income from accrued gains ever got taxed, many were already scheduled to pay zero tax. As a matter of educational policy, this should have been enough. Trickle-down theory showed clearly that the middle class would become more educated as the rich became richer and sent more of their kids to elitist educational institutions; once graduated, those kids

would use their connections to start out at the top of corporations and law firms, where they would rub elbows and share their learning with lesser mortals. But that would take time, and it was an election year.

At last a solution worked its way through the fog, just as in real life people see these problems get solved each week on "The West Wing." People will never learn enough math simply as young students trying to please their teachers. What the public needs is some old-fashioned adult greed for motivation. If enough special provisions can be added to the tax code, just think of all the calculations that the public would heartily engage to minimize their taxes, not realizing that they were improving their math skills at the same time.

Take, for example, the new proposal to allow an immediate exclusion from tax for payments made to charities out of individual retirement accounts. You might think this is just a simpler way to allow people to take deductions they would otherwise take. Aha! Shows how little you know about the conspiracy to teach math education through the IRS.

I have obtained a secret document sent from Treasury Secretary Snow showing the calculations that are required. Here was the note that was passed on to the White House. Mind you, this document was sent as political advice to the White House, so don't try to get a copy through a Freedom of Information Act request, unless you can get Senator McCain to add yours to his list of causes. Here are the details, with names expunged:

To figure out the value of the new exclusion, first calculate the extent to which it is more valuable than an itemized deduction for the same contributions. To do this,

- Calculate its potential effect on adjusted gross income (AGI) because the IRA exclusion is not counted as income for AGI, whereas an IRA withdrawal would add to AGI even though later possibly deductible as an itemized deduction.
- Then determine the extent to which the lower AGI reduces the extent to which personal exemptions will be phased out because of higher AGI.
- Next determine whether the change in AGI will reduce the reduction in itemized deductions that can be taken.
- However, adjust the reduction in AGI because of the itemized deduction phaseout if the taxpayer hits a maximum percentage of AGI for the phaseout.

## COMMENTARY / ECONOMIC PERSPECTIVE

- Also, determine the extent to which the loss of the deduction might be offset in whole or in part by switching to the standard deduction, thus raising the value of the exclusion relative to the deduction.
- For taxpayers who take the earned income credit (for example, grandparents whose grandkids are supported by them), calculate whether the lower AGI raises or lowers the value of the credit, depending on income level.
- For taxpayers applying for educational assistance (either in the tax system or with Pell grants and other direct expenditures), determine whether the lower AGI increases educational benefits that can be obtained. However, if the lifetime learning benefit is used, adjust for the extent to which a maximum benefit might still be available over time.
- For taxpayers who have hit the maximum charitable itemized deduction contribution limit of 50 percent of AGI, determine the extent to which the exclusion will allow deductions to be taken where no itemized deduction is allowed. Discount by an interest rate potential future deductions that would be carried over to future years.
- For taxpayers subject to the phase-in of taxation of Social Security benefits, calculate the extent to which a lower level of AGI (due to an exclusion rather than a deduction) will reduce the additional taxes on Social Security benefits (for example, for taxpayers in a 25 percent bracket, the effective rate on an additional dollar of income can be raised by about 1.85 times 25 percent = 46.25 percent, ignoring other changes).
- For taxpayers who might be subject to the alternative minimum tax, determine the extent to which the lower AGI increases the exemption amount in the AMT, thus lowering AMT liability (here an additional dollar of income can add an additional 6.5 to 7 percent surtax).
- Don't give up yet. Now perform an additional side set of calculations using alternative with-

drawal rates over the years to see the effect of different bunching patterns for exclusions or deductions.

(Space limitations prevent me from providing further details, but these are but a subset of calculations required, honestly!)

Once told the problem being presented to the taxpayer, Karl Rove's glee could not be hidden, and he turned to tell the president in his usual emphatic unpartisan way, "This problem will teach the public the mathematics of constrained optimization of a set of simultaneous nonlinear equations with more unknowns than variables."

"Right on," replied the president, "but I would like to conduct a poll to answer the following questions:

- How many think that 'optimization' is laser therapy by an eye doctor?
- How many think that 'nonlinear' is the way that all tax economists think?
- How many think that 'simultaneous' is the type of sleazy broadcasting that our morally courageous media moguls say will no longer be available for the Oscars and Super Bowl halftimes?"

Approximately 84.7 percent of respondents answered "Yes" to every question, and "No," they didn't really understand what they were doing in the first place when they filed their tax returns. The remaining 15.3 percent couldn't read the questionnaire and have been set aside by the IRS for a special pre-filing correspondence audit. If you, too, answered like the majority of the public, then this proves that the subterfuge has worked with you as well. Soon you will be doing complex mathematics equations without even knowing it. The sooner you trickle down this knowledge to your coworkers and spouse, the sooner the president will be able to use all this high-powered mathematical ability to fulfill his promise to develop spaceships to send your kids to Mars (where they belong?), or at least to the Lunar Colonies of the U.S.A., coming soon to a Moon near you. And it's all thanks, once again, to the IRS.