



From the office of Texas Workforce Commission

Chairman Tom Pauken

Opinion/Editorial

For Immediate Release
Date: September 1, 2011

Spending Less Time on Tax Compliance, and More Time on Business

By Tom Pauken

What is the most productive way for a business to spend its time and resources? Is it by employing tax specialists to decipher the lengthy tax code in order to minimize its tax bill? Or is it to concentrate on innovation, increasing profits, and growing the business? If you think it's the first, then you may have a career as a lawmaker. Year after year, Congress adds more laws to our tax code. The increasing complexity of the rules results in businesses owners and executives spending more time worried about correctly paying their taxes and less time on running their business.

Consider this: The federal income tax code is 3.7 million words long, taking up more than 4,000 pages. And that's just the laws that Congress passes. Once Congress is done making the laws, the Internal Revenue Service (IRS) goes to work promulgating regulations that add even more layers of complexity to the system. IRS regulations fill 20 volumes of small print totaling more than 13,000 pages. Intertwined within these millions of words are the rules governing both individual and corporate income tax.

Small businesses suffer disproportionately under this system. They don't have the resources to hire professionals who can make sure they are paying the lowest amount in taxes legally possible. Most are just trying to make sure they aren't breaking any laws. Those efforts to stay legal impose a high cost. A joint study by IBM and the IRS found that for businesses with one to five employees, the cost to comply with the tax code is \$7,274 per employee. For businesses with more than 50 employees the cost is \$296.50.

Nina E. Olson, who holds the title of National Taxpayer Advocate at the IRS, notes: "Small businesses are burdened with a particularly bewildering array of laws. They face a patchwork set of rules that govern the depreciation of equipment, onerous filing requirements for employment taxes, and a vague set of factors that govern the classification of workers as either employees or independent contractors that keep businesses and the IRS battling each other for years with no obvious 'correct' answer."

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Even if the current code didn't include harmful incentives to load up companies with debt (because debt is deductible under the current business tax system) while discouraging savings, employment, and capital investment, the code's bewildering complexity is enough of a reason to implement wholesale reform. There is actually a simple solution, but not one that the Washington policy makers have, thus far, been willing to support. Scrap the corporate income tax altogether (along with the employer portion of the payroll tax) and replace it with a revenue-neutral, 8 percent border adjusted business consumption tax.

Such a tax would be very simple to implement and it wouldn't require tens of thousands of pages to explain. Let's allow our businesses, both big and small, to spend less time and money on confusing tax regulations and more time increasing productivity and creating jobs.

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The Texas Workforce Commission is a state agency dedicated to helping Texas employers, workers and communities prosper economically. For details on TWC and the programs it offers in coordination with its network of local workforce development boards, call (512) 463-8556 or visit www.texasworkforce.org.