

PRESIDENT'S ADVISORY  
PANEL  
ON FEDERAL TAX REFORM

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*A modest proposal for tax reform.*

***The problem:***

In my opinion, the problem with federal taxes is that employers are too involved in income tax withholding. One might ask: Why shouldn't employers be involved in withholding their employees' taxes? The problem is not with withholding itself so much as the invasion of privacy necessary to accomplish the progressive withholding regimen. This regimen is seemingly required by every level of government, and it leads to an increasing number of intractable problems.

Firstly, employers oftentimes seem to believe that they are doing society a favor by discriminating on behalf of certain individuals whom they seem to have ascertained somehow that the government at some level would want them to discriminate on behalf of. I am, of course, referring to married taxpayers and/or unmarried taxpayers with dependent children. Secondly, the low level of academic training, including the lack of training in business ethics, that is endemic to those who prepare payrolls, makes one wonder whether employing entities' incompetence in these areas should not lead to a reappraisal of whether employing entities are doing what they are supposed to be doing with respect to withholding taxes. Thirdly, generalized employer animosity directed against the government in general and the tax collection agencies in particular is something to consider as well.

***Break with the past:***

In times past, employers' invasions of their employees' privacy was deemed to be essential because the average worker had a low level of education and was presumably incapable of figuring out his or her taxes, indeed that was the problem in the beginning of the practice of income tax withholding. That is increasingly not the problem today as the average level of

education of the American worker has risen over the years to at least high school level if not post high school level. Also, in times past, persons performing the employee relations and the payroll function typically had at least a college education. Now the reverse is true and those performing the employee relations function as well as the payroll function have less education than what was typical in times past while the general level of employee education has improved over the general level of employee education of times past. Also in past times, ethical considerations would have given any employer pause to reflect on the ethics of discriminating in such a way. That being the case: there is less and less reason for employers to have very much to do with tax withholding at the present time, especially if it means invading their employees' privacy to do so.

***Reform proposed:***

The reform I propose is that employers could withhold taxes solely depending upon the gross pay of their employees and let their employees file for any refunds allowable for dependents or household mortgage payments or child care or what have you. There is no reason for married taxpayers with dependents to pre-file with their employer to receive those benefits. Filing for refunds could be a one time proposition and the IRS could send the family unit refunds on a monthly or quarterly basis. Those of us who are single would simply not be in a position to file for a refund, but the main thing is: At least we wouldn't be subject to unfair discrimination based upon our marital status by employers who think they are doing the world a favor by showing what I believe is unfair favoritism to married workers and unmarried workers with dependents and giving scant consideration to what the individual merits of single workers may be.

***Discrimination in the workplace:***

I truly believe single employees are often fired and laid off by employers because they are not married and don't have children. If it were not necessary for the employer to know these facts about their employees to withhold their taxes, it would make it much more difficult to fire someone without reason or lay them off merely because they are not supporting a family. I truly believe that employers would be far less likely to engage in the practice of discriminating against single employees if the withholding rationale did not demand that they ascertain the marital status and the nature of their employees' living arrangements.

Of course, I understand that this may well be the policy of the federal government and state governments to retain workers who have people relying on them for their support. Let me suggest, however, that this policy (if indeed it does exist at any governmental level) is a hindrance to good management and an extreme drag on the economy in general. Knowing that your marital status may be used against you to deprive you of your income at any time is very depressing psychologically. On the other hand, knowing that you can pretty much "get away with murder" because you have people depending on you for their income introduces all kinds of negative incentives into the workplace.

***Economic disincentive:***

This policy is very inefficient in the economic sense and irrational from the point of view of business, yet it is nevertheless very well established in the economy. I truly believe that this is so

because of the presumed necessity of employers finding out all about their employees to correctly withhold taxes from their employees' paychecks. This tax withholding onus along with employers' correct or incorrect analysis of governments' intentions with respect to retaining the indicated class of employees over the other class of employees, in my opinion, is a major reason for the prevalence of the tacit policy of discriminating against single employees. The sad thing is: the percentage of single citizens is growing ever larger every day. This policy of discriminating against singles is a policy which is very much outdated, furthermore, it is economically debilitating and it is legally unjustifiable and of course, it is ethically unsound.

***Incompetence of payroll personnel:***

Another problem with employers preparing taxes is their tax preparation is an afterthought. Actually, the employee relations function and the payroll function oftentimes gets done by people who have no apparent academic training to handle privacy issues or do taxes, have little academic business training and no academic training in business ethics or ethics of any sort. In many cases, the employees themselves who are having their taxes withheld actually have more academic training in this area than the people who get the tax forms dumped on them. This is certainly true in my case.

***Generalized employer animosity directed against the government:***

Moreover, employers themselves seem to almost universally have an "axe to grind" with respect to taxes, making one wonder if indeed they are submitting the correct taxes on time. Considering

the level of payroll preparation incompetence that they tolerate as a routine matter, it would not surprise me if that were a huge problem for the IRS, and mind you this is a problem caused by employers who are withholding taxes as a fiduciary and not by the principals. I submit it would be more efficient to deal with principals, who, as a rule, seem to be less inclined to have a low opinion of tax collection agencies and government in general?

***Proposed reform reiterated:***

I submit also that employers should merely withhold taxes based upon their employee's income levels and not be responsible for collecting personal information about marital status and dependents from their employees. Employees themselves can make this information available to the tax collection agencies in order to get a refund from the government. In this way, private information which might be used against the employee does not have to be made available to someone who might use that information against them unfairly. Those wishing to reveal information would be doing so in order to receive a refund and their information, presumably, would be adequately protected by government regulation rather than relying on the sometimes nonexistent business ethics of low level payroll department personnel of private businesses.

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