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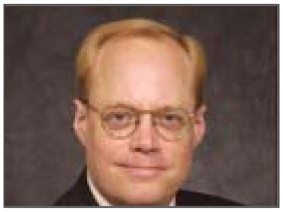

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20 Really Stupid Things In The U.S. Tax Code

The U.S. tax code is the most complex in the world by any measure. It is chock full of perks to special interests, political pork and social engineering. Like a hodgepodge built with spare parts and constant add-ons, some of the results it produces are pretty unjust. In short, our tax code cries out for reform in practically a primal scream.

Speaking of screams, every American should check out retiring Oklahoma Senator Tom Coburn's swan song, a report he calls his Tax Decoder. If you have a strong stomach, you can read all 312 pages here. If you're queasy, just skim this intro or these highlights. You can even watch a YouTube video here featuring Lady Gaga, Starbucks, IHOP and other stupid tax subsidies (sorry, but stupid is as stupid does). Your jaw may drop just to note these 20 zingers:

1. In 1913, our *whole* tax law was 27 pages. It's now over 4 million words, 9,000 bloated pages. From 2001-2012 alone, there were 4,600 changes, more than one a day.

2. Complying with the tax code costs immensely. Individuals spend 6.1 *billion* hours a year doing their tax filings, the equivalent of a year's work for 3 million full-time workers.

3. Many Fortune 500 companies manage to pay zero tax or get refunds in some years, and many claim billions worth of tax breaks.

4. Many individuals pay nothing. Of 145 million personal tax returns in 2011, 54 million (more than a third) had zero tax liability or got refunds.

5. 1,600 people who filed tax returns with incomes of $1 million or more paid no income taxes.

6. The Earned Income Tax Credit is plagued by fraud, up to 29% of all payments. The IRS paid out $125 *billion* in fraudulent refunds in the last 10 years, over $12 billion a year. How about allowing American families to keep more of their own money, instead of taking and ineffectively distributing it, losing billions to fraud?

7. Many tax giveaways don't benefit the intended recipients anyway. The New Markets Tax Credit was meant to create jobs in low income areas, but instead steered nearly $1 billion to wealthy investors and Wall Street banks. Similarly, the Research and Development Tax Credit was meant to encourage mid-sized companies to increase R&D, but 80% went to huge companies like Google, Intel, Boeing and Apple.

8. Using names like "Find the Children," "The Veterans Fund," and "Cancer Fund of America," the 50 worst charities in America raised $1.3 billion in donations over the last 10 years. Almost none of this money benefited missing children, wounded veterans, or cancer patients. Cancer Fund of

America spent less than 1% of donations on charitable activities. Over 10 years, it paid $5 million to its founder's family and spent $80 million on hired fundraisers, but gave only $890,000 to cancer patients.

9. Many tax-exempt charities give little to their cause. For example, Lady Gaga's Born This Way Foundation raised $2.6 million in 2012, but only gave away $5,000 for grants to organizations or individuals.

10. The alternative minimum tax (AMT) is a complex parallel tax system that has grown like cancer. It's results are hard to predict and can be perverse. If you win a lawsuit and pay contingent legal fees, you can end up taxed on more money than you received. AMT can ruin your stock options too.

11. Billions in tax breaks go to wealthy professional sports team owners, who can count their player rosters as depreciable assets. Some experts say the $2 billion Steve Ballmer paid for the LA Clippers will really only cost half that after taxes.

12. A Tuna Tax Break provides millions to corporations operating in American Samoa.

13. Many business expenses are embarrassing. Prostitution is illegal almost everywhere, but Nevada's Mustang Ranch writes off free passes as a promotional expense. Workers claim business deductions for breast implants and costumes.

14. Tax credits for historic structures cost $1 billion annually, subsidizing beach front resorts, Major League Baseball stadiums, and luxury hotels. The New York Yankees built one of the most expensive stadiums in baseball with nearly $1 billion in tax-free financing. Ani DiFranco, a Grammy award winning artist, got $1.5 million in historic preservation tax credits and $3.7 million in New Market Tax Credits to build her Righteous Babe record label headquarters.

15. Wealthy hedge fund titans get a "carried interest" for their work. Their pay looks like wages but is taxed at capital gain rates. This sacred cow should go. Alternatively, if time, effort, and risk are *really* capital investments as fund managers contend, maybe the wages all American workers get should be taxed as capital gains?

16. U.S. corporate tax rates are the highest in the developed world. To avoid paying them, big U.S. companies keep their income abroad. U.S. multinational corporations kept $2.1 trillion abroad in 2013. General Electric stashed $110 billion overseas; Microsoft $76 billion; and Pfizer $69 billion. Americans lose out on all that capital.

17. Unlike big companies that can avoid U.S. taxes on money stashed overseas, U.S. persons living abroad have to report and pay U.S. tax *globally*. And FATCA means that foreign banks often turn away American accounts entirely–dealing with American tax law is just too complex. Many expats suffer, and some are so fed up they renounce their U.S. citizenship.

18. The tax exclusion for parsonages lets clergy members get tax-free housing but the exclusion can be abused. Some clergy double dip, claiming the exclusion and the mortgage interest deduction. Trinity Broadcasting Network even ordained station managers and department heads. That way part of their compensation qualified for the tax break, even though they are not pastors.

19. As sovereign government entities, Native American tribes don't pay corporate income tax. Ditto for corporations wholly owned by a tribe. That means most tribe-owned casino operations do not pay the federal corporate income tax. In one year, Shakopee Mdewakanton tribe of Minnesota paid each of its 480 members about $1.08 million each from gaming profits.

20. Despite millions in profits and revenue, the NFL, NHL, and PGA Tour are classified as non-profits, exempting their earnings from federal income taxes. They avoid paying millions in taxes but they pay out million-dollar salaries.

Do you have a bad taste in your mouth yet? Remember, this is only a tasting menu. And although some parts of our tax law make sense, many do not or lead to abuses. And all inject a level of complexity that no one would wish upon anyone. We need a better, simpler, fairer and flatter tax system. A flat tax or simple tax might not be perfectly fair, and might not improve *everything*. But is there any way to go but up?

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