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State of the Union's Taxes: Buffeted Poor

President Obama's State of the Union Address may have suggested Mitt Romney should pay higher taxes—[Obama Proposes Doubling Romney's Taxes, With Minimum 30% Rate](#)—but we actually have more systemic problems. Our tax system isn't held in high regard by much of the world. Even Harvard Business School alums think we're practically third world in taxes. See [Politics, Tax Code Said to Stymie U.S.](#)



Image via oregonlive.com

If there's not a **crisis** in confidence, it is close to it. [Buffett's Tax Buffet Is No Smorgasbord](#). National Taxpayer Advocate Nina Olson sees serious problems facing citizens and the IRS alike. See [National Taxpayer Advocate Delivers Annual Report to Congress](#). Here are a few highlights:

International Taxes Are Too Complex. Individuals and businesses are reeling from the crushing complexity of our international tax laws, disproportionately steep penalties and stepped-up IRS enforcement. Many are uncertain how to meet their U.S. tax obligations. Small business taxpayers may have trouble understanding international tax rules and may not be able to afford professional help.

Offshore Voluntary Disclosure Program. The Taxpayer Advocate doesn't mince words, calling the IRS tactics in the offshore voluntary disclosure program "bait and switch." With some people encouraged to participate who arguably shouldn't have to, Ms. Olson posits a massive loss of trust over these issues. See [IRS Watchdog Critiques Offshore Tax Amnesty](#) and [IRS watchdog accuses agency of "bait-and-switch."](#)

IRS Underfunding. If you are fearing an audit you might think underfunding the IRS is a good thing. But in audits and many other areas, Ms. Olson says the IRS needs resources. The IRS faces an increasingly diverse population, a surge in refund fraud and tax-related identity theft, and the need to implement new third-party information requirements.

The IRS doesn't have the resources to manage its workload. The IRS is failing to meet the service needs of taxpayers, to detect and address noncompliance, and to maximize revenue collection.

Automated Adjustments. The IRS is increasingly using "automated adjustments" instead of true audits. These computer adjustments occur when a return is inconsistent with third-party data like Forms 1099. Without conducting an examination, the IRS assumes the return is wrong and the third-party data is correct. See [The Truth About IRS Forms 1099](#). Streamlining can be efficient, but Ms. Olson asks at what cost to taxpayer rights?

IRS's Math Error Authority. What's a math error? There may be a difference of opinion. The IRS can use its "[math error authority](#)" to assess additional taxes quickly and easily. However, Ms. Olson suggests that the IRS oversteps on occasion. For example, if the IRS disallows exemptions for dependent children, it would be better to use a facts-and-circumstances analysis.

Changing Taxpayer Demographics. Ms. Olson identifies groups requiring specialized assistance, including those with limited English, literary challenges, and those who don't use the Internet. "Pre-populated" returns (to which third-party information is automatically downloaded) could help, but she urges respect for taxpayer rights.

Excess Collections. The IRS's Excess Collection File (XSF) consists of payments and credits not applied to a taxpayer's account or refunded. This isn't a terrible problem to have, but it is strange. How much is there? This is big, very big.

The IRS held **over \$4.7 billion** in January 2010! Once these funds are transferred to the XSF, the IRS generally doesn't attempt to contact taxpayers to resolve it unless the transfer is \$100,000 or more. But according to the Treasury Inspector General of Tax Administration, over half of the transfers to the XSF are erroneous.

For more, see:

[IRS Advocate: New Taxpayer Rights Crisis Is Brewing](#)

[Buffett's Tax Buffet Is No Smorgasbord](#)

[Trump's Tax Trump? You're Fired IRS!](#)

[IRS Gone Bad: Are Things About To Get Even Worse?](#)

[IRS Allows Tax Return Do-Overs](#)

[IRS Pushes Back Against Math Error Recommendations](#)

[Trump's Tax Trump? You're Fired IRS!](#)

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