



AMERICANS *for* TAX REFORM

Grover G. Norquist
President

April 2, 2008

Dear Congressman:

I write today to urge you to co-sponsor H.R. 3457, a bill which would simultaneously ensure most taxpayers have access to free online tax preparation, while preventing the IRS from entering the tax preparation business.

This bipartisan bill is pro-taxpayer in three ways. First, it would ensure that the partnership between IRS and the “Free File Alliance” of private-sector, electronic tax preparation firms will continue for at least the next five years. This free, private sector tax preparation has helped millions of taxpayers file their returns online, for free, and with an advocate on their side.

Second, H.R. 3457 ensures that adequate consumer protections are in place to protect tax filers from unscrupulous actors.

Finally, H.R. 3457 explicitly prohibits the IRS from implementing a “return-free” filing system. Under this regime, the IRS would do most taxpayers’ returns for them, and either sends a refund or bills the balance due. It would be up to the taxpayer to take on the IRS if she disagreed with their findings. Needless to say, most taxpayers won’t avail themselves of this can of worms. When the IRS is both the tax collector and the tax preparer, Orwellian conflicts of interest are inevitable.

I’m also attaching a recent commentary piece by David Freddoso of *National Review* where he discusses some of the many pitfalls of a return-free filing system. I would urge you to read it, as it lays out the problems in detail.

Sincerely,

Grover Norquist

GGN:rlc

1920 L Street NW

Suite 200

Washington, DC

20036

T: (202) 785-0266

F: (202) 785-0261

www.atr.org

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Obama's 1040 -- 2 EZ 4 Me

The easy way to overpay.

By David Freddoso

Last weekend, I hauled an accordion folder full of papers onto the Metro and under the Potomac to a coffee shop in Rosslyn to meet with my tax-preparer.

Tax-preparer? I must be rich, right? Not quite. Despite how little the IRS gets from me, their filing requirements — I filed seven different federal forms this year, not including the worksheets — mean that I have to hire an expert, or become one myself every year.

This is how tax season makes Barack Obama even more swoon-inducing and seductive than he already is. Obama's top economic adviser, Austan Goolsbee — best known for telling Canadian authorities that Obama isn't really serious about the protectionist rhetoric of his campaign — is also the man who designed Obama's plan to have the IRS do my taxes for me.

Well, not for me personally — at least not at first. Goolsbee's system, called "Simple Return," would be painfully easy. Starting with filers of the simplest kind of return — the 1040 EZ — the IRS would estimate their tax burdens and simply send them a bill or a refund. Unless they choose to challenge the IRS, that would be the end of it. It would work much like property taxes do in most counties and municipalities. After the EZ filers, Simple Return could quickly expand to include everyone who takes the standard deduction, and then to others with more complicated situations — perhaps even me. Goolsbee writes that it could eventually apply to as many as 40 percent of U.S. taxpayers.

On the upside, Obama's website claims that this plan would save Americans \$2 billion in tax-preparation fees. That sounds great. But if you're like most people, you get your property tax bill, you groan, and you file it away. A challenge is probably more trouble than it's worth. And many people will do the same when the IRS overcharges them or sends a smaller refund than they had expected.

By scrapping the adversarial relationship between the taxpayer and the government, the Goolsbee-Obama plan reduces the taxpayer's incentive to reduce his tax burden and increases his chances to overpay. This means that Obama will soon have the government overbilling millions of taxpayers — some by a lot, some by a little. Many will overpay rather than taking the time to counter-file. After all, is it worth the hassle just to retrieve a few hundred dollars?

"At first, when they only apply it to the simplest returns, they probably wouldn't have that much more money coming in," says Ryan Ellis of Americans for Tax Reform. "But when they expand it — oh yeah, then they would have a lot more money coming in. People have better things to do than to fight the IRS, and they figure they'll lose even if they do."

The problem with the Goolsbee plan is that it simplifies tax preparation, but it does not simplify taxes. It maximizes the government's role in collecting taxes while minimizing its visibility to the taxpayer. It will make a few taxpayers' lives genuinely easier, but its true effect will be to narrow the so-called "tax gap" — the estimated \$290 billion the IRS claims it under-collects each year (how they arrive at this number, they do not say).

Goolsbee denies that Simple Return is a revenue-raising device. Yet he writes: "Some of these people would receive a Simple Return, but might have a lower tax bill by filling out the conventional tax form and itemizing, perhaps with the help of a paid tax preparer, or by changing their behavior to take advantage of particular tax incentives."

So with the Simple Return, Uncle Sam gets to “shake the tree” and see what falls out. If everyone insists on filing their own returns — the very worst case — the IRS will collect the same amount it collects now, minus what it costs them to calculate your tax bill. But if just a few million taxpayers fail to challenge their slightly inflated bills and overpay — well, then the Simple Return is a revenue-raising device, after all.

Once the IRS has established itself in the tax-prep business, things will only get worse. The government will continue to broaden the number of people eligible for Simple Return by forcing everyone to report more of their economic activities.

Future regulations could require mandatory reporting to the IRS from stock brokerage firms, charities receiving contributions, and the state and local governments that collect your other taxes. Under current law, the IRS already requires *tenants* to fill out 1099 forms for their landlords. No one actually does this, but this provision could suddenly be enforced in order to bring small landlords into the Simple Return program. And then there are small business owners. In his budget request, President Bush’s IRS is even trying to require small businesses to use special credit cards for all business expenses, which would be reported directly to the IRS.

Pretty soon, the IRS could know everything about your economic activity for the year before you have filed even a single form. So why not let them do your taxes for you — even if they do overcharge you a bit? If you want to fight for your credits and deductions, you can break out your calculator and a #2 pencil and do it on your own time.

Some complain that Barack Obama, as a presidential candidate, projects a message of “change” that contains few specifics. Turns out the “change” is the stuff jingling in your pockets — and he’d like to turn you upside down and shake you until it falls out.

— *David Freddoso is an NRO staff reporter.*

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