

Antony Davies and James R. Harrigan

In its 2008 report to Congress, the IRS itself said, “The most serious problem facing taxpayers is the complexity of the Internal Revenue Code.” Apparently, Governor Wolf hasn’t read the report, because he just can’t wait to complicate the Pennsylvania tax code further.

Politicians like Governor Wolf would have you believe that taxes are a complicated matter. And they have gone to great lengths to make them so. Pennsylvania taxes people’s income, property, profits, and purchases. It charges licensing fees for drivers, boaters, hunters, and business owners. It levies special taxes on cigarettes, gambling, and gasoline. But here’s the thing politicians don’t want you to know: Taxes don’t have to be complicated. Not by a long shot. This year, Pennsylvanians will earn a total of about \$600 billion in income, and the state will collect about \$50 billion from all sources (excluding federal funding). If Pennsylvania collected all of its revenue from a flat income tax and eliminated all other taxes including sales taxes, profits taxes, lottery revenues, motor vehicle licensing fees, cigarette taxes, and the like, the state would have to tax everyone’s income at about 8%. That’s it. An across-the-board, no deduction, no exemption, 8% income tax could replace every single tax, fee, surcharge, levy, and fine the state collects. And it would have the benefit of being honest and transparent.

While 8% is a lot higher than the 3.1% income tax Pennsylvanians currently pay, we’d no longer be paying the 6% sales tax or the 50 cent per gallon gasoline tax. But the big win is that with the single 8% income tax, we’d blow away the dense clouds of smoke protecting the politicians and special interests. Remember, the tax code isn’t complicated because it has to be. It’s complicated because politicians and special interests want it to be. Like the magician who catches your attention with his left hand while his right hand reaches into your pocket, the point of a complicated tax code is to distract voters with mind-numbing details while politicians reach into voters’ pockets.

The simple fact is that all taxes are ultimately paid by the people. Even when the state taxes businesses, the businesses pass the tax on to people, leaving them unaware that they are even paying a tax. But when the tax code is simple, people know exactly how much they are paying. And when they know exactly how much they are paying, they tend to hold politicians accountable.

What kind of mischief does Governor Wolf have in mind with his proposed tweaks to our already over-tweaked tax code? He has proposed extending the sales tax to cover some 45 previously exempt categories of products and services including day care, over-the-counter drugs, and cable TV to name but a few. He has also proposed increasing the sales tax itself from 6% to 6.6%.

In addition to overhauling the sales tax, Governor Wolf is proposing reducing homeowner property taxes (which benefits homeowners at the expense of renters); eliminating school property taxes for seniors (which benefits the elderly at the expense of the non-elderly); enhancing renter rebates (which benefits landlords, who will respond by raising their rents to capture the rebates); and instituting a manufacturing tax credit (which benefits manufacturers at the expense of non-manufacturing businesses).

This entire game needs to be scrapped, and it needs to be scrapped in favor of transparency and simplicity. When taxpayers finally know what they are actually paying, they will rally to hold politicians accountable. Then taxpayers can start a frank conversation about whether they are getting what they pay for. And at an effective tax rate of 8%, you can already sense why the politicians want to keep things complicated.

Antony Davies is associate professor of economics at Duquesne University. James R. Harrigan is director of academic programs at Strata in Logan, Utah.