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I.R.S. Watchdog Calls for Tax Code Overhaul

By DAVID KOCIENIEWSKI

The various calls to revamp the nation's highly complex tax code were joined by a significant new voice on Wednesday — the I.R.S.'s own taxpayer advocate, who urged that the system be rewritten for the first time in a generation.

Nina E. Olson, the national tax advocate who acts as an ombudsman for the I.R.S., issued a sweeping criticism of federal tax policy in her annual report to Congress. Ms. Olson found that the volume of the tax code had nearly tripled in size during the last decade — to 3.8 million words in February 2010 from 1.4 million in 2001. She estimated that Americans spent 6.1 billion hours preparing their returns each year — the equivalent of 3 million employees working full time. By comparison, the federal payroll has 2.1 million full-time workers.

The byzantine tax regulations also deprived the government of revenue by causing accidental underpayments and encouraging cheating, the report concluded, stating that the most practical remedy would be for Congress to scrap the existing code, which was last overhauled in 1986.

“The time for tax reform and tax simplification is now,” Ms. Olson said.

While the report amplifies many frequently voiced criticisms, and is likely to be welcomed by many of the tax critics who ignited the [Tea Party movement](#), most policy experts consider it unlikely that the

federal government will take up the issue before the 2012 presidential election.

Howard Gleckman, an analyst at the Tax Policy Center, has said that neither **President Obama** nor Congress has shown any eagerness to confront the combination of spending cuts and rate increases that would be needed to address the budget deficit.

Still, the fact that the I.R.S.'s own internal watchdog concedes that the federal tax system has become unmanageable underscores the severity of the problem.

The report's prescriptions are likely to be more controversial than the diagnosis. Like the **deficit commission** set up by Mr. Obama, the National Tax Advocate's office suggests that the tax system could be simplified and rates lowered if the federal government eliminated most of the \$1.1 trillion in write-offs, loopholes and deductions known as "tax expenditures."

The report cites some of the most controversial loopholes for wealthy individuals and specific industries — including tax subsidies for **electric cars** and golf carts, movie production and a byproduct of the papermaking process known as "black liquor." It also points out that some of the most expensive tax expenditures are collected by tens of millions of lower- and middle-class Americans who receive tax breaks on home mortgage interest, employer-provided health care plans, **401(k)**'s and state and local taxes.

"The dirty little secret is that the largest special interests are us — the vast majority of U.S. taxpayers," the report said. "Virtually all of us benefit from certain exclusions from income, deductions from income or tax credits."

Unlike the deficit commission's tax overhaul proposal, which sought to raise additional revenue, the taxpayer advocate's plan would be revenue neutral.

The report also raised two troubling administrative issues facing the I.R.S. — the agency's growing reliance on tax liens for collections and its greatly expanded responsibilities under the new health care law.

Noting that the I.R.S. had filed 1.1 million tax liens against delinquent taxpayers in 2010, the report urged the agency to use less “hard-core” enforcement tools on people who were still financially distressed because of the economic slowdown.

The taxpayer advocate also warned that as the new health care law takes effect in coming years, the I.R.S. would need to expand and retrain its staff.

“As the I.R.S. prepares to administer large portions of the health care legislation, it will have to shift from being an enforcement agency that primarily says, in effect, ‘you owe us’ to an agency that places much greater emphasis on hiring and training caseworkers to help eligible taxpayers receive benefits and work one-on-one with taxpayers to resolve legitimate disagreements,” the report said.

This article has been revised to reflect the following correction:

Correction: January 7, 2011

An article on Thursday about a call for tax reform by the Internal Revenue Service’s taxpayer advocate misstated, in some editions, the annual amount of write-offs, deductions and loopholes known as “tax expenditures.” It is \$1.1 trillion, not billion.



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