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book reviews

edited by Robert J. Wells

The Great American Tax Dodge: A Good Read

Reviewed by Sheldon D. Pollack

The Great American Tax Dodge, by Donald L. Barlett and James B. Steele, (Little, Brown and Company, 2000), 304 pages, $22.95

Journalists Donald Barlett and James Steele are back at it. Their new book, *The Great American Tax Dodge*, takes up right where the team previously left off. The immediate question that comes to mind is: Do we really need another Barlett and Steele muckraker expose of the U.S. tax system? The answer is perhaps not — but it's fun to read.

An awful lot of journalists tend to view the policymaking process through a crude and narrow interest-group model of politics, and Barlett and Steele are definitely not exceptions. One particularly apt portrait of American journalists portrays them as "having received the views of the academic professions and reinforced them with a cynicism of their own about the relations among economic interests, government agencies, and congressional committees."[1] This assessment of the inability of journalists to comprehend the subtle complexities of the tax policymaking process is perfectly illustrated by the writings of Messrs. Barlett and Steele, who lack subtlety and reek of cynicism. Still, they know something about how the tax system works, and they certainly can tell a good story.

> ***Do we really need another Barlett and Steele muckraker expose of the U.S. tax system? The answer is, perhaps not — but it's fun to read.***

You may recall that for years Barlett and Steele teamed up to write highly popular investigative reports for the *Philadelphia Inquirer*, a respected newspaper in the Knight-Ridder chain that has won numerous awards for its investigative reporting. In 1989, the duo won a Pulitzer Prize (the first of two) for a widely praised seven-part expose of the "special tax breaks" embodied in the Tax Reform Act of 1986 — namely, the transition rules used to protect special interests from the reforms otherwise enacted by the 1986 act. Barlett and Steele again examined U.S. tax policy in a 1991 series of reports that ran in the *Inquirer* under the title "America: What Went Wrong?" Barlett and Steele there further exposed the impact of special interests on tax policymaking. The series was extremely well received by the newspaper's readers, was awarded the prestigious George Polk Award for economic reporting, and soon after was republished as a paperback book, *America: What Went Wrong?* — which immediately became a national best-seller. The book catalogues nearly every imaginable negative economic trend of the 1980s and blames them all on an evil conspiracy of "special interests" and the "powerful and influential" ruling elite, who, along with their "lackeys in Congress," "write the complex tangle of [tax] rules" for their own express benefit. As I said, Barlett and Steele are not subtle.

Not content with the success of this series, Barlett and Steele pretty much rewrote the same polemic in 1994 — this time under the title *America: Who Really Pays the Taxes?* Once again, their account of tax policy was a huge popular success. These two massive polemics by Barlett and Steele, which contain unsubstantiated claims too numerous to recount here, add up to little more than the same unproven assertion that Congress passes every tax statute, bankruptcy law, and labor law for the sole purpose of benefiting "the privileged, the powerful and the influential . . . at the expense of everyone else." To illustrate this, the reader is referred to the third part of the series, which is based on the singular premise that "Congress has stood for the rich" and thus has enacted "laws and regulations crafted for the benefit of special interests."

Writing the past few years for *Time* magazine, Barlett and Steele produced a major four-part series on "corporate welfare." Most recently, the team turned their attention to the bankruptcy code. In a special investigative report, "Soaked By Congress," that appeared in *Time* last May, Barlett and Steele conclude, none too surprisingly, that Congress, in its recent efforts to reform the bankruptcy process, is merely doing the bidding of the banks, credit-card companies, and other special interests that have bought the legislators. The theme repeated throughout is that Congress intends to "punish the downtrodden" by denying them the protection of bankruptcy, just so the big banks don't get burned by the sky-rocketing rate of chapter 7 bankruptcies.

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[1] Martha Derthick and Paul J. Quirk, *The Politics of Deregulation* (Washington, D.C.: Brookings Institution, 1985), 12.

As with all Barlett and Steele reports, there is more than a grain of truth buried underneath a mountain of excesses. The difficulty lies in sifting through the incessant Populist poppycock to discover the hidden truths. And there are important insights in their writings! Barlett and Steele are right: interest groups do matter, and Congress does all too often respond to powerful business interests. As journalists, Barlett and Steele are especially adept at tracking down examples of this. But in their haste to condemn the rich and powerful, they miss most of the subtleties of the tax policymaking process. Congress also very often responds to labor unions, public interest groups, and political parties that do the bidding of the "little people." That Congress originally liberalized the bankruptcy code in 1978 and 1984 to allow the easy discharge of credit-card debt by millions of little people is simply ignored by ideologues such as Barlett and Steele. In their black and white world of villains and good guys, money rules and Congress is made up of fools — or, at least, "lackeys" who do the bidding of Big Business. As I said, that crude interest-group model of politics distorts the journalist's image of the world.

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And now comes *The Great American Tax Dodge* — none too meekly subtitled *How Spiraling Fraud and Avoidance Are Killing Fairness, Destroying the Income Tax, and Costing You*. In their latest venture, Barlett and Steele pronounce the federal income tax "all but dead." Once again, the culprit is the multitude of elected politicians in Washington who destroyed the tax code by selling out to the special interests: "Congress and the White House have auctioned off the tax code to the highest bidders at the expense of ordinary individuals and families." This corruption of the tax laws by politicians has robbed the tax code of all "fairness." Purportedly, the result has been an explosion in tax fraud (exacerbated by a decline in moral values of the citizenry, students, tax and legal professionals, and public officials — in short, everyone except journalists). As a result, tax fraud and noncompliance will soon swamp the tax system. Congress's refusal to adequately fund the IRS has exacerbated the problem. Or so the argument goes.

The trouble is, it's hard to follow the argument because Barlett and Steele do not feel obliged to adhere to any of the rules that bind social scientists who write about tax policy — minor things, such as the need to produce evidence that supports one's claims, and linking various propositions into a coherent argument. For instance, Barlett and Steele never satisfactorily *prove* that there has been an increase in tax fraud by taxpayers — which after all is central to the main theme of the book. Numerous assertions are made to suggest that this is the case, but the authors never establish the claim. They point out that the number of "nonfilers" (defined by the IRS as a person for whom a W-2 or information return has been filed, but who has failed to file a personal tax return) has increased dramatically since the early 1980s. I am not so sure that the figures that they cite are really statistically significant, since the number of filers also increased over the same period cited. However, even if there has been a statistically significant increase in the number of nonfilers (which Barlett and Steele correctly point out is an artificially narrow category that fails to include all those who are outside the tax system altogether), that does not by itself constitute a statistically significant increase in the volume of tax fraud among taxpayers as a whole — which is their real premise. Likewise, the mere fact that the "tax gap" (the difference between what the IRS believes taxpayers collectively owe under the income tax and what the IRS actually collects) has risen to $195 billion annually proves nothing. Barlett and Steele complain that the IRS's own estimate of $195 billion is based on outdated data, and they then estimate that the figure is more like $300 billion a year. But absolutely no basis for that estimate is given. It certainly supports the main thesis of their book, but it is a made-up number.

On the other hand, Barlett and Steele are on solid ground in placing blame for the inability of the IRS to enforce the tax laws on Congress. Here they show convincingly that funding for the agency is down, the number of employees doing audits has declined, and the morale of IRS employees has been weakened by politically motivated congressional hearings aimed at discrediting the tax authorities. IRS officials are fearful of being dragged before a televised Senate hearing only to be denounced as "storm troopers" for enforcing the tax laws. They also are afraid of losing their jobs for violating one of the "ten deadly sins" prescribed by Congress as grounds for dismissal.

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The "new" IRS is gun-shy, and it should be no surprise that there has been a serious decline in the number of investigations and prosecutions of tax fraud cases. The number of audits looking for fraud by low-income taxpayers in claiming the earned income tax credit has soared even while IRS enforcement actions against the really big tax cheats has declined. These are strong charges, but Barlett and Steele are right. They place the blame precisely where it belongs — on Congress. (To be fair to Congress as a whole, the blame falls squarely on congressional Republicans who have simultaneously denounced IRS employees for over-aggressively enforcing the tax laws, and at the same time, for failing to detect fraud with respect to claims for tax refunds under the EITC. Come on guys! They can't be *both* too aggressive and lax in enforcing the tax laws — which by the way, were written by Congress.)

Later in the book the authors return to their argument concerning the purported increase in tax fraud, when then try to link a general decline in ethical values to the rise in tax fraud. Chapter 6 is devoted to showing that cheating among high school and college students is on the rise. Likewise, the authors claim that the ethics of professionals have deteriorated. It's getting harder and harder to find an honest man — or at least, an honest accountant or tax lawyer. While I found the material on student cheating interesting (as a university professor, I live with the reality of cheating every semester), it really is a big jump to conclude that an increase in cheating in school means more cheating on tax returns. I suspect that they are right: the two factors are related and both reflect the same deteriorating ethics of the citizenry. But the authors certainly never prove a correlation between cheating on exams and cheating on tax returns. Stories about tax lawyers and accountants who will put anything on a tax return that a client demands bring us much closer to the phenomenon of tax fraud. But again, the authors do not offer any data showing a decrease in professional ethics — although, my sense is that they are also correct in discerning such a decline.

Of course, Barlett and Steele are not social scientists and perhaps should not be held to the standards of social scientists. After all, they are journalists, and they do what journalists do quite well — which is present a readable and interesting account of a complex subject that non-specialists can appreciate. While stories of individual tax cheats do not prove anything about the phenomenon of tax fraud, they do make for fun reading. And there are many great stories here. The best chapters in *The Great American Tax Dodge* are on the con artists who make millions in business (some honestly, some dishonestly) and simply refuse to pay U.S. taxes. To be sure, some end up in jail. But some live easy and comfortable lives in beautiful paradises such as Belize, the Cayman Islands, and Costa Rica. (Of course, the natives of Belize, the Cayman Islands, and Costa Rica may not think of their countries as paradises, but then they probably don't live in million-dollar beachfront homes.)

The audacity of those who commit tax fraud on a grand scale is fascinating. As the good journalists that they are, Barlett and Steele present riveting accounts of these scoundrels who refuse to pay a penny of income tax. It is a sad state of affairs that someone can get away with such crimes and can find safe haven on the beautiful beaches of the Caribbean. What this says about the U.S. tax system I am not so sure, but Barlett and Steele are right — it does not bode well for the tax system.

The other fascinating story that Barlett and Steele present is that of Internet fraud. With the rise of the Internet, the ability of ordinary taxpayers to sneak money off-shore where it cannot be detected by U.S. taxing authorities has increased significantly — or so they say. The cost of committing such fraud has declined to the point where it is tempting taxpayers with even relatively modest income and savings. This particular fraud was once the domain of the rich and powerful. Barlett and Steele are right to see this development as another serious threat to the Treasury. Creditors and our bankruptcy code are also at risk when debtors can hide assets so easily off-shore. Of course, the volume of fraud committed by sleazy Internet con artists against these unsuspecting would-be tax cheats is also on the rise. Send that money off-shore, and there is a pretty good chance that you will never see it again. Wiring $100,000 to some private "bank" in Belize advertising on the Internet can be risky. There may be no bank, and if there is, it probably isn't located in Belize, and those who operate it may very well be crooks themselves. So there is great risk in smuggling cash out of the country via the Internet. What with mob infiltration of the securities industry and tax-shelter investments that generate only losses, what's a poor rich guy to do? Invest in CDs and actually pay tax? Apparently, that is no longer the American way.

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In the end, *The Great American Tax Dodge* is a good read — especially for those interested in taxes and tax policy. Beyond the outrageous and unsupported charges against Big Business and the ubiquitous Special Interests that control Congress lies an interesting book about how Congress has under-funded the IRS and undermined the authority of the tax authorities, all for cheap political gains. Barlett and Steele point out that reducing the number of IRS audits has been disastrous for tax collection. Unfortunately, one result of their book is that even more taxpayers are going to think that they can get away with cheating on their tax returns. An extra billion dollars in the budget for the IRS to hire 10,000 additional auditors and revenue agents would go a long way toward reversing that trend!

Sheldon D. Pollack, J.D., Ph.D., is associate professor in the College of Business and Economics at the University of Delaware and the author of *The Failure of U.S. Tax Policy: Revenue and Politics*, published by Penn State University Press in 1996.