

Cut Spending or Raise Taxes?

The dilemma frequently presented to the American people is whether the government should cut spending or raise taxes. Less frequently the question is posed as to whether we should simply eliminate tax preferences, deductions, preferential reduced tax rates and tax credits while not increasing spending.

Simply reviewing the list of the most expensive tax preferences immediately explains why neither special interest groups nor taxpayers have any vigor for changing the current tax code. The top 9 exclusions of income taxation are as follows:

1. Employer contributions for health insurance: \$147.8 billion
2. Pension and 401(k) contributions by employers: \$147 billion
3. Value of Medicare benefits: \$73.1 billion
4. Exclusion of capital gains at death: \$43.9 billion
5. Benefits under "cafeteria plans": \$39.6 billion
6. Untaxed Social Security and railroad retirement benefits: \$39.2 billion
7. Interest on municipal bonds: \$38.2 billion
8. Investment income on life insurance and annuities: \$29.6 billion
9. Capital gains on sale of home: \$26.1 billion

Which of these, Mr. and Ms. Taxpayer, are you willing to eliminate? The answer is that you are willing to eliminate the exclusion that you do not have. The array of forces are lining up to prevent reform of the tax code includes the health care industry, Social Security recipients, homeowners, and high wage earners who get nice benefits from their employer.

The biggest deductions and reduced tax rates are as follows:

1. Reduced rate on dividends and capital gains: \$110.4 billion
2. Mortgage interest deduction: \$89.6 billion
3. State and local tax deductions, including property and income tax: \$68.8 billion
4. Charitable deductions: \$46.9 billion
5. Individual retirement accounts: \$19.2 billion

You can only imagine the screams that would emanate from state and local government, banks and the housing industry, not to mention nonprofit charitable groups if any of these deductions are eliminated.

In the United States we also have a lucrative system of tax credits. There is an earned income credit for low-income workers of \$58.1 billion, and children under 17 \$25.7 billion. So now we have a lineup against changing the tax code for the rich, the poor, the good-guys' charities, and big industry. Virtually no one wants to see these breaks and benefits undone.

How about cutting spending? We can eliminate or drastically reduce all the small programs, but eliminating funding for national public radio is not going to be noticed by anyone and is not going to save the country from insolvency. The big ticket items in the spending

department are veterans' benefits, military equipment, hardware and salaries, and the sacrosanct Social Security/Medicare system. No one is lining up to cut any of the pork in those systems, although Leon Panetta has to be given a badge of heroism for at least trying to get military equipment spending under control. The rich guys want to reform Social Security and Medicare by privatizing it and turning it over to the hands of the private health care industry and Wall Street. The recipients of those programs merely want more benefits.

"Shared sacrifice" is getting to be a boring term that turns no one on. Shared sacrifice is fine for everyone else. Meanwhile, politicians running for President continue to hawk fraudulent solutions, most of which depend upon "growing the economy." One school of thought has it that we can spend our way to prosperity, thereby creating a greater influx of taxes. The other school of thought is that unpopular programs can be slashed which will save a little money but may play well at the polling booth. Everyone agrees that the cost of doing nothing is simply too high.

The only true reform that can be justified in the tax code is to simply eliminate all exclusions, deductions and tax credits. A more radical solution, suggested by some conservatives and liberals alike, is to eliminate the income tax system altogether and merely have a value added tax which is a national sales tax on all purchases. Under a value added tax, more expensive luxury items would be taxed higher than necessities. Sales taxes are generally considered to be regressive because the poor person pays the same 6% as the rich person. However, a value added tax can be made more progressive.

Another idea bandied about for years is an asset tax. Tax people on their assets, not on their income and not on what they buy. Valuing assets would be very difficult, but we do it all the time in America when people die and when they sell or purchase certain forms of property. A flat asset tax, based upon what people own, may be the fairest but most difficult system to administer.

There will be no real discussion of any alternative to income taxes, although there are some intriguing ideas floating around at university ivory towers.

On the spending side, there should be one unitary system for all health care, regardless of a person's age. Do away altogether with Social Security, Medicare, and private health plans. There should be one national system of obtaining health care, delivered by private companies that may offer their products through a national exchange. Is that Socialism or Capitalism? The truth is that it is a private system with one administration, regulated by the government, so that bureaucracy will be minimized. President Obama flirted with such a concept, but more as an alternative to separately functioning competitive private and public health insurance providers.

With respect to the military, their benefits, together with all public employees, should be the same as every other worker receives. The multi-tiered system we have in this country benefits people who we like or respect, or who have performed marvelous sacrifices for the rest of us. This makes little rational sense and is unaffordable. A fireman, trash collector or soldier should receive the same health care as a congressman, stockbroker, or doctor. If we had one national health insurance exchange, citizens could buy their coverage from the private sector the same way our elected representatives do.

None of these arguments are new or shocking. The problem is that we have stopped talking about important national agenda items because they become 15-second spots in a political commercial. Now that the United States Supreme Court in the Citizens United case have permitted special interest groups to buy our elections, it is more difficult to understand who

is arguing for what or for what reason. Tax reform, spending reform and health reform are all great goals but will gain us nothing without campaign finance reform as well.

Clifford A. Rieders, Esquire
Rieders, Travis, Humphrey, Harris,
Waters & Waffenschmidt
161 West Third Street
Williamsport, PA 17701
(570) 323-8711 (telephone)
(570) 323-4192 (facsimile)

Cliff Rieders, who practices law in Williamsport, is Past President of the Pennsylvania Trial Lawyers Association and a member of the Pennsylvania Patient Safety Authority. None of the opinions expressed necessarily represent the views of these organizations.