

Which Tax Code Do You Use?

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There are two tax codes in the United States. Which one do you use?

Now, that's a statement and question that just might raise your hackles. But it is critical to understand there are two tax codes in our country: One for people who understand, and one for people who don't. At more than 70,000 pages, the tax code is, to put it mildly, complex. If you don't understand which of those pages affect you and take action to arrange your finances accordingly, you might be operating under the wrong code.

There are those obvious items you might already know. Do you pay state income tax? There's a deduction for that. Do you have a mortgage? There's a deduction for that. The same is true for charitable contributions, property taxes and some investment expenses.

Then there are items you may not have noticed. Did you buy a car? There might be a tax credit for that, if it's the right car. Did you make home improvements or change your energy source? There might be a credit for that, if it's the right improvement or change.

Next there are those parts of the tax code that you might not have noticed at all. If you have a 401(k) and a taxable account, are you putting your stock investments in the 401(k) and the bonds in the taxable account? You just might be operating under the wrong tax code depending on where your assets are located.

If you have a Roth IRA and own your slow-growth assets there, that could be wrong again. Do you have taxable investments but neglect to offset gains with losses? Wrong code.

All of this raises interesting questions. First, why do we subsidize some cars and not others? Or why do we subsidize some energy sources but not all of them? Better yet, why subsidize any of them? Why make the system so complex?

Another question is who, in their right mind, would design a tax code where two different citizens with the same set of facts could have two different outcomes based on their knowledge, or lack thereof, regarding 70,000 pages of law? Can you imagine any retail store where one customer gets a different price than the next person in line for the exact same item?

Of course, no one really “designed” the tax code. It is not really fair to say it has evolved. In truth, it has been cobbled together over the past hundred years or so to cater to the whims of the time. The result is a bewildering array of provisions and two possible tax codes.

It has long been my dream to design a new tax code from scratch. How? I think the best approach is to engage a high school class. High school students are bright and experienced enough to take on a challenge, but they have not developed vested interests in the outcome. They do not know if they will be very wealthy or not. They don’t know what their income will be, let alone their occupation. They could be entrusted to answer the question: No matter what your future occupation, earnings or wealth, how would you devise a tax code that is fair and efficient? I bet it would look a lot different than the current code, and would work much better.

Are there any takers for this challenge? I’d be happy to help.

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