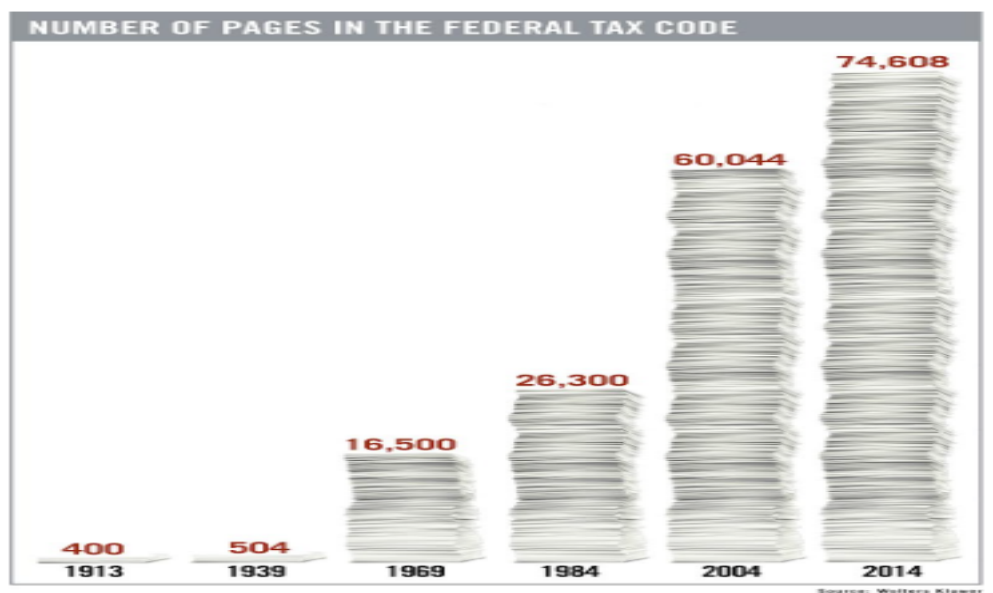


From: Dick Fredericks
Sent: Monday, August 08, 2016 1:20 PM
Subject: Some numbers on the tax code

Trump gave a speech on the economy this morning which, like all politicians, included views on taxes and tax policy. Hillary is expected to roll out her economic policy this coming Thursday.

For backdrop purposes, taxes were first imposed in 1913 and the tax code was 400 pages in that first year. At the end of 2014 (last numbers available) the tax code had swelled 187 times to 74,608 pages. In terms of the number of words, there are roughly 2.4 million words in the Tax Code, up from only 409,000 words in 1955. That means it is growing at about 32,639 words per year or 89 words per day.



According to the Office of Information and Regulatory Affairs, Americans will spend more than 8.9 BILLION HOURS preparing their tax returns in 2016. That is equivalent to 4.3 million full time workers doing nothing but tax return paperwork. The majority of the 8.9 billion hours will be spent complying with US business tax returns (2.8 billion hours) and individual tax returns (2.6 billion hours). That amounts to 222.5 MILLION FULL WORK WEEKS (assuming a 40 hour work week). A person would have to work 4,278,846 years straight to match those numbers.

If that weren't enough ... there are roughly 7.7 million words in the Tax Regulations which is the official interpretation of the Tax Code. In addition to that, there are a lot of Proposed Regulations which amount to recommended guidelines which won't be final until there is testimony and comments yet any accountant has to be mindful of those potential changes.

The total cost of compliance is estimated at \$409 Billion. The tax code is incomprehensible for almost everyone so people hire accountants to do the work for them. One should think about that cost as an opportunity cost as it could be more productively spent elsewhere. Essentially it is lost productivity. The size of that cost is larger than the gross state product of 36 states!!! According

to Mercatus, a notable part of the expenses are the result of filers making mistakes and/or filing late which creates a "tax gap" as it distorts economic decision making. Put differently, it would be the forgone economic transactions that would occur in the absence of any tax. It includes products or services not purchased and investments not made. Some estimate that the inefficiency costs are equal to \$23-\$50 out of every tax dollar collected.

Why is this? Why don't citizens seem to care? Our best guess is that about 43% of individuals pay no taxes so by definition they wouldn't care. Out of those who do pay taxes, only about one out of every three itemize so the other two are just filing with the standard deduction. Last, when employers withhold taxes, the accounting costs are felt by a smaller pool of individuals.

The inefficiency even is present in the estate and gift tax area, where the collected totals are approximately \$20 billion per year but the compliance costs are \$19.6 billion according to The Tax Foundation.

What is the solution ... it would be ideal if we could move to a simpler, more transparent tax. While I don't in any way expect that we will move totally toward a flat tax, it is interesting to note that Hong Kong has had a flat tax for 60 years and its code is less than 200 pages.