

# SIMPLIFY THE INCOME TAX?—PERHAPS, BUT NOT SOON

## Washington Buzzes With Official Reasons for the Complicated Blanks, and One Congressional Reformer Actually Predicts a Method Which Taxpayers Can Understand

EVERYBODY is fuming over income tax blanks, which, under the law, must be filed before March 15 by the 4,000,000 persons who must make returns. Out of the nation-wide irritation, questions new and old stand forth and demand answers.

What are the whys and wherefores of the elaborate forms which cause so much bother?

Why can't we have a simpler method? What are the excuses given by members of Congress for the complications? Will they try to simplify the procedure?

As to the whys and wherefores there are two main causes—one, the law itself; the other, its administration. In its nature a law attempting to reach incomes of all kinds, to search out efforts to hide taxable income, cannot run clear of complications. But, as in the case of the Volstead Prohibition Enforcement act, the criticism is made that, in attempting to be too minute, the law was foredoomed to be the cause of much exasperation, tending to make the tax even more unpopular than other taxes. Just as the meticulous prohibition act has caused a reaction on the part of the public. There are threshold distinctions for the laymen to decide.

**Sound in Principle.**

The principle of the law is simple, and it is asserted by those who contrived and administer it that this principle would be difficult to improve upon—the taxing at given rates of net income above a minimum amount. The exemptions and deductions—from the simple one for interest paid on debt to the complicated ones of "depreciations and depletions" in value—are large factors in making the law a puzzle to the average man. As to the applications of these experts are frequently at variance.

A new class of experts has grown up under the law. In Washington last week cards were passed on the street, as for some new restaurant, offering the services of income tax experts. Large concerns employ specialists at \$10,000 a year, who put in all their time in preparation for making the annual tax returns. The experts themselves have brought on new difficulties. There is no machinery for passing on their qualifications; some are good, some bad; and the advice of the inferior ones has got about in trouble. Consequently, a special question has been added to this year's income tax return, to elicit the name of the expert, if any, who advised the taxpayer in making out the return.

Exemptions and deductions are in behalf of the taxpayer. They are, it is pointed out, special provisions for his relief, an effort to equalize the many differing conditions which would not be possible in a law that aimed at uniformity. It is admitted to be true that classes of exemptions and deductions were necessary in aiming at justice; but this essential complication was added to, it is asserted, by the demands of various interests which set forth their claims forcibly while the tax bills were under consideration. Numerous interests, such as coal, oil and lumber, presented claims for exemption, the demand resting on some special nature of the business concerned.

War contracts, with the large problem of amortization, brought in a large set of considerations, and with these were often interwoven the claims made by some industry. Politics also played its part, as it has in all legislation that concerns large issues. Many of the claims for special consideration had strong, legitimate appeal, as, for example, that of such an important industry as oil, where, in order to promote development, a large speculative margin must be taken into consideration.

**Causes of Complications.**

Out of all the pulling and hauling, every divergence based on the demand that special consideration was due had one unifying effect. Each exemption added one more complication to the difficulties encountered in administering the law. Where exceptions were not explicitly drawn, the problem was aggravated by uncertainty of interpretation. Areas of doubt were created by the demands of those who later were to join in the chorus of complaint over the difficulty of complying with the law.

In the law itself, therefore, there was a double basis for the complications that have arisen: first, the design through close-lying questions to uncover all income not superficially apparent; second, the design by a variety of exemptions and deductions based on one ground or another to equalize conditions in many ways divergent. Critics admitting these methods as general necessities contend that the lines drawn laid the basis for distinctions too fine, too theoretical; that they failed to take in the human element that had so largely to be dealt with.

Regulations for recording depreciations and depletions in the value of real estate and other property trip all but the most wary, and even those expert in appraising and accounting cannot be certain that they report a correct result. Though the bureau has a scale for depreciation and depletion in the value of houses, ranging from the smallest proportion for a stone house to the largest for a frame house, these have not been made public. A man owns a house for five years, and at the end of that time sells it for a loss, entitling him to deduction under the law. After a schedule has been made out showing all the items of outlay and income for that period, as required, he is in the dark as to whether the rate of depreciation per annum he applies is in accord with that which will control the bureau. He may be above or below the mark.

Many have paid too much under the law, many too little. This is pointed out as proof of the assertion that the enforcement of the measure was framed on the level of the trained tax mind instead of the level of the average income taxpayer, and force is given to the argument that the effort overreached itself in that the average income taxpayer belonging to the higher-earning class, is himself a man of more than

average intelligence—and yet he is often "stumped."

No one knows how much the overpayments of taxes amount to, because of lack of funds for a complete search of the records, but assertions are made, on the basis of figures already reported for limited periods, that the sum may reach \$100,000,000. Since the income tax law went into effect more than \$20,000,000 has been voted to take care of refunds for overpayments. The judiciary appropriation for this year provides for \$1,000,000 to be used in the payment of certain claims more than three years old which otherwise could not be paid. Underpayments are many times larger than overpayments. The amount, for lack of means of adequate investigation, is also of unknown quantity; it is estimated, on the basis of proportions, to be as much as \$300,000,000.

**Wage Earners Who Escape.**

A large number of those who escape are wage earners not under surveillance of the law unless the employer can report that the earnings of the individual were more than \$1,000 for the year. By changing employment the workers make this check inoperative. When the bill was under consideration it was urged that a special provision should be adopted to cover large wage earners who might change their place of employment and thus escape taxation. This was not done. It has been asserted at least that \$500,000,000 would be added to Federal tax income if all wage earners could be reached. The estimated \$350,000,000 of underpayments does not concern this class, but those who make returns less than they should be. These amounts, while large in themselves, are, it is pointed out, but a small percentage of the total income taxes collected.

Why can't we have a simpler method? To this question the answer is, We can. But when will it come? That involves several considerations.

From the standpoint of administration, reasons are given why we haven't had simplification up to this time. Primarily it is pointed out that this job is one of the biggest that grew out of the war, and that complaints over our delays and failure to function in some respects might have been as prolific here as they have been in war risk. But for all the friction with the taxpayer, in its range from irritation to exasperation, the tax has been collected. The Bureau of Internal Revenue has done the job. Before the war the number of income tax payers was 350,000; this year it will be 4,000,000. A new organization, in a technical line, had to be built up; the number of employees in the income tax branch of the bureau is now 18,000.

**A Few Reasons.**

In grappling the job main lines had to be followed, the defense agrees. A chief decision, in the policy that was developed, was to reduce correspondence to as low a point as possible, both for the convenience of the taxpayer and the Government, because even a small exchange of letters with 4,000,000 persons would mean an immense item. This is a reason given for putting the great number of questions on the income tax blanks. The aim was to bring out the material for a complete audit, without the necessity of following the receipt of the return from the taxpayer with letters for more information. The friends of Daniel C. Roper, Collector of Internal Revenue, say that only his genius for organization enabled him to mold a machine that could take on and carry such a huge load.

Critics persist in asking why the forms were drawn up in a way so as to confuse the average taxpayer at the start. The responsibility rests with those who determined on the form and the kind and order of the questions. They were mainly as a change from one page to another, leaving to the taxpayer no loopholes of escape. The natural order of the questions, as they would occur to the lay mind, was not taken into account. Questions not expected until the last were put near the first; the result of a problem



BABES IN THE WOOD.

before its terms had been stated. Cross-references, which trained legal minds are accustomed to carry in their thoughts as a change from one page to another, leaving to the taxpayer no loopholes of escape. The natural order of the questions, as they would occur to the lay mind, was not taken into account. Questions not expected until the last were put near the first; the result of a problem

tax bills, it was repellent, with its close crowding of questions and its various boxes and partitions and references from one page to another. And in the Spring of 1920 it is still so.

These faults are readily illustrated. Take the income tax blank for incomes less than \$5,000, the simpler one. The first questions, bringing out the personal history of the taxpayer, are well

in their place. The question as to Liberty bonds owned is regarded as superfluous, except as to 4½s, which are subject to the income tax only under certain conditions. For the vast number who pay tax under this law, this question is an initial irritation, because no sound reason appears behind it, no utility. In a lower partition, introduced by "Refer to A," "E," or

of those who have paid too much in taxes, as to their getting their money back with some promptness. Business men not only demand a less intricate system than the present one for making income tax returns, but a system by which taxes illegally collected may be refunded without the delay of a special authorization of Congress.

If a taxpayer has underpaid, he soon hears from the officials of the bureau. If he has overpaid, he is not notified for three years, and then he is informed that he must wait until a special appropriation is made for the refund. Meanwhile the Government enjoys the use of a large amount of our citizens' money free of charge. It is not fair. I am going to try to have it stopped. What these overpayments amount to cannot be determined for lack of auditors to go over the returns. I am in favor of supplying the bureau with what help is required for this purpose. It is shown to be a good investment. Then let us make simplifications that will cut down the possibility of errors. This would effect a reduction in the number of clerks required by the bureau and decrease the annual expenditures by millions of dollars.

"L," are the questions with regard to the kind of property owned, with the spaces for depreciation, depletion, and so forth. This question is out of its order, except from the standpoint of some office convenience, because the large number of the taxpayers of this class do not own any property. They stumble over it down the page.

Below this space is that of the calculation of the tax and the affidavit. On the next page are the steps in detail by which the summary of the amount of tax due is to be obtained. In these detailed steps the inverse order to the natural way is persistently clung to.

The order of entries may have office reasons behind, but it is confusing to the taxpayer; from the start he is put in the wrong frame of mind. In six months \$8,000,000 was spent in clerk hire looking for overpayment and underpayment; on account of lack of funds this special search then had to be stopped.

Individual income tax forms number two. Here the line of demarcation is drawn on a basis of the amount earned, as defined by the law: those under \$5,000 and those of \$5,000 and over. This line is necessary, it is held, but other lines would add to simplicity from the standpoint of the taxpayer. In tackling such a huge job the claim of those responsible is that two groupings were all that could be undertaken. The result is that above and below the line business and professional men, salary and wage earners and those who live on income are lumped together on one sheet. Hence the sheet is encumbered with many queries which do not concern the taxpayer in question.

**Suggested Demarkations.**

It is admitted that too many lines of demarcation in a series for income tax forms would be impracticable, encroaching on the always dangerous ground of pure theory, but there are great main lines that offer simplification. These are the lines that first suggest themselves:

- Business men.
- Professional men.
- Salary men and wage earners.
- Farmers and stock raisers.
- Persons who live on their income.

Between the employer and the employee there are sharp distinctions, as there are between the business man and the professional man. In the business class other divisions that occur are manufacturers and bankers. The bankers are already demanding of Washington an income blank for banking alone. In Great Britain, the pioneer country in income tax laws, these divisions are already established.

Changes in the regulations in the formative period have augmented the difficulties to be dealt with. One cause is the changes in the law, one in 1916, two in 1917, and one in 1918. The others are changes made for administrative reasons.

What is needed, some of the critics say, is a commission which, uninvolved in the immense detail of the operation, would begin without delay a study of the whole problem and make a report as to how simplification can be brought about, determining how many income tax forms there should be to cover all collections. The manner of arriving at the tax which now puzzles so many also requires a close examination by those aiming at reform. Anyway, what the income tax payer demands, it is asserted, is a form and a manner of computation freed from the present intricacies; something the average man can make out correctly, without having to consult the tax office or an expert at so much an hour.

The next questions: What are the legislators' excuses for the complications? Will they try to simplify the procedure?

Below are answers from a Democrat and a Republican in Congress, each an influential member of the Ways and Means Committee of the House.

Cordell Hull of Tennessee, Democrat, known as the father of the original income tax law, who also took an important part in shaping the present legislation, said:

"I think there will be improvements in the law and in the administration of it, but they will be gradual, the result of experience, depending in large degree on the recommendations of the Secretary of the Treasury. I think also that the number of complaints will be reduced as the taxpayers become more accustomed to making out the blanks. If each one read the instructions first, carefully, there would not be much difficulty now. A man starts in without having posted himself in advance, makes mistakes, and has to go back. As to difficulties that can be removed, Congress will be enabled to legislate more accurately as soon as it gets the technical facts."

"It should be remembered that an income tax is in its character a complex and intricate matter, because it deals with business which grows more and more complex. In England, where they have had an income tax for eighty years, this has long been recognized. There the custom has grown up for Justices of the Peace and notaries to make out income tax returns for clients; they keep up with the changes in the law, its administration, and for a small annual fee relieve the taxpayer of this responsibility.

"State tax systems are also an illustration in point. No matter how simple the law, the making out of the return, on a general property tax blank, calling for a minute inventory of every kind of property, both tangible and intangible, is no easy task. The requirements compare in tediousness and difficulty with those of the income tax law.

"One needless and tedious complication of the present law concerns the Liberty bond situation in connection with the various exemption provisions under the various bond issues. The Treasury has urged a bill simplifying the entire matter, and Congress will undoubtedly pass it. Other changes we should have from time to time, but I think the general principles on which the law is based will continue to control."

Henry W. Watson of Pennsylvania, Republican, said:

"I contend that the income tax law and the administration of it can be simplified so that it will remove the cause of the present widespread complaints. I am now gathering information for this purpose and will press the demands for reforms in the next Congress. There can be nothing done by this Congress not until a new revenue bill is taken up. A simple form for all corporations, individuals and fiduciary tax returns, in order that every taxpayer can make his return without the need of an expert, should be provided. I know a man who employed this year an expert who found that he had paid \$2,000 too much last year. The number of errors shows that there are too many complications. I am told that clerks who in six months get salaries aggregating \$8,000,000, all the appropriation that was available for this purpose, found, in examining the individual tax returns, between \$800,000,000 and \$100,000,000 that was due the Government and \$18,000,000 due the taxpayer. The \$300,000,000 will, no doubt, be recovered, as it should be, but there is also right on the side of those who have paid too much in taxes, as to their getting their money back with some promptness. Business men not only demand a less intricate system than the present one for making income tax returns, but a system by which taxes illegally collected may be refunded without the delay of a special authorization of Congress.

"If a taxpayer has underpaid, he soon hears from the officials of the bureau. If he has overpaid, he is not notified for three years, and then he is informed that he must wait until a special appropriation is made for the refund. Meanwhile the Government enjoys the use of a large amount of our citizens' money free of charge. It is not fair. I am going to try to have it stopped. What these overpayments amount to cannot be determined for lack of auditors to go over the returns. I am in favor of supplying the bureau with what help is required for this purpose. It is shown to be a good investment. Then let us make simplifications that will cut down the possibility of errors. This would effect a reduction in the number of clerks required by the bureau and decrease the annual expenditures by millions of dollars.

**Mr. Watson's Mail Box.**

"Letters are coming to me from all over the country. My correspondents write that they are unable to obtain answers to questions put to the bureau or that their complaints are not attended to. Some say they have paid too much and cannot get their money back. Included are letters from large corporations which, in spite of their experts, find that they paid more than the law required. The larger the business, the more complicated, of course, the law and the regulations of the bureau bearing on it. In regard to these complaints it should be taken into account that the Government is too niggardly in providing means for carrying on the work.

"But clearing away the complications that will remove the cause of the complaints is the crucial and fundamental question. Other countries have succeeded in this. So can we. As the foundation for the investigation leading to a better law and better methods, I am collecting the income blanks used by other countries. I have not yet received Great Britain's, but I find Canada's much simpler than ours.

"We will get together after the election and rewrite the law, making changes as the result of our own experience and the guidance we have from the practices followed in other nations."