



LEARNING TO LOVE THE TAX



By James Schultz

One after another, the victims recited a litany of abuse. A retired priest spoke of being hounded for his dead mother's inheritance, the only money he had managed to put aside after a lifetime of service to parishioners. Another, a divorcee who had remarried a district attorney, described how she was forced to divorce again to escape her first husband's crushing debt mistakenly attributed to her. A third, a small business owner, reported that he was unjustly accused of bilking more than \$2 million from the government and threatened with the loss of his business and his home.

These stories emerged earlier this fall during congressional hearings concerning the one government agency many openly profess to hate: the Internal Revenue Service. The IRS' systematic harassment of ordinary citizens was spelled out in splashy newspaper headlines and during tearful witness accounts broadcast on television. Commentators wondered if

congressional scrutiny heralded the end of what some call the "infernal" tax agency, or the beginning of sweeping reform efforts that would overhaul the current tax code in favor of a far simpler, easier version.

Not so fast, says Ted Englebrecht, a University Eminent Scholar at Old Dominion and director of the university's new Master of Taxation Program. He acknowledges that abuses exist and cannot be tolerated. But transform carefully, Englebrecht warns, lest change sweep away the very benefits reformers intend. The price of radicalism may be too high.

"Don't throw out the baby with the bath water," he urges. "Say you want to throw out the [current] tax law dating from 1913. What if it doesn't raise the revenue you want? What if it creates more socioeconomic problems than you ever thought possible? We need background empirical research on what taxation changes actually do to the economy. When you come up with alternatives — a flat tax, say — you have to ask if it is equitable. We just can't be cavalier."

Taxes: Good for What Ails Us?

Englebrecht sees the tax code as a series of gradual accommodations. Over time, he says, societies have taxed to pay for services that would otherwise be difficult or impossible to deliver. The trick is to balance delivery of needed services with excessive or unjust taxation — an especially important concern in this country given that anger over taxation led in part to the American Revolution. There is also a latter-day hunger for simplicity, for a reasonable code that is easy to understand and comply with.

Taxpayers are right when they complain that the current code is so convoluted that even experts like Englebrecht have a difficult time deciphering it.

“The tax code is incredibly complex. But so are our lives and business dealings,” he contends. “Society has also placed other demands on taxation that are there to attempt to remedy certain perceived abuses or socioeconomic ills. You can’t blame it on an insensitive Congress.”

In addition to the time-honored home-mortgage deduction — a government subsidy to encourage widespread ownership — and charitable deductions, taxation has expanded to accommodate the wide-ranging pleas of civic activists and the well-intentioned. There are incentives, Englebrecht points out, for the restoration of historic structures, for efforts to revitalize the environment, to underwrite certain kinds of energy production and to encourage the international marketing of American-based corporations.

The U.S. tax code may be cum-

bersome, it may raise blood pressures and cause general consternation, but Englebrecht believes it is still among the fairest and most effective in the world.

“We have a voluntary compliance system in the United States that tends to work better than any other country’s,” Englebrecht asserts. “There’s less fraud and corruption. Everybody, from billionaires to minimum-wage workers, has his or her salary subject to taxation. Equitable enforcement of these laws breathes viability into it.”

Training the Next Generation of Specialists

An in-demand speaker on the ins and outs of taxation and the author and co-author of books on tax code, Englebrecht says he is forever challenged and intrigued by the intricacies of the U.S. tax system. It is the practical that interests him. How should people organize their lives to live within the law and yet take advantage of favorable situations that arise at particular life stages — partnership arrangements, for instance, or retirement trusts?

In studies done to see how and why individuals comply with tax laws, Englebrecht says there is no easy and no simple answer. People decide whether or not to pay based on their own experience and their exposure to religion, culture and education.

In one study, Englebrecht tells the story of a man paid by a neighbor to help add a room to the neighbor’s house. The payment is in cash and not deposited into the man’s bank account. The tax

law is clear: The income is taxable. But by not reporting it, the man runs little risk of being discovered. He chooses not to report the income on his tax return.

Englebrecht is putting his expertise to work for students in Old Dominion’s Master of Taxation program, which consists of five required tax courses and five tax electives. All enrollees are required to have some rudimentary knowledge of business, including courses in accounting, business law, economics, finance, information systems, management, marketing and statistics. Englebrecht intends that students who graduate from the program will have a far deeper understanding of a system that, for better or worse, appears headed toward another century.

“Tax is ever-changing,” Englebrecht points out. “It’s very important to our economy. It’s very important to our lives. To me, taxation is the whole ball of wax ... I’m not too big on debating the morality of taxes. I’m about improving what we have and working within the existing system.”



Ted Englebrecht is the director of the Master of Taxation Program at Old Dominion

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