



The Daily Dish

The Challenge of Tax Compliance

DOUGLAS HOLTZ-EAKIN | OCTOBER 17, 2023

Bloomberg has an [article](#) on the plea of Charles Littlejohn, the Internal Revenue Service (IRS) contractor who stole confidential tax information on thousands of individuals and leaked it to a variety of press outlets. The details of his crimes interest me little, although the culture that permitted them should be in the crosshairs of the planned IRS reforms made possible by the recent infusion of cash. Instead, I am saddened by the decline in the broader culture that surrounds paying one's taxes.

I used to be proud of the U.S. income tax system. It was founded on the notion of voluntary compliance and stood in stark contrast to privacy-piercing, intrusive systems around the globe. But a system of voluntary compliance relies on the broad trust that everyone is paying the taxes that are due. Over time, that trust has seemingly eroded and the U.S. system relies increasingly on "information" reports in which someone tells the IRS about someone else who earned income. The United States is now a tax nation with sub-kindergarten-level ethical norms.

One reason for this has been an utterly feckless assault on the system by the left. The Institution on Taxation and Economic Policy (ITEP, which gives all of those words a bad name) regularly publishes a shaming "report" regarding large, profitable U.S. corporations that paid no income tax. (The most recent is [here](#).) The Biden White House, to its eternal shame, has permitted the president to repeatedly invoke this report. The problem? There is [zero, zero, zero evidence](#) of any tax evasion or even tax shenanigans in these reports. Instead, these firms pay no taxes because (a) taxable income is a very different concept than financial reporting income, and (b) these firms take advantage of congressionally passed, presidentially signed, U.S. tax law (legal) provisions that reduce their taxes. ITEP is not interested in actual tax compliance. Its goal is to shed doubt on all tax compliance and serves to undercut the U.S. system.

Similarly, ProPublica evidently published 50-ish articles using the data stolen by Littlejohn, with the sole intent of casting doubt on the tax-integrity of affluent Americans. Here's the technical foundation of the problem. The most comprehensive measure of income (known as Haig-Simons income) includes the annual change in net wealth. That is, it includes unrealized capital gains, no matter where they occur on the globe. As a realistic matter, the U.S. income tax does not tax gains until they are realized (e.g., the stock is sold). And if the earnings are abroad, they are not taxed until return ("repatriated") to the United States.