Introduction

As we begin the second half of 2012, the U.S. economy is showing continued signs of slowing down. U.S. GDP for the 1st Quarter of 2012 settled at a revised 2.0 percent growth rate down from its initial report of 2.2 percent growth according to the U.S. Bureau of Labor Statistics while the first estimate for the 2nd quarter of 2012 came in at a disappointing GDP growth rate of 1.5 percent. It has since been revised upward to 1.7 percent. This is still a dramatic decline from the recently revised 4th Quarter 2011 GDP growth of 4.7 percent. The Dow Jones Industrial Average was flat for August, settling at just above 13,000 as of early trading on August 31st. The DJIA increased 1.9 percent in February and was up another 1.2 percent in March before declining in May.

Key July/August Data

Positive and Negative Signs

U.S. productivity remains among the highest in the world while U.S. non-financial corporations’ cash reserves remain at roughly $2 trillion. The July Conference Board’s Global Leading Economic Indicators Report shows the United States grew at .4 percent while Europe saw no change and China increased .7 percent. This is the sixth straight month China has seen positive growth…just barely in June. The U.S. savings rate was at 4.2 percent in July, down slightly from 4.4 percent in June. Consumer confidence stood at 65.4 in July but decline to 60.6 in August, fueled by gasoline prices and a generally slowing economy. New vehicle sales were strong but down slightly in July, yet we are still confident that automobile, SUV and light truck sales could reach 14.4 million by year end. The unemployment rate rose to 8.3 percent in July which is up from 8.2 percent in June… this continues to be disappointing by historical standards for an economic recovery.

The U.S. now has the highest corporate income tax rate in the industrialized world at 39.2 percent and one of the highest integrated capital gains tax rates in the industrialized world at 51 percent. The above certainly is a factor in recent studies which show that U.S. companies are holding as much as $2.2 trillion overseas, which is up dramatically from 2011 levels. Oil, gold, and silver prices continue to remain relatively high, although oil and gasoline prices continue to fluctuate in a generally upward direction in August, giving us pause for concern regarding future inflation. The national average for gasoline prices increased to $3.82 at the end of August which is up dramatically from an estimated $3.44 at the end of July. According to the latest manufacturing analysis of the ISM Report on Business, the manufacturing index of the U.S. economy increased to 49.8 in July from 49.7 in June, which is still below 50, signaling a recession for the manufacturing sector. However, durable goods orders were up 4.2 percent in July relative to June, hopefully signaling stabilization in U.S. manufacturing. Real U.S. disposable personal income increased .3 percent in July giving reason for optimism regarding higher consumption if this trend continues.

Current Issues

Introduction

The U.S. tax rate and regulatory structure is highly burdensome and in need of reform. In April of 2012, the U.S. earned the distinction of having the highest corporate income tax rate in the industrialized world. As Congress debates spending cuts and tax reform, we continue to be
intrigued by the work of Americans for Fair Taxation and find the below to be worth consideration:

1. The Fair Tax or national retail sales tax, according to the Tax Foundation, America’s oldest national tax research organization, would cause compliance costs to drop more than 90 percent and would replace all federal income and payroll taxes with a simple national sales tax exempting those below the poverty level from said tax.

2. The constantly growing complexity of our tax system is part of a trend that began in 1913 and has only accelerated with the nearly perennial enactment of new tax legislation with 4,428 changes to the tax code in just the last decade. In 2010 alone there were 579 changes, more than one per day! The continuous tinkering with the tax code has resulted in tripling the length of the tax code, now a mind-boggling 3.8 million words. The combined federal income tax code, regulations, and IRS rulings have grown from 14,000 pages in 1954 to 70,320 pages by 2009—an increase of 502 percent.

3. In 2009, the total number of U.S. returns was 236.5 million, excluding informational returns. The number of penalties provides another good measurement of the complexity and cost. In 2003, Americans were assessed 36,228,339 civil penalties (26.4 million for the individual income tax alone). The corporate income tax required the issuance of 970,098 penalties and the employment tax had 7,918,580 penalties issued to businesses that employ people. To administer the tax laws, the IRS directly employs about one hundred thousand employees. The IRS budget is roughly $12 billion outstripping growth in the economy and the population.

4. According to Taxpayer Advocate Service (TAS), individual taxpayers and businesses spend an estimated 6.1 billion hours each year complying with the filing requirements of the Internal Revenue Code (henceforth called “compliance costs”). The Tax Foundation estimated compliance costs to exceed $265 billion. This amounts to imposing a 22.2-cent tax compliance surcharge for every dollar the income tax system collects. By 2015, compliance costs are expected to grow to $482.7 billion.

5. Small firms in particular, according to the National Commission on Economic Growth and Tax Reform, are forced to waste 3 to 4 dollars complying with the law for every dollar they pay in taxes.

6. According to the Taxpayer Advocate Service, the IRS received 110 million calls in each of the last two fiscal years; 25 percent of which the IRS was unable to answer. In addition to the telephone calls, the IRS must process more than 11 million pieces of taxpayer correspondence annually.

Conclusion
The Fair Tax reduces the more than 700 incomprehensible sections of the Internal Revenue Code to one simple question. As all goods and services for final consumption are taxable, the retailer need answer only “how much did I sell to consumers?”  The twin advantages of simplicity and visibility produce another benefit: Greater enforceability with less intrusiveness. We will explore the flat tax in our September issue and encourage you to view the following video link associated with the fair tax http://youtu.be/QRpWir4eDrs.

Contact Us
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