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DEPARTMENTS

edited by Robert J. Wells

Perfectly Legal Isn't Perfect, but It's Well Worth Reading

Reviewed by Sheldon D. Pollack

Perfectly Legal: The Covert Campaign to Rig Our Tax System to Benefit the Super Rich and Cheat Everyone Else, by David Cay Johnston (New York: Portfolio, 2003). 338 pages. Price: $25.95.

Specialists in the field of taxation (academics and professionals alike) should have sympathy for journalists who cover the esoteric and nearly impenetrable world of taxes for the nation's print media. Theirs is no easy task. Stories involving taxation raise technical and arcane issues, and editors are reluctant to publish that kind of article. Accordingly, there is a great deal of pressure on journalists to make a complicated subject accessible to the average reader. Inevitably that means dumbing down the story to appeal to the lowest common denominator, which is amazingly low. The average American now gets most of his "news" from television, talk radio, and the Internet — which explains a lot about the sorry state of what passes for public discourse these days. Even those diehards who still get their news the old-fashioned way (they *read* it) have little patience for highly technical tax stories. As my kids would say (echoing the sentiments of a whole generation of American teenagers raised on MTV music videos): "*Bor-ring!*"

Ironically, even as the print medium has fallen from its once-exalted throne as the primary source of news for Americans, coverage of issues relating to federal taxation has increased in recent decades. As late as the 1960s and 1970s, major national newspapers and magazines shunned stories about tax legislation as too technical and specialized (read: *bor-ring*). However, starting in the 1980s a generation of journalists who came of age in the post-Watergate world of reform politics turned their attention to tax policy. Lengthy in-depth investigations into the politics behind our tax laws began to regularly appear in the national print media. Today, virtually every major newspaper and newsmagazine assigns several top reporters to cover the "tax beat." The new tax journalism that they practice goes well beyond cranking out those obligatory, timeworn pieces that inevitably run at the close of the calendar year — you know, those stories offering the same tired planning tips and last-minute advice. I have to admit that I myself have cranked out more than a few of these. Indeed, I once did a weekly show on local radio during tax season, with each show beginning with a profound gem, such as "Did you know you still have time to fund your IRA before the April 15th tax deadline?" As opposed to offering that kind of stale tax advice, covering the tax beat for a top newspaper or magazine means navigating the pathways of the congressional tax committees, investigating how the ubiquitous special interests influence the legislative process, and basically exposing the whole sordid political process that holds Washington in its grip — or at least that's the standard line for most journalists. Since the first Reagan tax cut in 1981, tax legislation has been big news, and there is now an army of investigative reporters who spend their time prowling around the corridors of power on Capitol Hill searching for a story about how greed, power, and wealth manipulate the legislative process and corrupt the tax code. Sadly, they usually don't have to look very long to find their story.

These days most reporters for the best newsmagazines and newspapers are graduates of the top schools of journalism and communications, or else just liberal arts majors who couldn't get a job. Gone are the days of the hardworking reporter who graduated from the school of hard knocks, rather than the Ivy League, and worked his way up from covering the police beat for some local rag to investigating the tax legislative process in Washington for a major national newspaper. (Well, actually, this seems to be the background of *New York Times* investigative reporter David Cay Johnston, but more on him later.) The problem is few English or journalism majors ever take a course on taxation, let alone possess the level of expertise and technical skill of even a neophyte summer associate in the tax department of a major law firm. From the perspective of their editors, that is just as well, as even a mild dose of technical tax jargon would kill a good story and put their audience to sleep. It is doubtful that even the comparatively sophisticated readers of top national newspapers such as *The New York Times*, *The Washington Post*, and *The Wall Street Journal* are interested in reading technical stories about the U.S. tax code while sipping their morning coffee. Perhaps the readership of the specialized business magazines (*Business Week, Forbes*, and so forth) can handle a stronger dose of tax jargon than can the average reader, but few could penetrate the gobbledygook written by academics and professionals in the specialized tax journals. So reporters recognize their limitations, as well as those of their readers, and editors dish up pabulum for the masses — albeit educated, high-income masses.

Because of that, it is no surprise that academics and tax professionals (the kind who regularly read *Tax Notes, The Tax Lawyer,* and the *Tax Law Review*) look aghast at the stories on taxes that appear in the daily newspapers and weekly newsmagazines. Most of the time, when reading such a story (for instance, an account of some new exotic tax shelter marketed by one of the big bad accounting firms), it is impossible to figure out what's going on — forget about grasping the intricate subtleties of the underlying tax issues. Reporters write in such general and nontechnical terms (probably because they themselves don't understand what's going on) that even the knowledgeable reader can't grasp more than the vague outlines of the issues. On the other hand, academics and tax professionals depend on reporters covering the tax beat to keep them abreast of what's going on with legislative initiatives circulating in Washington and the latest tax scams making the rounds in the business world. It seems as if the Internal Revenue Service also needs these investigative reporters to keep them up to date on what tax shelters the con artists are peddling at any given moment. Alas, the IRS often first gets wind of a new tax scam when it appears on the front page of *The Wall Street Journal* or *The New York Times*. That is where the skilled journalists who cover the tax beat can make their greatest contribution, and it is fair to say that this kind of investigative reporting requires no great substantive expertise in federal taxation. Some of the best reporters would have as much difficulty as their readers in distinguishing a passive activity loss from a foreign tax credit, but they do know how to investigate and report.

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One good example is the December 2003 cover story of *The American Lawyer* (for which I provided background information). Written by a staff reporter, Paul Braverman, the article, "Helter Shelter," recounts the marketing of one of the most abusive tax shelters ever concocted by a major law firm and promoted by a leading accounting firm under a highly questionable arrangement to share fees. To say the least, Braverman is no tax expert. However, he is a skilled and talented journalist. His inquiry penetrates the morass surrounding the origins of the COBRA tax shelter, concocted (or as some allege, pilfered) by tax attorney Paul Daugerdas of Jenkens & Gilchrist and marketed by Ernst & Young to many of its upper-income clients with extraordinary taxable gain realized during the year. They included one Henry Camferdam, an Indiana businessman who has since brought a billion-dollar class-action lawsuit in federal district court in New York against his former tax advisers for, among other things, RICO violations, fraud, and malpractice. Anyone who still doubts that professional ethics have declined in recent years should read Braverman's excellent narrative. It evidences all too well just how low some tax professionals will sink just to make a buck — well, actually a few hundred million bucks, but who's counting?

Top journalists writing stories such as this soon enough acquire sufficient substantive expertise to write coherently about their subject. As an academic who has written on tax policy for many years, I get numerous inquiries from reporters around the country looking for background information and a saucy quote from a tax "expert" willing to be blunt. Usually, they call Michael Graetz, Joel Slemrod, Bill Gale, or Don Alexander. When all of them are too busy to talk (or if the reporter happens to be from *The Times-Picayune* rather than *The New York Times*), the spurned reporter will turn to his backup list of tax experts — where I seem to be situated. That's fine, and I am always happy to chat and say something outrageous for a good quote. In turn, I am always impressed by the thoroughness and skills of these reporters. I never fail to learn something useful from them, either about what's going on in Washington or about what people think out there in the hinterlands (outside both the Beltway and the insulated world of academics). Like most academics, I am flattered to be called by reporters. I also must confess that I am more than a little jealous of those who get to cover the latest hearings by the Ways and Means Committee or investigate the latest tax reduction proposal to emanate from the White House. It's not just that they are right there in the thick of it, observing firsthand the untidy process that produces our tax legislation, as opposed to being stuck in some stuffy classroom with a bunch of students trying to explain the concept of taxable income, or in a conference room with clients who can't believe that *they* actually have to pay income tax on the sale of their multimillion-dollar business. No, what's most galling is the suspicion that these reporters possess the capacity to influence popular opinion, and perhaps even the direction of tax policy itself, all without understanding much more about the tax code than my students or clients. But hey, who said life is fair?

It is no exaggeration to say that the top journalists whose stories grace the front pages of *The Wall Street Journal* and *The New York Times* exert a good deal more clout over the public debate on taxes than all the academics who write about tax policy. On the other hand, academics write books and articles about the tax system. Those in turn are read by other academics and professionals, and even occasionally by their students. Sometimes some of what academics say filters down to the public. Heaven help us, sometimes it even influences policymakers in Washington. Just think of Robert Hall and Alvin Rabushka, two Stanford University academics who dumbed down the consumption tax enough for it to enter the vocabulary of the Republican leadership of Congress and wind up on the GOP political agenda in the mid-1990s. I was recently contacted by the tax counsel to one of the leading and most vocal members of the House Ways and Means Committee and asked for suggestions on how to curb abusive tax shelters. It seems that a piece that I had written on tax shelters for *Legal Affairs*, a new general-audience legal journal affiliated with Yale Law School, had been read and admired by the staff member. Alas, I was put on the spot and forced to confess that I have nothing useful to offer in the way of a legislative proposal — just cynical and disparaging comments about what others have tried or recommended. I politely declined the opportunity to influence the legislative process. Unlike Hall and Rabushka, I know enough to keep quiet when I have nothing useful to say.

All of which brings me to David Cay Johnston's new book, *Perfectly Legal,* which has plenty to say about tax shelters, Congress, and the whole tax system. It's an interesting but flawed book. The main flaw lies in the book's underlying premise (expressed in its subtitle) that the "super rich" have secretly rigged the tax system to benefit themselves and cheat everyone else. Yes, it's that kind of book! We've heard this populist pap before from Messrs. Donald Barlett and James Steele in the pages of *Time* magazine, *The Philadelphia Inquirer,* and several truly annoying books they cranked out to reach an even wider audience. (I confess that I panned one of their muckraker diatribes, *The Great American Tax Dodge,* in the pages of this journal. See *Tax Notes,* September 25, 2000, pp. 1669-71.) Indeed, in the acknowledgment, Johnston pays homage to comrades Barlett and Steele. Fortunately, he transcends the party line. If the reader can get past the hype in the subtitle and opening chapters (which publishers encourage because it sells books), there is to be found an important account of the IRS's declining state of health and its increasingly moribund capacity to enforce our tax laws. In that respect, Johnston's book is incredibly depressing to those of us who worry about the possible collapse of the income tax as the principal source of revenue of the federal government. If *Perfectly Legal* is infuriatingly simplistic in its political assumptions, it nevertheless makes a positive contribution to the public discourse over our troubled tax system. On top of that, it's fun to read.

Readers of *Tax Notes,* educated and sophisticated as they are, will be familiar with the work of David Cay Johnston. Since 1995 Johnston has covered the tax beat for that esteemed and distinguished, if not slightly humbled newspaper, *The New York Times.* He has written an incredible number of impressive stories in the *Times* on a wide range of topics dealing with the politics, abuse, and ineffective enforcement of the tax laws. Johnston's timely article on Enron's tax avoidance was front page news in January 2002, and an embarrassed Congress (along with the Joint Committee on Taxation) was left to figure out how Enron could avoid paying taxes in four of its last five tax years — even receiving $382 million in tax refunds. Other revealing stories focus on an odd assortment of tax loopholes, dubious shelters, and outright scams. In his *Times* articles, Johnston has alerted the tax authorities, as well as honest practitioners, to the suspect ethical standards of some in the tax profession. In 2001 Johnston was justly awarded a Pulitzer Prize for his definitive investigative reporting. A reporter such as that writing for a major national newspaper such as the *Times* inevitably carries a good deal of weight, and Johnston has used his weight and lofty position, along with his considerable skill as a reporter, to produce some of the best investigative accounts of the seamy side of the tax world. No other journalist in recent years has exerted as much influence over tax policy as David Cay Johnston. The first-rate reporters for *The Wall Street Journal* come close, but forget about tax academics, who collectively don't carry as much weight or reach half the number of readers that Johnston does every morning. The tax profession (at least the honest element) should thank Johnston for his due diligence.

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The best chapters in *Perfectly Legal* come later in the book, after the populist tirade against the super rich. These are solid investigative reports on a wide range of topics, expanding on what previously appeared in the *Times.* This accounts for the strength of these chapters: Johnston is doing here what he does best — investigating and reporting. For example, there is a story about a minor tax exemption for small mutual insurance companies. Seems Congress forgot to include a business purpose requirement for the exemption, and some big-time investors are taking advantage of that transgression. Elsewhere Johnston chronicles the increasingly widespread use of tax haven credit cards by middle-income citizens who apparently no longer hesitate to commit tax fraud. Congress and the IRS have looked into the problem, but as Johnston makes clear, they haven't solved it yet. The Service lacks the will and resources to put a real dent in the practice, which apparently continues unabated, with debit cards replacing credit cards among the more sophisticated tax cheats. As Johnston explains, it is harder to trace the money that passes through a debit card than a credit card, making it the ideal tool for evading U.S. income tax and the watchful eye of the taxman. Other fascinating stories explain the tax advantages behind business executives using the corporate jet for personal trips and vacations, and directors flying to Bermuda for the monthly meeting of the board. Those are the kinds of perks that reporters, academics, and even big-firm tax lawyers are unlikely to ever experience firsthand.

In one of the most remarkable and upsetting stories, Johnston describes how some very successful American businessmen openly scoff at employer withholding requirements and most other obligations under the income tax. We also hear tales about scam artists such as Irwin Schiff, who got rich telling the more gullible (or, more plausibly, willfully ignorant) among us that they have no legal obligation to file returns or pay taxes. Tax protesters claim the federal income tax is voluntary and drop out of the system. Others file frivolous tax returns. Like Johnston, we wonder why the Service sits back and allows those crooks to get away with it, even after their names are posted right there on the front page of *The New York Times* and all over the Internet. (Perhaps IRS officials read *The Washington Times,* rather than *The New York Times*.) By now even they must realize that we are past the point where the Service can go after a few celebrity cheats every few years for tax fraud (unsavory types such as Leona Helmsley, the "Queen of Mean") and thereby intimidate all those little people (who apparently don't want to pay taxes either) into meekly complying with the tax laws. As Johnston makes clear, it ain't happening anymore! Audit rates are so low as to almost invite tax evasion. A major reorganization in 1998, along with televised hearings by the Senate Finance Committee intended to intimidate the tax authorities, worked all too well to weaken the resolve and efficiency of the Service. Understaffed and poorly funded, the IRS is simply getting its heinie kicked by those members of the tax bar who apparently skipped their classes on professional ethics back in law school. (The accountants aren't required to take an ethics course, so I guess their criminal behavior is understandable, if not forgivable.) Johnston's book ably recounts all this, and if it generates some publicity, perhaps it will embarrass policymakers into providing the IRS with sufficient resources and legislative tools to enforce the tax laws that Congress itself has written. In that respect, I hope Johnston's book sells a million copies.

So what is wrong with *Perfectly Legal*? Basically, the problem lies in Johnston's distinct and loaded ideological perspective, which rests on the dubious premise that the tax system is designed to "subsidize" the super rich and "cheat" the ordinary citizen / taxpayer. "[O]ur tax system now levies the poor, the middle class and even the upper middle class to subsidize the rich." We hear this over and over throughout the book. Those who already believe this stuff out of deep-rooted ideological conviction will love to hear it repeated in the book. (I'm sure they'll also vote for the Democratic candidate, not George W. Bush.) The rest of us get a bit tired.

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To be fair, Johnston properly cites all the right figures showing that the distribution of wealth in this nation is extraordinarily unequal and becoming more so. The wealthiest 1 percent of Americans claim a grossly disproportionate share of financial assets (nearly half) and annual income (almost 21 percent). But that is old and familiar news. What it says about the tax system is much less clear than Johnston makes it seem. He downplays figures from the IRS showing that the top 1 percent of taxpayers contribute more than 37 percent of the revenues raised by the individual income tax. Even with the regressive Social Security wage tax taken into account, that figure still amounts to some 25 percent of the total. In other words, the richest Americans may own an awful lot of America, but they do pay a highly disproportionate share of the taxes that finance the modern social welfare state. Paying high taxes is the price for owning most of the national wealth. Is it worth the price? Undoubtedly. I'll bet that the rest of us would gladly switch places with anyone in the top 1 percent. The tax system certainly does not render us all economic equals. But determining exactly who benefits most from the tax system is complicated. It usually isn't even clear who benefits from any single piece of tax legislation, let alone the entire tax system. Throw in the distribution of benefits that flow from governmental programs (for example, the so-called entitlement programs, Medicare and Social Security) financed by the tax system, and the analysis becomes even more complex. Yet Johnston simplistically portrays the tax system as designed for one purpose: "subsidizing" the rich.

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From Johnston's perspective, every attempt by Republicans to reduce taxes for their constituents is part of a "covert campaign to rig our tax system," which apparently is inherently "unfair" so long as the rich pay anything less than *all* the taxes. It is telling that there is no mention in the book of the 1993 tax increase imposed by Democrats on the wealthy — the single most blatantly partisan, class-based tax legislation enacted since the New Deal. That Republicans should try to reduce or eliminate Clinton's surtax on taxpayers with taxable income above $250,000 (the so-called millionaire's surtax) is hardly surprising — and hardly evidence of a secret plot to subsidize the rich. The tax code imposes a very high rate at the margins (94 percent at its historic high during World War II, and in the range of 50 to 70 percent for a good deal of the postwar era), and the rich scramble to avoid its impact. Nevertheless, a broad-based tax cut (as opposed to a targeted "tax expenditure" for a particular group or industry) is not a subsidy — at least not if the wealthy still pay at higher rates than lower- and middle-income taxpayers. As Johnston notes, the wealthy do pay at higher marginal rates and slightly higher effective (average) rates than the middle class. Forget about the contribution from low-income taxpayers. The top 50 percent of taxpayers shoulder 96 percent of the burden of the individual income tax, while the bottom 50 percent contributes virtually nothing to the Treasury. Well, 4 percent isn't exactly nothing, and it certainly has an impact on those making something around the median income of $28,000, but 4 percent of the individual income tax isn't enough to fund the government for one week.

Even a 12 percent reduction in the top tax rate (from 39.6 percent to 35 percent) does not amount to a subsidy. There is no positive cashflow in favor of the rich on account of the federal income tax. True, the tax system may not redistribute wealth very much — certainly not as much as Johnston wants. But that hardly means the tax code is rigged to take money out of the pockets of the middle class and give it to the wealthy. God knows the rich would fare better without it, and if given the choice, would dump the whole tax system. (Well, perhaps Bill Gates's father would vote to keep the income and estate taxes, but I suspect that most of the rest of the super rich would think otherwise.) That tells you something about how the super rich themselves view federal taxation as a means to "subsidize" their incomes.

Like so many journalists, Johnston views the political world through a simplistic political model: The rich control politics, big corporations and special interests dominate Washington, and the political stooges of the wealthy and powerful write the tax code for the benefit of their masters. That may be true in some cases, but the political world that produces the tax code is also much more complicated. Sometimes the post-New Deal Democratic coalition of labor, blue-collar workers, ethnic groups, and liberal ideologues holds sway over Washington politics — at least long enough to have an impact on the tax code and use it to shift even more of the burden of taxation onto the wealthy. This happened in 1993, when President Clinton and congressional Democrats raised tax rates on the wealthy by 20 percent, and you can bet it will happen again if Democrats regain control of Congress and any one of the current crop of Democratic candidates for the presidency wins in 2004. All of the Democratic candidates have vowed to stick it to the rich through the tax code if they win! Even when Republicans have controlled Congress or the White House in the past three decades, there has been no shortage of special targeted tax breaks enacted for the benefit of labor, low-income workers, the education establishment, and other groups safely within the fold of the Democratic electoral coalition.

That is the real problem with the tax legislative process! It's not that the system is rigged in favor of any single economic group, constituency, or political party. Rather, *everyone* wins under an electoral system that encourages politicians of all stripes to curry favor with voters by granting them special tax breaks. This is the bipartisan system of log-rolling and vote trading that political scientists love to lament. Special interests in both parties have been rewarded for decades with special tax benefits, thereby eroding the tax base and intellectual coherence of the tax code. Compounding the problem, volatile electoral majorities have continuously shifted in recent decades. When the major national political parties trade places, the tax laws are rewritten to implement the broader economic policies of that party in control of Congress at that moment. Later, complicated regulatory statutes and regulations are enacted to control the worst abuses of the tax code. All of that renders the tax code ever more complex, cumbersome, erratic, and unprincipled.

One last complaint with Johnston's book: Its title is misleading. Few if any of the scams recounted in *Perfectly Legal* are legal, let alone "perfectly legal." Sure, the exemption for mutual insurance companies is a legal loophole (a provision whose full impact and application was unforeseen when enacted and is subsequently abused by those Congress never intended to benefit). But that kind of loophole is easy to close once it is exposed. Thanks to Johnston, that could happen soon — although I wouldn't necessarily bet on it given the lethargy of the IRS and Congress. Likewise, Johnston describes some cutting-edge estate planning techniques that reduce wealth transfer taxes for the wealthy. (Do the names "charitable remainder trust" and "family limited partnership" ring a bell?) Unfortunately, the Service and courts have acquiesced in estate-planning techniques that are sheer economic fictions serving no purpose other than to reduce estate taxes. I guess that technically, if done within recognized limits, these are "legal" devices to reduce estate taxes. But most of the abuses described in Johnston's book are not just questionable or aggressive applications of current law, but outright illegal scams! The problem isn't so much that the system was rigged, but that existing laws are not rigorously enforced. There is virtually nothing that is "perfectly legal" in the bogus claims of the tax protesters or the confidential tax opinions sold with the COBRA tax shelter and other similar schemes peddled by the Big Four accounting firms. The fact that scam artist Irwin Schiff went to jail twice says something about the legality of what he's pitching.

Few if any of the scams recounted in Perfectly Legal are legal, let alone 'perfectly legal.'

That confusion over what's legal and what's not extends to a tax avoidance scheme that Johnston condemns as a scam simply because it benefits corporations. Johnston despises the corporate inversion that recently made headlines and raised the ire of Congress, but he doesn't seem to know exactly what's wrong with it. Johnston sees the inversion as just another corporate rip-off — even worse, an "unpatriotic" rip-off that can save some big multinational corporations millions of dollars in taxes. That is the line taken by some pompous lawmakers who attacked those companies that dared make use of the technique. But there is nothing "unpatriotic," let alone illegal, about a multinational business reorganizing its corporate structure so as to minimize its worldwide taxes, even if it means Treasury ends up collecting less revenue. Pursuant to the reorganization, intellectual property is often transferred to the offshore parent. That too is perfectly legal — so long as fair market valuations of the intangible property are used. Whatever some demagogues in Congress may think, patriotism is irrelevant here. Legality is the issue, and it's a perfectly legal transaction under the tax code.

Of course, there is great potential for abuse and tax evasion *after* the corporate inversion, as the new U.S. subsidiary (with the U.S. operating company) attempts to bail out U.S. taxable income in the form of bloated interest payments or royalties paid to its new parent in the Cayman Islands or Bermuda. That is *not* perfectly legal, and the IRS expends considerable effort in policing abusive transfer pricing practices. Indeed, the morning that I finished reading Johnston's assessment of corporate inversions, headlines across the country announced that the IRS is pursuing one major multinational corporation (GlaxoSmithKline P.L.C.) for $5.2 billion in taxes and interest for alleged transfer pricing abuses. The corporate inversion may be legal, but it isn't kosher to shift U.S.-source income to a low-tax jurisdiction. I'm not sure if Johnston grasps the subtle distinction. In any event the government still has to prove its case, and that takes considerable resources. Whether Johnston realizes it or not, this is his greatest contribution in *Perfectly Legal* — exposing the scandalous lack of resources given to the IRS to combat the all-out assault on the fisc, which, sad to say, is being led by a swarm of ethically challenged tax professionals.

To his credit, Johnston is bold enough to venture some reform proposals for the tax system. This is more than most of us would dare, so I commend him for the effort. Unfortunately, nothing new or even remotely practical is put forward. For instance, Johnston proposes that we "simplify" the tax code because the "complexity benefits the rich." Supposedly, too much complexity enters the tax code as members of Congress grant "favors for the political donor class." Likewise, he recommends that we stop the "routine practice of inserting favors in tax bills without public hearing and public accountability." Duh! Wouldn't all that be nice. The tricky question — one that serious academics and tax professionals have been wrestling with for decades — is: How can we simplify the tax code and eliminate special exemptions when all the political momentum and economic interests that inform the tax policymaking process drive us in the opposite direction? Does Johnston believe that no one has thought of these things before? Simplify the tax laws. What an original idea!

> ***Whether Johnston realizes it, his greatest contribution in Perfectly Legal is exposing the scandalous lack of resources given to the IRS to combat the all-out assault on the fisc.***

Another misguided reform that Johnston suggests is that corporations keep one set of books and pay tax on their financial income. It is far too complicated to recount here the different purposes behind the different methods for computing financial income and taxable income. Suffice it to say, Congress will not simply repeal all the provisions of the tax code that create those differences, and the suggestion isn't new or very compelling. On the other hand, recent proposals to require publicly traded corporations to disclose the *discrepancies* between financial and taxable income in more than just oblique footnotes in the annual report could serve to dampen the enthusiasm of corporate tax directors for bogus tax shelter investments.

Still, Johnston's heart is in the right place, even if his reform proposals won't solve much. Anyway, this shortcoming should not scare anyone away from reading his book. It shouldn't matter that David Cay Johnston doesn't have all the solutions. No one does. What matters is that Johnston presents a somber portrait of a sinking tax system, and even sophisticated tax professionals (and certainly policymakers in Washington) will learn something about how bad it really is by reading *Perfectly Legal*. That's enough to make it worth the price of admission.

Sheldon D. Pollack, J.D., Ph.D., is Professor of Law and Legal Studies at the University of Delaware and the author of *Refinancing America: The Republican Antitax Agenda*, published by the State University of New York Press in 2003.