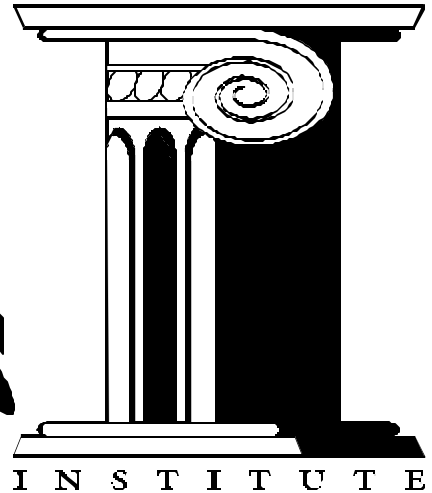


LIMIT



On Power and the Use of Coercion

Increasing Income Tax Complexity Takes up More and More of our Time and Money

by Amy K. Frantz

Federal income taxes are getting more and more complicated. While this statement probably seems obvious, its truth is even more striking after reading “A Taxing Trend: The Rise in Complexity, Forms, and Paperwork Burdens,” a new policy paper from National Taxpayers Union Senior Counselor David Keating.¹

In 1935, the instruction booklet for Internal Revenue Service Form 1040 was only two pages long. This year, the instruction booklet for tax year 2004’s 1040 was 128 pages! And in case that instruction ‘novel’ is not enough, the IRS helpfully prints over 1,000 other publications, forms, and instructions to help you pay your taxes.

The addition of those 126 extra pages of instructions over the last seventy years demonstrates just how complex

our tax code has become. This complexity results in more and more time that must be devoted to preparing our taxes — time that could be better spent on more productive endeavors.

In 1988, the IRS began tracking the amount of time needed for an individual to prepare their federal income taxes, including recordkeeping, learning about the law and tax forms, preparing the form, copying, assembling, and sending the form to the IRS. A taxpayer needed just over nine hours to complete these tasks for the 1040 form in 1988. For 2004, that same taxpayer needed 13 ½ hours. If that individual was also filing schedules A, B, and D, as is common among many taxpayers, the total time required to complete the process jumps to nearly 27 hours. That is more than one day devoted to the process of

paying our federal income taxes!

Even those taxpayers using IRS Form 1040 EZ will not have the easiest of times completing their tax forms. The time required to use the 1040 EZ form has jumped from 1 hour and 31 minutes in 1998 to 3 hours and 46 minutes in 2004.

More and more taxpayers are using a paid tax preparer rather than waste an entire day on the process of paying federal income taxes. Beginning in 1977, paid preparers were required to sign the returns they prepared, making the number relatively easy to track. In 1980, 38% of federal income tax returns were signed by paid preparers. By 2000, nearly 60% of the returns were prepared by paid tax professionals.

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Dr. Don Racheter,
President

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Prudent Investor

by Jack P. McHugh

Michigan Governor Jennifer Granholm proposes saddling state taxpayers with \$2 billion in new debt to fund research in commercially speculative technologies. California voters have authorized \$3 billion in debt for government-financed embryonic and adult stem cell research. Washington's new Governor wants to borrow \$1 billion to develop nanotechnology. Similar proposals are rattling around in other states.

Here's a question for supporters of state-run investments in risky businesses: "What are the consequences for government employees if they do a lousy job selecting which entities receive the money?"

If you are a private individual who judges poorly on an investment, the consequences are severe: You lose your own money. If a mutual fund company invests other people's money poorly, its managers know that customers may sell out and they will lose their jobs.

The success of capitalism in providing whole populations with a standard of living unimaginable just a couple centuries ago is based on billions of voluntary investment decisions in which prudence resulted from the need of individuals to balance two vivid and compelling emotions:

the fear of loss and the desire for gain. If you bet too much on highly speculative investments, you might lose it all. If you avoid risk by being too conservative, you lose capital by failing to keep up with inflation.

When a government employee invests money taken from taxpayers, this prudence-producing dynamic is absent. If the investment pays off, at best he gets a pat on the back. If it goes bust, at worst he gets a transfer to another department with no loss of pay. His wealth and his generous pension do not suffer by one penny.

Private investors manage their fear of loss and desire for gain with diligent research and diversification of assets. The incentive to judiciously use these tools is tremendously greater when one's own money is at risk than if the personal rewards or punishments are minimal.

Given this, why would anyone think that government employees can do a better job at picking winning investments than private investors?

Politicians who promote these market adventures usually dodge such questions with something like, "We have strong corruption laws," or, "The program has built-in conflict-of-interest safeguards."

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Do Elected Officials Respect the Wishes of the Voters? Not in the State of Washington

by Amy K. Frantz

Do elected officials respect the wishes of those who elected them? In the state of Washington, it seems to depend on whether or not the elected officials agree with the measures the voters approve.

In 1993, Washington state voters approved Initiative 601. This statutory measure places limits on the state's general fund spending based on inflation and population growth. The initiative also requires voter approval to raise taxes that would push spending levels over the limit. The State Legislature can increase taxes that raise revenue, but do not increase spending more than the limitation, but must do so with a two-thirds vote of both chambers.

However, the Washington State Legislature has approved and Governor Christine Gregoire has signed a bill that would allow Legislators to ignore the provisions of

Initiative 601 for the next two years. With that out of the way, Legislators and the Governor can go ahead with their planned \$200+ million tax hike, without worrying about getting voter approval, or even obtaining a two-thirds majority vote of the Legislature.

That's right, the Legislators and Governor didn't like revenue limits placed on them by the voters, so they just decided to set them aside, temporarily. But they may as well have permanently scrapped I-601, which was the original plan of the bill's sponsor, Washington State Senator Debbie Regala. Senator Regala justified the bill by pointing out that "I-601 has been amended seven times in the past decade."¹ Indeed, if all those other Legislators could thumb their noses at the voters, why shouldn't current Washington Legislators do the same?

Washington Legislators have explained away their actions, in part, by claiming that they must raise taxes to fund two other voter-approved initiatives, one that directs part of the state's property tax revenue toward class-size reduction and other education-related programs and another that provides an annual cost-of-living adjustment to the state's K-12 teachers. However, when voters approved those initiatives, they "were promised that these initiatives would neither require additional taxes nor damage [the] state's budget."² If the state's financial situation has changed, voters should have the opportunity to vote on the proposed tax increase. If voters believe the education initiatives are more important than the spending limit initiative, they should overwhelmingly support the tax increase. But State Legislators and the Governor aren't willing to take the chance that voters might not make that choice.

KOMO News, reporting on the Governor's signing of the bill to temporarily set aside the spending limit initiative, said of Governor Gregoire's support for the bill, "She said Legislators have found ways to get around I-601's spending limits for years, and she'd

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Increasing Income Tax Complexity Takes up More and More of our Time and Money

by Amy K. Frantz

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Taxpayers who prefer to pay someone else to complete their taxes still cannot escape the growing burden of tax complexity, which has caused tax preparation fees to substantially increase. The average fee charged by H&R Block to complete a federal income tax return in 1980 was \$27.36. In 2005, the average fee at H&R Block (through March 15) was \$145.08.

Aside from time and money, the growing complexity of the federal income tax threatens our privacy. The income tax doesn't just impose a tax on our traditional paycheck; it requires that practically every detail of our private finances be open to government inspection. Keating warns that "mixing such broad powers with a vague and complex law is a recipe for a civil liberty catastrophe."

What is the solution to the ever-growing burden that has been placed on taxpayers by an increasingly complex federal income tax system? We must

overhaul our tax system, and not just with a few basic reforms that usually only end up adding to the complexity we already face. When the President's Advisory Panel on Federal Tax Reform releases its report later this year, let's hope that they keep that objective in mind.

ENDNOTE:

¹All figures and quotes used in this article are taken from: David Keating, "A Taxing Trend: The Rise in Complexity, Forms, and Paperwork Burdens," National Taxpayers Union Policy Paper #116, April 14, 2005.

David Keating is Senior Counselor for the 350,000-member National Taxpayers Union, a non-profit, non-partisan citizen group founded in 1969 to work for lower taxes, smaller government, and more accountability from elected officials at all levels. He previously served on the National Commission on Restructuring the Internal Revenue Service.

For more information on National Taxpayers Union or to read the complete Policy Paper, go to www.ntu.org.

Amy K. Frantz is Senior Research Analyst with Public Interest Institute.

Do Elected Officials Respect the Wishes of the Voters? Not in the State of Washington

by Amy K. Frantz

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rather have a more realistic spending limit that people will actually follow."³ Perhaps the Governor will extend that reasoning to other matters in the state. Instead of holding citizens accountable, the state could just change the laws so that they are no longer being violated. Are drivers speeding on Washington's highways? Rather than have law enforcement officials issue tickets to the speeders, why doesn't the state government just increase the speed limit to a level that people will actually follow?

Washington State Representative Jim McIntire of Seattle said of his support for overturning the revenue limits and voter approval measures, "The reality is we need to be responsive to the will of the public."⁴ Apparently, that's only true if the will of the public is in agreement with the will of the State Legislators and Washington's Governor.

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Prudent Investor

by Jack P. McHugh

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That's nice, but outright corruption is not the main worry – politicization and accountability for poor judgment are. The politicians' fallback when challenged on this are wounded pronouncements about the dedication and virtue of public servants.

Later, when losses have grown to an extent that any reasonable person can see that the money was wasted, they bluster: "We're investing for the long term. We expected some losers, but just a few 'home runs' will more than compensate." Years later, same answer. Only when the current generation of politicians has passed does history provide a definitive verdict: "Bad idea."

The bottom line? Unlike private investors and their fiduciaries, when the government engages in market speculation there are no penalties for bad results and no consequences for bureaucrats who make losing bets with other people's money.

One idea that could ameliorate this would be to require that the pensions of every politician and every government employee involved

in these schemes be placed in the same investment pool with the public's money. This condition would deliver a quick and merciful death to such proposals.

One final point: No prudent private investor would go into debt for the sole purpose of making speculative investments. Yet in Michigan and elsewhere, state politicians want to borrow billions of dollars with the stated purpose of making risky investments. Individual taxpayers have no choice about this, and they have no ability to "redeem" their shares. What is wrong with this picture?

Economic history shows that when government seeks to pick winners and losers in the market, the net consequences for citizens are always bad. However good the intentions, by

the very nature of the activity there is no way to overcome the issues of prudence raised here. The words "I'm from the government, and I'm here to invest your money," should send a shiver through taxpayers.

Jack P. McHugh is a Legislative Analyst for Mackinac Center for Public Policy, a research and educational institute headquartered in Midland, Michigan.

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LIMITS

Question of the Quarter:

Do you support or oppose government investment programs? Should the government be in the business of picking winners and losers in the market?

Send your thoughts on this issue to us at public.interest.institute@limitedgovernment.org.

We may publish some of your ideas in the September 2005 issue of *LIMITS*.

Will Colorado Voters Support TABOR?

by Amy K. Frantz

This November, Colorado voters will be asked if they would like their state government to go on a “five-year spending spree,” in the words of Colorado House Minority Leader Joe Stengel.¹

In 1992, Colorado voters approved a Constitutional Amendment to guard against runaway state government spending. The Taxpayers Bill of Rights (TABOR) restricts the growth in state revenue to inflation plus the percentage increase in state population in the calendar year prior to the start of the fiscal year. The state must also maintain an emergency reserve fund of at least 3% of its fiscal year spending. Any revenue collected in excess of this limit must be returned to the taxpayers in the form of rebates.

Between 1997 and 2000, just over \$3 billion in TABOR rebates were returned to the taxpayers of Colorado, funds that the Legislature would no doubt have used to create new programs or increase spending on old ones if not for the revenue limits approved by the voters. Even with the rebates, the size of Colorado’s government continued to grow, by 64 percent since the passage of TABOR.²

By keeping spending levels from skyrocketing when economic times were good,

TABOR helped Colorado weather the economic downturn in better shape than states that spent with reckless abandon in the late 1990s, such as California. “We didn’t overspend in the good years,” said Colorado Governor Bill Owens.³

However, Governor Owens now seems to have changed his mind about the benefits of not overspending. The Democrat-controlled State Legislature, with the support of the Governor, has approved a referendum for this November’s ballot, asking voters to allow the Legislature to keep and spend the TABOR rebates for the next five years. The amount of those rebates is projected to be as much as \$3.1 billion over the five-year period.⁴

Despite the Governor’s protests to the contrary, opponents of the “take back the rebate” proposal are criticizing the plan as a tax increase. Colorado Congressman and potential candidate for Governor, Bob Beauprez said, “If the government keeps

money it would be returning to you or wouldn’t have taken in the first place, it’s a tax increase, plain and simple.”⁵

Will Colorado taxpayers support giving up their rebate for five years so the Legislature can spend an extra \$3 billion? We will find out in November.

ENDNOTES:

¹“House Approves Referendum on Suspending TABOR Refunds,” State Tax Notes, April 25, 2005, p. 247.

²John Caldara, “Should TABOR be retired or revamped? NO,” LIMITS, Public Interest Institute, June 2004, p. 1.

³John J. Miller, “America’s Best Governor,” National Review, September 2, 2002, p. 17.

⁴State Tax Notes.

⁵Susan Greene, “Owens tries to cool GOP criticism of budget deal,” DenverPost.com, April 21, 2005, <<http://www.denverpost.com/Stories/0,1413,36%7E61%7E2827358,00.html>> (April 28, 2005). Note: Governor Owens is term-limited, and thus cannot run for another term as Colorado Governor in 2006.

Amy K. Frantz is Senior Research Analyst with Public Interest Institute.

To read about efforts to bring a Taxpayers Bill of Rights Amendment to one of Iowa's neighboring states, see “Will TABOR Come to Wisconsin?” in Public Interest Institute's June 2004 issue of *LIMITS*, available on our web site: www.limitedgovernment.org

Eight Ain't Enough?

by Paul Jacob

With a vengeance, Florida Legislators are proving the old adage that no one's life, liberty, or property is safe while the Legislature is in session.

Florida's term limits law passed with a whopping 77 percent YES vote. A recent poll showed public support for the "Eight is Enough" law was even higher today.

But Legislators have thumbed their noses at the voters and said "Eight ain't enough!"

Legislators have placed a constitutional amendment on next year's ballot to stretch the eight-year limit to twelve years. Legislators claim they just love term limits — weaker term limits, that is.

The bill's sponsor, Baxter Troutman, testified that "eight years just isn't long enough." Senate President Tom Lee complained, "The learning curve is too steep. We're asking people to give up too much to learn policy and procedure in such a short time."

House Speaker Allan Bense said (and with a straight face), "It's very difficult to learn the process. I'm not implying that our members — please don't read this into it — don't know what's going on."

Imagine telling your boss it'll be eight years before you have a clue. The President is limited to eight years. So is his brother, Florida Governor Jeb

Bush. Isn't being President or Governor a tougher job than being a State Legislator?

George Blumel, Chairman of a citizens' group opposing the Legislature's scam, said, "If these Legislators can't learn the job and accomplish something in eight years, we need new Legislators."

This is Common Sense. I'm Paul Jacob.

Common Sense, hosted by term limits advocate and Americans for Limited Government Senior Fellow Paul Jacob, can be heard on radio stations throughout the country and on the Internet.

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Will Iowans Have the Right to Vote on Taxes?

by Amy K. Frantz

The People's Right to Vote Constitutional Amendment gives Iowans a direct voice in whether or not we want our taxes to increase.

The People's Right to Vote Amendment requires tax or fee increases, adopted by the State Legislature and approved by the Governor, that result in new annual revenue of more than one percent of total state general fund revenue in the preceding year be approved by a majority of the voters at the next state general election. The Amendment also applies to any state law that increases local taxes.

The Governor may request and the Legislature adopt, by a two-thirds vote, an emergency tax increase effective for one year. An emergency tax cannot be adopted more than four months prior to the beginning of the fiscal year to which it applies.

In order to amend the Iowa Constitution, the State Legislature must approve an amendment in two consecutive Legislative sessions, without making any changes in the amendment. The amendment must then be approved by the voters in a general election.

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Last year, the Iowa House and Senate both approved the People's Right to Vote Constitutional Amendment. However, the Legislature has adjourned for this year without voting on the Amendment. In order to advance, the Amendment must be approved again in the 2005-2006 Legislative session.

The only limit this amendment places on the ability of Legislators to raise taxes is that they must ask the

permission of the voters to do it. The money we earn belongs to us, not the State Legislature. Is it so unreasonable that they should have to ask first before they can take even more of it from us?

Amy K. Frantz is Senior Research Analyst with Public Interest Institute.

Do Elected Officials Respect the Wishes of the Voters? Not in the State of Washington

by Amy K. Frantz

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ENDNOTES:

¹Brad Shannon, "House tinkers with Initiative 601," The

Olympian Online, April 3, 2005, <<http://www.theolympian.com/home/news/20050403/southsound/118234.shtml>> (April 6, 2005).

²Julia A. Youngs, "Arrogant lawmakers tread on voters' wishes," Seattle Post-Intelligencer, April 13, 2005, <http://seattlepi.nwsource.com/opinion/219838_youngs13.html> (April 18, 2005).

³KOMO TV Staff & News Services, "Governor Signs Bill Making It Easier to Raise Taxes," April 19, 2005, <<http://www.komotv.com/stories/36385.htm>> (April 27, 2005).

⁴Brad Shannon.

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