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Is Raising Taxes the Way to Decrease Budget Deficit?

The yawning budget deficit is the highest it has ever been and it is legitimately a grave concern to all citizens of the United States. Most people think that to address this deficit, the government has to either raise taxes or cut spending. Nobody wants taxes to be raised but few also would like to see the government decrease in spending on important programs like Medicare and defense. Is there another way to address the budget deficit?

Yes, there is. Simply increase enforcement of tax collection and close all tax loopholes in the law. Ever since the 1990's the amount of uncollected taxes have skyrocketed. The reason can be traced back to 1998 when the Senate Finance Committee reviewed the experiences of people alleged to have been wronged by the IRS, some of whom were genuine and others of whom were not. This directly led to Congress passing the IRS Restructuring and Reform Act of 1998. This new law disallowed the IRS from conducting research on tax evasion. This meant that while unscrupulous people were constantly scheming ways to defraud on their taxes, the IRS became powerless to keep check on them.

Yet at the same time, the number of audits among the lower income group increased while that of those earning \$100,000 or more per year decreased by 56%. Unsurprisingly, by 2008 the tax gap (the difference between the amount collected and the amount that should have been collected) reached \$345 billion according to Ezra Klein in Newsweek. This figure represented the tax gap for only that one year and if collected it would have added 14% to the total tax revenue. Every year since, the tax gap comes up to roughly the same amount.

The budget deficit does not just stem from uncollected taxes but also from loopholes in the tax law that benefit primarily large corporations. An example of this is the practice of transfer pricing. This is where a large company transfers its assets to a branch of the company located in an overseas country where the taxes are lower than the US. All its profits are also transferred there and the company pays lower tax rates in that country and not the US. This tactic costs the government some \$60 billion each year. This is similar to an individual taxpayer stashing his assets in an offshore account to avoid taxes.

Another loophole in the law is regards to American factories. This provision in the law encourages companies in the US to shut down its domestic factories (thereby putting Americans out of work) and set them up overseas. When companies do this, they receive a tax benefit.

These companies can defer paying taxes on their profits so long as they have not repatriated their profits back to the US. What if the company never does?

The budget deficit this year is expected to be in the trillions. Even if 75% of these funds lost through loopholes and poor collection were to be retrieved, it would have wiped out all deficits incurred until 2008. If these two matters are addressed in a concerted way, there is no reason why the budget deficit cannot be significantly narrowed.

Darrin T. Mish is a veteran, nationally recognized tax attorney who has focused on providing IRS help to taxpayers for over a decade. He regularly travels the country training other attorneys, CPAs and enrolled agents on how to handle their toughest cases with the IRS. He is highly ranked among the top attorneys in the country, with an AV rating from Martindale-Hubbell and a perfect 10 on Avvo.com. Martindale-Hubbell has also honored him with a listing in their Bar Register of Preeminent Lawyers. He is a member of the American Society of IRS Problem Solvers and the Tax Freedom Institute. With clients on every continent but Antarctica, he has what it takes to solve your IRS problems no matter where you live in the world. If you would like more information about his practice and how he can help you, please call his office at (813) 229-7100 or toll free at 1-888-GET-MISH.