

THE BROOKINGS INSTITUTION

TAX DAY HEADACHES:  
PUBLIC UNDERSTANDING OF THE TAX CODE  
AND PERCEPTIONS OF "FAIRNESS"

THE 2nd ANNUAL LUBICK SYMPOSIUM

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## P R O C E E D I N G S

MR. MAZUR: Good morning. I want to welcome everybody here today to the second annual Donald C. Lubick Symposium. Also, I want to welcome all the people who are watching on webcast. My name is Mark Mazur. I'm the Robert C. Pozen director of the Urban-Brookings Tax Policy Center. I've been at the Tax Policy Center now for just over two months and it really is a great pleasure to be here with you all today.

The Lubick Symposium was created to honor the extraordinary record of Don Lubick. He's a very special kind of public servant. In his at Department of Treasury, he was tax legislative counsel, deputy assistant secretary for tax policy and assistant secretary twice. Throughout it all, Don Lubick was dedicated to promoting a cause of a better tax system. He boiled down he adherence to three principles. Efficiency, equity and simplicity. And Don Lubick was a model to some. He was a mentor to some and a great colleague to others. It is a real tribute to him that the tax community honors him with this symposium.

Don wanted to be here today but he had an accident that injured his foot and so he's unable to show up here. He's out of commission for a few weeks but Joe Guttentag will have to say a few words on behalf of Don.

MR. GUTTENTAG: Thank you, Mark. I'm Joe Guttentag. Don sent me a note and asked me to read it to you. Dear friends. I'm sorry not to be with you physically thought I'm connected through a link. Unfortunately, I broke my ankle on Tuesday and am forced to recuperate at home. I will really miss being present in person because the topic is one of great interest and important and one we in the tax policy world treat more marginally than warranted. I am grateful for associating my name with this second annual event. I hope it is not to honor my contributions, they only result from the many lawyers and economists more capable than I who made my stays at the Office of Tax Policy, the most capable operation I could ever have dreamed of being a part.

One thing, however, leads me to be happy with associating my name with this program. That is my desire to proclaim the tax experts and the tax paying public, the contribution of the Tax Policy Center to enlightenment it furnishes to the tax world, the governments, federal and state and the public. It does this by furnishing impartial and thoroughly accurate data and analysis, necessary in the making of

tax policy that to the extent possible, can combine the past to simplicity, equity and economic growth.

MR. MAZUR: Don, thanks for that. I know you're watching on the webcast and thanks to you Don, for tax policy in general. There's a couple of housekeeping items that I want to mention today. One is, we really encourage audience participation. So, during the Q&A portion today, they'll be folks going around with microphones. You should all feel free to grab one and ask a question or make a comment. Similarly, for folks who are watching the webcast, you can connect with us via Twitter using the #TaxFacts. I think that about covers the housekeeping portions for today.

Let me introduce our keynote speaker, Vanessa Williamson. She's a fellow in Governance Studies at Brookings Institution. Vanessa has been studying perceptions of the tax system for several years. Recently, released a book entitled, "Read My Lips: Why Americans are Proud to Pay Taxes." And also, just conducted a survey quiz in conjunction with box.com that generated some interesting data that she'll share with us today.

Personally, I find this topic fascinating. Paying taxes is an annual ritual that pretty much every household in America goes through. Way more people pay taxes than vote and so it is one of the few things that as a country we share and it kind of knits us together. So, having Vanessa here to talk about that really I was just delighted by that. I'm looking forward to having her help shed some light on these important issues and relationships. So, please join me in welcoming Vanessa Williamson here today.

MS. WILLIAMSON: Thank you all for having me today. So, I'm really looking forward to talking to you a little bit, both about new research and some work I've been doing before that on the question of tax fairness. So, the question I want to talk to you about is this one. What makes taxes seem fair to members of the general public as opposed to say let's say tax policy professionals and experts like folks in this room. But as a general rule, there are several reasons I think this question is important. You might want, for instance, people to feel good about the tax paying process for reasons of fiscal sustainability. It would be great if taxpaying were not such a controversial issue, that the federal government and states and cities see large fluctuations in their budget as taxes become very controversial and you have sudden shifts in tax rates or base.

You might also think it is an important question just because at the end of the day,

wouldn't you like it to be the case that people living in a democracy are relatively happy about the public policies that affect them as taxes certainly do. And then finally, to the extent that you think of attitudes about taxes as a kind of referendum on government, because this is the money people are chipping in to make that government run. So, people's attitudes about that, whether that expense is worth paying or whether that money is being used well or whether it is being collected fairly, these are questions you might think are just important from the perspective of democratic accountability.

So, this is a question I think a lot about and I think about it in two parts. The first one is, what values do Americans want to see guiding tax policy. What do they think are the principles that would make tax policy seem fair. For instance, do they think that taxes should be progressive. Do they think that rich people should pay a larger percentage, not just a larger amount. Or do you think another way of thinking about that you might say, do you think we should be putting taxes on things that we don't like, like cigarettes or alcohol, something like that so that what taxes really are, are a way to limit behavior that we disapprove of. So, are those values that people want to see implemented or which values do people want to see implemented in their tax policy.

The other question, of course, is what facts about tax policy do people actually have to work with when they're making evaluations of public policy. I think this is, of course, on an issue like taxation which is so complicated, a really difficult barrier between people's values and their policy preferences. It's sometimes hard for people to see which policies would actually implement the values even if they're clear about what principles they think should guide tax policy.

So, one way to think about a value that might guide tax policies is a very common one when we talk professionally about tax policy is a benefit principle. And this is the idea that one's tax cost should be more or less equal and ideally less than the benefits one receives from government. Now, there are some theoretical issues with actually evaluating whether you're getting value for your money in a consumer perspective. And two of them I'll just talk briefly about. First of all, obviously when taxes pay for public goods, things like roads and clean air and clean water and I think it is reasonable to think that that's hard to value. Particularly I'd imagine, hard for average people busy with their lives to think about how to value those kinds of things. And secondly, of course, and this is sort of the conundrum in taxation, the tax system, one of the things it provides is the money that operates our legal system which protects

property rights. So, you get a little recursion problem when you're thinking about the value of taxes. One of the things it does it protect the total property that you have. So, without the taxes, how much of that property would you maintain if you really imagined no taxes at all. So, there is a little recursion problem when you're thinking about a benefit principle of taxation. But this is a very common way to think about taxes. The same way I buy something at the store, am I getting value for my money, am I getting value for my taxes.

So, there's been some research on this question and the evidence, I think, is mixed. In terms of to what extent we can identify people using a benefit principle to evaluate their taxes. Sometimes it seems to be pretty clearly there in the data and sometimes it's not. There are two examples that, I think, have gotten a little bit of attention. One, is the idea of a federal tax receipt. The White House ran something like this on their website for a long time. You put in the amount that you pay in taxes and it spits out the federal budget that shows you approximately where each of those dollars went, if it was split evenly across the federal budget. There have been some experiments done to see what effect that has on people's attitudes, either their knowledge, first of all about what government does or their attitudes about whether they think their taxes are used well and there have been really very limited results, even on the knowledge portion of that. So, that hasn't been a huge success but maybe it just needs to be done better, that's always possible. You need to present information more clearly. That could be one of the limitations.

Where you have seen, some real success is in social security receipts. Some of you may remember at one point receiving a green piece of paper that told you about the contributions you had made to the social security fund and what benefits you were likely to receive when you retire. So, one of the neat things about that, and some of you may already know this, that was rolled out a randomized experiment so you could really measure what it did for people's knowledge of social security. And they found that those receipts both increased people's knowledge about the social security program, how it works and their own benefits but also their confidence in the system. So that was a real win.

So, when it comes to thinking about a benefit principle, there's some evidence that you can have an impact that way. But there is another way of thinking about taxes which actually what more of my work is on. And, I think, sometimes, of course, because it's my work, I think more people should

think of things this way. And that value is ethical reciprocity. This is an idea Margaret Levy talks about but it is the idea that you're willing to do your part, your sort of civic duty, when you think other people are also chipping in a fair share. So, this treats taxpaying less like a consumer interaction where you're like looking at the cost of the car deciding whether it's worth it to you to buy and more like something like military service. So, that you're thinking, well there's this big task that we as a country need to do, I'll do my part. But if I see everyone else skipping out, maybe I'll free ride too. So, it is sort of the collective action, free rider problem, more than the basic straightforward consumer interaction, individualized consumer interaction.

Now there's some evidence in the tax compliance literature that this matters. If you look cross nationally, there's a relationship certainly between people's sense of tax morale and the level of compliance in the country. Although, of course, the withholding system and the enforcement of the IRS are also, of course, critically important to tax compliance. But there is some evidence that tax morale matters too, that your sense that this is a civic norm, that this is a social norm that we all share that we're all going to do our and pay taxes, to the extent that that is agreed upon by the population of the country. It does help predict a little bit what actual tax compliance we see.

And in the United States, tax morale is very high. Americans are exceptionally committed to the idea that tax paying is a civic duty. On the bottom, you can see it is about 40 years of survey data going back to the early 80's and the Y axis is just the percentage of respondents who agree or disagree with the statement. And these are all questions about the civic duty of taxpaying. So, for instance, the little line of D's at the top are the idea of whether you agree that it's every Americans civic duty to pay their fair share of taxes. Some of the others are phrased in the opposite form so they're saying, well the government wastes a lot of money so it's really not that bad to hold back a little on your taxes. This is the percentage of people that disagree with that statement.

And what you find is, first of all, real consistency over 40 years across question wordings, across survey firms and also very, very high agreements. So, 80 and 90 percent of people agreeing with the idea that taxpaying is an important civic duty, no, it is not okay to hold back even if I give you an excuse in the question. So, this idea, if we think of taxpaying as a civic duty more like military service, it is a little bit of evidence that maybe ethical reciprocity, this idea of I'll chip in if you chip in, is underlying

people's tax attitudes or it might be worth trying to look at.

Another piece of data that suggests that ethical reciprocity might be a way to think about tax fairness is this question. This question get asked very regularly, this happens to be a queue question from 2015. They asked, what bothers you the most about taxes. Now, in the full sample, about 14 percent said nothing bothered them a lot about taxes so they got dropped. This is among the 86 percent of people who were bothered a lot by at least something. And you'll see, it's probably a little hard to read because the screen is divided but the two big columns on the left say, the feeling that corporations don't pay their fair share and then the feeling that the wealthy don't pay their fair share. And then the amount you actually pay in taxes is the fourth column, only about 8 percent of respondents thought that the amount that they actually personally paid in taxes was the thing that really bothered them about taxes. And then you'll see in the last column is the 5 percent which is just to the right of the amount you pay is the feeling that poor people aren't paying their fair share.

So, if you ask people what bothers them the most about taxes, the thing that really motivates a lot of people is about two thirds of respondents, in total, is the idea that someone else isn't chipping in. So, it suggests to me that we should think a little more about this possibility that ethical reciprocity or is everyone else doing their part is an important part of people's considerations, not just the benefits they get from government.

So, that was the value section, now let's talk about the facts. Of course, this is hard. Tax policy is hard or else we would not all have jobs working on that kind of question. And it is very common for people to have misconceptions about the tax code and in particular in my research, I think people have a huge limitation in their understanding of how different taxes affect Americans across the income distribution. So, I'll talk about two reasons you see that. One thing is, people tend to confuse hassle with cost. So, the federal income tax is a lot of hassle but it is not a lot of cost to most Americans, certainly the bottom half of the income distribution. But that bottom half of the income distribution feels just as hassled by the income tax process as everyone else. So, there tends to be a confusion there, so people focus on the federal income tax a little bit more than would really make sense if they were just thinking about which taxes costs them the most because the payroll tax and the sales tax are very expensive for a lot of people in the lower half of the income spectrum.

And then, of course, the federal income tax is very politically prominent as well. So, you've got both the daily experiential thing drawing your attention to the federal income tax, the sort of, tax season and then alongside that, of course, the federal income tax is the thing that people on TV and politicians talk about a lot more, at least at a national level, than all the other taxes that people pay.

So, I'll just give you one specific example of how the experience of taxpaying can mislead people about how the income distribution is affected by a particular tax. So, on the sales tax, there's a substantial percentage of people who misunderstand the sales tax as a progressive tax when, in fact, typically not that it can't be a progressive tax but typically in the United States it is not. It falls more heavily on low income people than high income people.

But if you ask people about how the sales tax affects people at different income levels, lower income people know that it is very expensive to them personally, unsurprisingly. They're watching their pennies at the register. But once you're in the middle class or above, you don't really think about the sales tax. It doesn't feel very prominent. An extra dollar or two here or there doesn't really matter. Except, when you buy something expensive. If you bought a really fancy pair of shoes, a computer, a car, then suddenly 7 percent sales tax, wow is that a big number. So, because people have this experience, it's common for people when they're trying to figure out and this I found through open ended surveys and also through interviews. When they're trying to think through, okay, I've never really thought about who pays a lot in sales tax. Well, it was expensive to me when I bought something expensive so it must be expensive to the wealthy. Now, that's not a failure of basic math which is reassuring. It's not a numeracy problem, it's a failure to recognize that failure to recognize that consumption and income don't scale together. As you become more high earning, you consume less of your income and you save more basically. But people don't recognize that basic reality and so they misunderstand the impact of the sales tax.

So, there are these mistakes people have that make it hard for them to identify what policies they should support given their values. So, if you think that the sales tax falls heavily on the wealthy and you think the wealthy should pay more which is a common thing to believe, then you're likely to think a national sales tax might be the way to go to make sure that the wealthy people pay their share. When, in fact, it would be quite likely that such a policy would do the opposite of what you wanted to see.



So, I'm interested in this question that if you give people facts, does it change their attitudes about fairness. So, the Tax Policy Center has worked with Vox in the past when we were chatting about do you want to do a tax policy quiz for tax day. Wouldn't that be fun. I thought to myself, why don't we put an experiment in there. Because then you don't just find out the overall answers of what do people who go to the people who go to the Vox website know about taxes but you also get a little bit of information about how people like Vox viewers, our readers would feel differently if they had different information. So, we worked with Vox to do an online quiz and it contained in it an experiment. I'll explain how that worked in a second. It would have looked like this if you want to the website. You got to play what looks a little bit like tax jeopardy. And here's how the experiment actually worked. Every participant answered four fact questions and four opinion questions but not everyone got the same questions. So, we specifically set up the questions to draw your attention to different parts of the tax code and I'll show you that in a minute.

So, people were randomly assigned which is the crucial part of this. So, they are similar, on average, except for the fact that they got a different set of questions at random, to one of five groups. Either the control group, which is the people who answered the opinion questions first meaning that they answered the opinion questions with whatever facts they had in their head already about taxes or one of four treatment groups. So, these are the people who answered some fact questions before they go to the opinion section. And here were those four groups.

One set of respondents got a set of questions intended to emphasize that high income people pay a lot in taxes. One group got a set of questions designed to think that high-income people pay little in taxes. One group of people got a set of questions that focused on taxes effecting low-income people and implied that low-income people pay a lot and the last set of questions asked people about things that tend to be tax breaks for low income people. So, implying that poor people pay a little bit.

Now, all of these facts are accurate, of course. I'm just drawing your attention to different parts of the tax code, so that looked like this. If I want to make you think that high-income people pay a lot in taxes, we can talk about marginal rates. If I want to make you think that low income people pay a little in taxes I can draw your attention to loop holes. If I want to make you think that low-income people pay a lot in taxes, we'll talk about grocery taxes. And last, if I want to make you think that low income

people don't pay much in taxes, let's talk about the earned income tax credit which is a refundable tax credit for low to moderate income families. So, if I draw your attention to these different parts of the tax code, I might be able to change your ideas.

Here's what we found. First of all, tax facts matter. And I thought that was great news. We could shift people's opinions by showing them different questions but interestingly at least for the Vox audience questions about low income people mattered more, the questions about high income people didn't make much of a difference and I'll show you that in a second. Secondly, tax fairness works like a seesaw and I'll talk to you about what that means. And then finally, which is the little bit of the bleakest piece of news, ignorance might be bliss. We talked about at the beginning about the idea that what we want people to be is both informed about the tax paying process and also happy. Those may not come together in one clean package.

Okay, tax facts matter. So, we asked several opinion questions but I'm going to talk to you right now about people's assessment of their own tax fairness. So, we gave them information about different parts of the tax code and then we asked them if they saw their own taxes as fair. What you see here is the mean is 54 percent. 54 percent of people at any of the combined together. 54 percent of the respondents thought that their taxes were fair. But if we showed you questions about low income people paying relatively high tax rates, so I talked to you about grocery taxes, that reduced people's sense of their own tax fairness. By contrast, if I talked to you about ways that low-income people get tax breaks, things like the earned income tax credit, that actually increased people's sense of their own tax fairness about four percent higher. And I should say that for a survey experiment, these are quite large effects. I spent the entire week very nervous we weren't going to see anything while we were running the experiment but these are quite noticeable effects.

By contrast, higher income people, whether I talked to you about them paying low taxes or high taxes had relatively small impact. I can talk to you a little bit about why, but let me go through the results. Fairness is a seesaw. Interestingly, if I focused your attention with these questions on questions that make taxes on the poor seem high, people responded by thinking that taxes on the rich must be too low. So, you think one end is high the other end must be low. I'll show you that in specific. Overall, 42 percent of Vox respondents in the control group, the ones that had not seen any extra facts, thought that

high-income people pay too little in taxes. This is a bit higher than the American public as a whole. Somewhere in the sixties it normally is but Vox readers are unsurprisingly leaning a little on the left. So, 82 percent of Vox respondents thought high income people are not paying enough. That went up to 86 percent if I talked to you about loop holes and things like that. So, I got an effect there as you would expect. I talked to you about ways that high-income people don't pay that much in taxes, you responded by thinking high income people should pay more.

But I actually got not that much of a larger effect but technically a larger effect if I talked to you not about what high income pay at all. I only talk to you with these questions about the taxes paid by low-income people. So, people got not extra information than they already came in with about high earners and their taxes. If I talked to you about things like the grocery tax it made you think that even more than me talking directly about high earners, it made you think that rich people should pay more.

Last point before I close out here. Ignorance might be bliss. Before we talking about the difference in people's sense of fairness among these four groups. I've now added an extra bar with is the control group. And what you can see if the bar on the left, which is the control group, had the highest assessments of fairness of any of the quizzes. So, if I gave you no information about tax policy whatsoever, you thought taxes were fairer than if I gave you any information at all. Not great news but there are some ways to think about this that I think are important.

First of all, I gave you a very hard tax quiz. Maybe people felt down because it was hard even if they did well. Although I looked at people who did well and they were not as happy as the control group either. But maybe just having to answer some hard questions, it put you in more of a negative mood. That's one thing. Or maybe, I may be that the questions didn't make you think about taxes only, it made you think about income inequality. So, maybe you think that everything is less fair if I've reminded you that very wealthy people are doing this or that very poor people are doing that. So, it may be that these other considerations are the thing that really make the difference. But, we should take into account the possibility that informing people and making people happy are not the same activity.

I want to talk quickly about the limitations and we should talk more about this but I should wrap up. Vox readers, you will be shocked to discover, are not a random sample of Americans. They are on average, wealthier, more liberal and the quiz takers, even though this is not true of the Vox readership

as a whole, were substantially more male than female. Of course, the strangest thing about them is that they were willing to take a tax policy quiz. So, this is an unusual group. My instinct with it was that we were going to find pretty small effects because these have to be people who are either very well informed about taxes or misinformed but sure that they know about taxes. But we got quite large effects.

The two main questions I have is one, whether conservatives would respond differently. And I talked to you about how the low income taxpayers, people liked finding out that low income people don't pay much in taxes and were upset to find out that low income people pay a lot in taxes. It lowered their sense of fairness, that second option. It might be that conservatives have a reverse view. It might be that conservatives are primarily in that group that think poor people should pay more in taxes that I showed you at the beginning. So, you might actually see a switch there.

But I think the interesting thing is the possibility that most people don't think about taxes paid by low income people at all. So, that's why you saw those things matter. People have pretty strong opinions about whether rich people need to pay more. That is a politically contested issue. People have a strong partisan view on it. People might not think as much about taxes that affect the low-income people. So, I think conservatives might respond differently but I would still expect most of the difference to come at the low income side of the spectrum.

Finally, would less engaged people respond differently. As I told you, I was worried we weren't going to see enough of an effect because these were people with strong opinions. I still think that in a group with less strongly held opinions, you might even see a larger effect. But that's a hypothesis. So, my next step is definitely to run a similar survey experiment. Not as much of a quiz and not as cute of graphics because I'm not Vox. But a similar kind of experiment in a nationally representative sample. Actually, I've begun doing that now. That's being fielded starting this week so I will be able to report back to you more information about this kind of question in a few months. Thank you very much.

MR. MAZUR: Thanks for that presentation. That was very informative and the results you got out of the survey bring a bunch of questions to mind. So, I just want to go through a couple of them and then I'll turn it over to the crowd for additional ones. As you mentioned, just about everybody who is economically active in the population, files a tax return. That means they interact with their government at least once a year when they complete this tax return. What are the top words or phrases

that describe how people feel about that interaction?

MS. WILLIAMSON: So, I think that people have several conflicting ideas in their head when they're thinking about taxes. One, is that people see being a taxpayer as an important part of their civic obligation. It is part of being a good citizen. You'll recognize this in popular speech. How often have you heard someone say, well I pay my taxes. I'm a taxpayer. This is strange because it describes basically literally anyone engaging in a market economy. It is a funny place to put your chips. But people in America in particular see tax paying as something that is evidence of being a good citizen. Someone who contributes to their community. So, that is one consideration people have when they're paying their taxes.

Of course, the other and so it is a little bit about who's in their community and who is out. Because what they want is to be able to pay their taxes to support their community but some of us don't see that everyone in America should be part of the community, so there's that tension.

The other tension, of course, is attitudes about the government and whether you think the government is behaving correctly with your taxes. So, unfortunately, the federal income tax while on the one hand it is this direct interaction with government which I think is really important for people to have as citizens, the opportunity to recognize that the government plays an important role in their lives and that they should be able to judge the quality of that government and respond to it because it is a democracy. The information they get from the tax paying process is not always very positive. This is an arcane process, this is confusing. Also, people often have very negative ideas and the IRS which the IRS becomes a symbol of government overreach and governments intrusion into your life.

So, on the one hand, they have this very positive view. That's why I call my book, "Why Americans are Proud to Pay Taxes." Because they see tax paying as this important civic responsibility. On the other hand, the federal income tax paying process draws people's attention to the confusion that government, the lack of clarity and particularly the idea that wealthier people or people with special fancy lawyers can look at this tax form and make magic occur and not pay any taxes while I look at it and get confused and worried. So, it gives them a sense that government doesn't work equally for everyone.

MR. MAZUR: So, one point that you made in the presentation was this idea that on the one hand, we sometimes think about people who are participating in a tax system as almost being like

part of a purchasing co-op. We put money in and we get some goods and services out. And then you mentioned the experiment the Obama administration did with the tax receipt. You said the evidence was a little mixed as to what the value of that was. Do people not really know what they're purchasing and giving them that information does that help them?

MS. WILLIAMSON: So, yes there are -- I spoke primarily on the tax side but on the spending side there is massive misinformation in terms of where tax money goes. As a general rule, people feel very good about money that is spent locally, that they can see in their communities has a physical presence. So, roads, schools, hospitals, bridges, all infrastructure. And then to the extent they remember things like the sewer system and clean water. If they recall those things, they really like them but they don't always remember those things. So, that's what is really popular.

But at the very bottom, the least popular things are two things. Anything that might, bailouts, corporate aid, corporate tax breaks, no one ever mentions those except to say they don't like them and then foreign aid is the other thing that basically no one mentions unless they don't like it. I should be clear that when many people talk about foreign aid they do not mean what policy makers mean by foreign aid, which is a very limited part of the budget. They see a blurrier line between official foreign aid and foreign military interventions that are described in humanitarian terms. So, people do hugely overestimate the foreign aid budget but that overestimation is not as large as you think because people are also, they're not really clear on where the line is between the foreign aid that goes to a place like Afghanistan and the military investment that goes to a place like that. That, to some extent, is reasonable. It's a clear line in the budget but it is not a clear line on the ground and it is not a clear line from the average viewer's perspective. So, yes, people have misconceptions.

Then there is the third category which is most of the welfare state. So, this is healthcare, this is aid to the poor. Also, military spending to some extent is kind of a mixed bag for people. So, on those things, you really find, first of all partisan divides and you also find far more focus on aid to the poor than is really in line with the budgetary cost of those things. Like separating out social security and Medicare, which are seen differently by the public but what most people in the public might describe as welfare but we would describe as a bunch of separate programs that are means tested. Those things come in for more attention than anything else including roads and schools and people have very mixed feelings

about.

MR. MAZUR: Changing gears a little bit. In the olden days, people would sit at their kitchen table with a pencil and paper and do their tax return by hand. Now half the people go to a paid preparer and another third use software. Has that changed the basic experience of paying taxes?

MS. WILLIAMSON: My instinct is that it definitely does. I wish that I could have been there recording the data along the way to actually demonstrate.

MR. MAZUR: You're nowhere near old enough.

MS. WILLIAMSON: I'm afraid so. One of the things that I think, so marginal rates are very poorly understood. The idea that your income is taxed only above the bracket, the income below is a bracket is taxed at that bracket level. The income above a bracket level is taxed at a new rate but it doesn't apply to your whole income. That is very poorly understood. Back when you had to look it up in a table, it's possible that would have been clearer. Now it's not completely certain but I think that that's one thing that may have gotten lost a little bit when you just type some numbers into software and it spits out an answer and you need to send in \$100 or you get \$100 back or whatever it is. You lose a little bit of that connection to what rates mean and the extent to which rates matter.

MR. MAZUR: There is one thing the Tax Policy Center spent a fair amount of time on over the years is the alternative minimum tax. If you go back to the pencil and paper days it would be almost impossible for someone to comply with the alternative minimum tax that way. Now on software, using software, you put a bunch of information in and an answer spits out without you ever having to navigate your way through that. Does that affect the way people feel about the complexity of a provision?

MS. WILLIAMSON: Yes definitely I think that having it be a black box is not great for democratic accountability and I think it's not great for people's sense of how these things work. Particularly, because it is all mediated through your accountant or some software. It is not even, the government part of it becomes less and less visible, I think, over time. I think that that is a real challenge for people to identify particularly when we try and do social policy to the tax code, for people to identify what things benefit them. I think that that's a real problem and a bunch of other scholars have made this point too. Social security is clear to people because you get a check. You start doing things distantly through manipulating the economy which may be the efficient way to have particular benefits occur. If

people can't identify those benefits and support them, then the democratic process isn't really operating the way you'd like it to. So, yes, I think that's very problematic.

MR. MAZUR: Based on your work, when people file their taxes, do they try to do the right thing? Do you have 80 or 90 percent of people saying it is important to pay your fair share. Do they try to do the right thing or do they misreport a little bit so that they reduce their taxes but they don't misreport enough that they call an audit upon themselves.

MS. WILLIAMSON: Most people have almost no impact on how their taxes get done because they work for wages or salary and it is withheld and there's not great room to maneuver if what you wanted to do is avoid paying your taxes. Frankly, it is quite difficult for salaried employees to do that. Remember, most people don't even itemize. There's not much room for most people to have much impact on their own tax compliance at the end of the day.

I found a variety of attitudes, and I can't apply, not being the IRS I can't actually interpret whether people are telling me accurately about their tax paying experiences. There were a small number of people who saw the tax paying process as a puzzle that they liked to solve. This is not personally my attitude, I find it very hard to understand. This was like, I'm going to try and think through all the ways that I can put in -- and not to do anything illegal by any stretch of the imagination but they liked to think the process through and find all the ways to win at what they felt was like a game.

Far more common than that attitude I have found is must wanting to get it done and get it done right and have it be over. That was, by far, the most common reaction. And particularly because when people file their own taxes, they have to remember what they think of as sort of a general category as their loop holes. That's at every income level because of things like the earned income tax credit, the child tax credit, you have to remember these very specific provisions that will make a big difference for you. Remembering your EITC makes a big difference for you. Remembering your home mortgage makes a big difference for your taxes. You don't have to remember or even think at all about rates.

So, unfortunately, one of the impacts of that is that it leaves people thinking that loop holes are the only thing that matter for the tax code and they discount the effect of the graduated income tax. The graduated income tax is, of course, very important. It achieves quite a lot of progressivity particularly compared to other countries. So, I think that people filing their income taxes, I think the most common



opinion is just to want to get it done right and have it be done. But the experience reminds them that tax paying is a game that can be played and there's someone out there playing it better and that's unfair.

MR. MAZUR: So, in terms of the tax administration agency, you talked a little bit about tax morale and how improvement in tax morale could leave to improvement in tax compliance. What are the two or three things that the tax administration or the IRS could do to improve tax morale in the United States?

MS. WILLIAMSON: Well, I certainly think that to the extent that you can make easier for people to file their income taxes you are making Americans a lot happier. Because as I said, people confuse hassle and cost and the income tax is a hassle. For many people, it needn't be because their taxes are really very simple from an administrator's perspective but very complicated from an individual perspective, so that's one thing.

Another thing that I think and this is something I've been trying to maybe test out is giving people the opportunity when they file their taxes to almost remind them, oh do you need update your voter registration, have you registered to vote. Because as you mentioned right at the beginning there's this huge gap between the percentage of people who file their taxes and the percentage of people who vote. Now obviously, there are people who file taxes who shouldn't vote but they also go to the DMV and get their driver's license and are reminded to register to vote. So, I think like motor voter we could have something like filer voter because you're already interacting with government, you're already filling out a form. You're already thinking about how government matters to you. You're either getting a refund that year or you're paying in, you're reminded that government is very important for your daily life. Whether you're angry or happy about that, it's a great time in my estimation. It would be a great time to remind people that they have a say. Not a big say but a very small say but a say in the policies that are affecting their lives. So, to me, what I would love to see and I'm going to attempt to do this experimentally in the next year is test out whether reminding people to register to vote in the Spring, helps them actually get out there and make decisions about the country that they live in in the fall.

MR. MAZUR: And so, one last question on this. You talked a little bit about the connection of filing a tax return to voting in this case. We've seen a lot of people on the financial literacy side of the world want to connect the time of tax filing with other things like signing up for a retirement

account, saving, doing some of that. How effective are those activities?

MS. WILLIAMSON: I think there's been mixed success. Some have shown real success and some are less so. One of the challenges is particularly there has been a lot of economic uncertainty in the last few years and people are in a different position in terms of their capacity. When economic uncertainty is high, certain things become harder for people. But I think in general, it's clearly, a lot of people want to use this moment because it is an unusual moment. You're thinking about your finances, you're thinking about your government and while, of course, the process should be easier and better, I would not want to eliminate their being a couple of days out of the year where Americans think about these questions. I would like it to be a time where they have better information to work with, better information to use to make these important financial and political decisions. But I don't think, I wouldn't want it to just disappear at all. I think this is a moment that we should be harnessing to improve not only people's financial health but also their capacity to act as citizens.

MR. MAZUR: Well, I'm enjoying this conversation but I think I should let other people enter it as well. So, I'd like to open things up for questions from the audience. If you have a question, just raise your hand and we'll try to get a microphone over to you. We have a question up here in the front.

MR. BERMAN: I'm Len Berman. You talked a little bit about compliance and the fact that wage and salary workers obviously can't under report their income and get away with it. We see the compliance very high with them. Compliance is very low for self-employed people and the IRS has -- Congress has been cutting the IRS's budget for decades now and the audit rates are really, really low. If people see taxes as a civic responsibility, could politicians actually win public support by actually pushing more audits to get people who are known to have non-compliance to pay more, to pay their fair share.

MS. WILLIAMSON: I think this is a critical question. The public vision of the IRS was so - - in my interview, the public vision of the IRS is very strange. On the one hand, people who had actually interacted with the IRS had views ranging from, I would say, annoyance to genuine surprise that they had been really helpful. That was the range of views. They were not particularly bold views, they were like, oh yes, I had to call and ask about this particular X, Y, Z thing this one time.

But when people talked about the IRS in principle or at large, let's say, several people referred to them as the men in black. There's a vision of what the IRS is symbolically. Some people

would say, and I know I'm being extreme here, this isn't accurate. But when you ask people about the IRS what I think of are the men in black. So, the IRS becomes this symbol of a government that works on behalf of someone else and has unfair leverage over you, the little people. I think that that's so terrible for fiscal policy but more broadly for the country as a whole. So, I think absolutely, underfunding the IRS really undercuts people's capacity to have faith in this critical shared value. So, when we make it seem more arbitrary than it is and when we make it seem like these rules aren't being applied fairly or that the rules themselves are unfair, I think it is really dangerous.

So, one of the problems is that if you actually did things that were practically better, that you audited more in particular categories, I think it would be very difficult to get that information through to the public because you're operating with this idea of what the agency is that's so -- and it's funny that people would admit that that vision of the agency was probably quite unfair and actually it probably was people working their offices trying to do the right thing. But the vision of the agency is so negative. I think it would be really hard to get facts through that symbolism.

MR. MAZUR: Okay, another question back there.

QUESTIONER: Okay maybe it's a two-part question. Most Americans when they file at tax time are getting money back from the IRS, they're not paying. So, one is kind of, how do people's perceptions of what they pay depend on how much they pay at tax time or how much their actual tax payments are over the year. A related question is, when they get refunds do they distinguish between refunds that come because withholding is coming back or refunds that come from something like the earned income tax credit.

MS. WILLIAMSON: Yeah, that's great. I'll take your second part first. I found mixed results first. People who got a lot back, tended to know. In fact, they saw it as something like a savings account. Several surveys I've run have asked about people's perception of the earned income tax credit and whether they've received it. Of course, I'd have to use their demographics to assess whether it's likely they did receive the EITC. But people, I found, were generally pretty accurate about that. It was typically low to moderate income people with children or adult children who remember having received this credit. A lot of them saw it as a moment when they could catch up on bills that had accrued over winter especially if you lived somewhere that was cold, so you had utility bills. Or they would set that

money aside for college savings or something like this. So, people at the lower end I thought that that was something that people really did recognize was a benefit. But I think if you're more near the edge where it's not a large benefit, I think it's probably less clear to you.

One thing that I know that is done and I don't know how systematically it's done but I know that it's done at least enough that it shows up in interviews is people try and get as much withheld as possible so that check at the end of the year is as big as possible so they really are using it as a method of savings which may not be most economically efficient. But also, when you're taking into account for people who are living very near their full income, the idea of having to come up with \$250 all of the sudden would be really painful. So, they'd much rather just end up getting a very large check all at once and be absolutely totally confident that they haven't even put on the form that they have children so it's a really large check that they're getting at the end of the year.

I think for people for whom the EITC is an important financial thing that gets them through the year, people tend to be aware that they're getting money back and it's not just the amount they paid in. Less clear are the margins. And then I found that it's not entirely obvious for people who aren't receiving EITC, that is refundable. That was not always clear. Some people knew that but many people did not. You just thought you got your money back.

On the first part of your question, let me give you an example. There's a woman who was very good with her own budget. It is very rare for people who want to do math on the spot in conversation, even I don't like doing that. This was a woman who we were talking about. She was a low income woman, she received the EITC, knew she was getting the EITC and knew that next year she was going to buy a dryer. She was prepared for when she was getting that money back. She had two kids and working several part time jobs to make it all hold together. So, she was quite good at math. I, at one point, actually asked her, for instance, because worked out percentages in her head. Have you ever thought about how much you pay in grocery tax because she lives in a state that had grocery taxes. And she worked out that math on the top of her head. So, this is someone, by any standard was mathematically perfectly competent, when I asked her whether she thought tax rates should be progressive or like a flat tax, she said, oh, I think a flat tax would be fairer but then what you get back should be based on your income.

And I see the logic. I see it, that there'd be a flat amount of tax taken out from everyone and then your refund would be based on -- so I think there is some confusion around this issue even among people with relatively high mathematical aptitudes. So, I think that that is a source of confusion, for sure.

MR. MAZUR: We have one here and then the woman in the front.

MR CHECCO: Thank you very much. Larry Checco. I wonder how much language has to play in all of this. For example, we see taxes as a burden. What if people started to see taxes as an investment in their country rather than as a burden. And it would be up to the government to figure out the ROI. Am I getting a good return on my investment. But I think on the issue of fairness, I think why people get really upset about the tax system is that you have a President, for example, who want to pay as little tax as he can and he's driving around in a big plane. Now, that's an extreme example but my point is, is that why do I want to let people who don't want to pay their fair share in taxes, drive on my roads, go to my public schools, play in my public parks, breathe my clean air, and on and on. I'm paying my taxes for that and I want to make sure that there's -- if not, go to the Cayman Islands and live.

MS. WILLIAMSON: Yeah I think there are several important things I want to follow up with on that. One is, a survey question that I've asked a few times now is, what percentage of U.S. adults do you think are taxpayers. Now people who live in institutions maybe don't really interact with the market economy but more or less. Almost everyone is a taxpayer in some sense of the term who is an adult whoever buys anything and puts gas in their car, has a job and owns property. All of these things make you a taxpayer. So, you find that there's a spike at 50 percent for Republicans. People see that statistic about 47 percent of Americans don't pay federal income tax get remembered as half of Americans don't pay taxes. But even among Democrats, the average percentage of people they saw as taxpayers was somewhere between 60 and 70 percent.

So, that is a substantial gap between how many people at the end of the day paying taxes and the symbolic resonance of being taxpayer and paying your federal income tax as the tax that really counts and makes you a taxpayer. What's interesting is that even among just conservative Republicans, people who estimated the taxpaying population to be smaller were vastly more likely to, when I asked an open ended question what upsets you about government spending. When I asked you

that opened ended question, they were vastly more likely to say either welfare or name of means tested program. The larger they thought the taxpaying population, the less likely they were to name a means tested program as something they disliked. So, I think people are operating with that sense. If I don't think you're chipping in, no you don't deserve to benefit from the things that we're all supposed to be paying for together.

Now, on the first point about Donald Trump, I actually think it is a really interesting political moment because it is not that common for -- although there's a fair amount of anti-tax rhetoric in political talk in general and the Republican party certainly is at a very strong policy platform about lowering the income tax, disliking the income tax for a very long time. The idea that you personally, as a candidate are going to say that you try and pay as little and possible and it's smart not to pay, that's actually an unusual piece of rhetoric that's out of keeping with tradition in the Republican party.

So, one question traditionally speaking, when I showed you that chart of everyone being up near the top on civic duty, that's Republicans and Democrats. Actually, traditionally, Republicans are more likely to say that taxpaying is a moral responsibility than Democrats, more likely to say civic duty. So, an interesting question for me is whether the data coming out in the next year or so will show that flipping. Now I don't think it will make a huge difference because you're up near the top anyway so the differences are small. I'm talking about a couple of percentage points here. But I think that traditionally speaking, Republicans are more likely to assert taxpaying as a civic responsibility than Democrats. And it's possible you'll see some shift there with the prominence of the president's recent rhetoric on the subject.

MR. MAZUR: Okay.

QUESTIONER: Yes, it's possible that with a national survey you might find that people who are more Republican think that poor people pay to little taxes and people who are more Vox type, think that rich people don't pay enough taxes. But my question is actually about undocumented's who most of whom pay taxes. Often they're paying it with a false social security number. What that really means is that they will never recover any part of that tax payment. That is Cush to the government of whatever. And I wonder if there's a way to factor in to the discussion, the fact that it's possible that undocumented's are actually paying a disproportionately high unrefundable taxes.

MS. WILLIAMSON: So, to talk a little bit about that, that's certainly the case. A lot of undocumented people are using false or someone else's social security number and contributing substantially. Billions of dollars to the social security reserve and other taxes. And, of course, like everyone else, you pay sales tax because you are a resident. Of course, to the extent that undocumented people tend to be lower income which I think is probably likely to be true, they're going to be paying a higher percentage in sales tax than higher income people.

So, that's absolutely factually the case. You are absolutely right to think that it is misunderstood by the public. People tend to think that, first of all, for many people there's a blurry line between undocumented immigrants, recent immigrants of an ethnicity about whom I'm uncomfortable, so there's a blurry line there. So, when I was talking before about taxpaying as a way of support contributing to your community, it is also a way of defining the limits of your community. You see this a little bit with foreign aid. We're raising tax money here and it's going to those people over there who are not our community. That's not where tax money should go, it is certainly not where tax money should be prioritized, a very common way of thinking.

So, whether giving people better information about the taxpaying reality of immigrants in general, who, of course, pay taxes like everyone else. But undocumented immigrants in particular who are contributing to social security would change. Some people have tried to work out the numbers on this about what percentage of people are having their taxes withheld versus being paid. And, of course, people can file your income taxes even if you don't have withholding and that some people do that too.

There's certainly immigrant groups who have worked to encourage people to do that so as to demonstrate how long they've been in the country and that they have been contributing their taxes during this time. So, this is definitely a very active issue. My question is whether sharing those facts with people who have negative views of immigrants and undocumented immigrants in particular would change minds. While I would like to believe that that is true, I am somewhat skeptical. As we were talking before about the IRS, I think that when you have a strong symbolism or emotional reaction to something, when someone comes at you with some facts about it, it's rare that those change your views. It is not impossible but it is a real challenge. I should say that that's a challenge for all of us.

Whenever we're outside of our comfort zone on an issue that is not our expertise and we

have a strong emotional feeling about what's true, someone coming at you with some facts, they bounce off us a little bit as human beings. So, I think it is a real challenge that while that is factually true, I wish I had more confidence that it would make a difference to public attitudes.

MR. MAZUR: A question in the middle of the room here.

MR. MYERS: Hi, Donald Myers. I have a question about tax reform. Over the years, there has been lots of proposals from one -- on a continue in the most extreme case would be, eliminate all deductions, have people fill out a post card with their income and send it in to the IRS. Sounds very simple. Any research done about what the perception of that would be. Would that be a good thing, would people be concerned and worried that various tax benefits they view as benefits like their mortgage deduction, would be taken away even though it's questionable value to the public as well as individual taxpayers.

MS. WILLIAMSON: Right. I said at the beginning that people don't have a good sense of how taxes effect people across the income distribution. Tax expenditures and what would be casually be called loopholes are even worse understood. So, things like the home mortgage interest deduction, the regressivity of that benefit is absolutely beyond the scope of what most people understand about the impact of that policy. I wouldn't say that no one understands, there are very educated people who do but that's not well understood. So, this is a good example of when you do social policy through the tax code, it makes it very hard for people to judge that. In fact, they've done surveys where if you tell people the overall impact of the home mortgage interest deduction, they become much less fond of it as a policy because they don't like that overall impact, even if they like it personally.

But the challenge, I think, with tax reform in general is that the details of policies are hard for people to understand. There is strong incentive for political actors to mislead people. People do not have a good ballast to keep them steady so the less information they have the easier it is to be swayed by the political winds. One thing people dislike very much on the subject of taxation is uncertainty. Though major tax changes are immediately suspect and very reasonable at the end of the day. If you don't feel confident that you understand tax policies now I think it is quite reasonable that major tax reform is something that makes you quite uncomfortable. So, I think one of the things that mattes a lot for tax reform is the political moment and the capacity to get a unified consensus among elite figures that there



are going to be winners and losers but this is, in general, good for us. It also helps to have a budget surplus to be working with to make that comfortable for folks.

The political moment matters a great deal and we do not exist in a political moment right now where first of all, at least consensus across parties is likely. Second, where there is a high level of trust either in government as a whole or in the other party's intentions. Because people don't have a lot of facts to be working with on things like tax reform, all of those things really undermine confidence so it makes it very, very challenging.

Now, I think, on the specific question of having, there has been work done looking at would people like it to get their income tax forms filled out. I think that does tend to appeal to people. Some percentage of people, as long as there was the option of doing your own taxes also, I think if you had no say and couldn't revise the government's estimates obviously I think that would be very upsetting for people. If you're given the option of filling out your taxes but also you could get the form filled out for you, I think that has pulled very well with people. I think they talked about it in California for a while and it was quite a positive idea. But this is the major challenge of trying to conduct any major tax change in a time when trust in government is low and trust between parties is very low. It makes all of these things very challenging.

MR. MAZUR: Well Vanessa, thank you very much for this great conversation. I think it has been very valuable for the audience here and the audience watching via webcast. So, join me in thanking Vanessa. (Applause)

Okay we're ready to resume to the second part of today's event. We're very fortunate to have a very good group here to discuss tax perceptions. We'll have this session moderated by Howard Gleckman. Howard is a senior fellow at the Tax Policy Center. He is an editor of Tax Vox and largely responsible for a big chunk of the high quality content that is available on the Tax Policy Center website. Let me turn it over to Howard for the panel discussion.

MR. GLECKMAN: Okay Mark, thank you very much and good morning everybody. We're going to follow up a little bit on what Vanessa talked about. For the perspective, actually of some public opinion researchers and others who have a little bit of a different perspective. Let me first introduce our panelists. To my far right is Bob Tobias who is distinguished practitioner in residence,

Department of Public Administration and Policy, American University. Bob was also the president of the National Treasury Employees Union and is a member of the IRS oversight board. Karlyn Bowman is a senior fellow at the American Enterprise Institute where she does survey research work. Chris Faricy who was supposed to join us from Syracuse is stuck in Syracuse where it is snowing in April. I'm not even going there. So fortunately, Len Burman has agreed to step in and provide us with a little bit of an economist's perspective on public opinion towards taxes. Len is an institute fellow with the Urban Institute and, of course, was a founder and former director of Tax Policy Center. We'll leave plenty of time after we're talking, for questions from you all.

Let me start with Karlyn who actually has just published an interesting piece in the American Enterprise magazine. Looking back at public opinion in 1986, the last time we tried to do a big tax reform. It is something maybe we could start if Karlyn could talk a little bit about what she found looking back three decades ago at how the public felt about tax reform then and maybe we'll talk a little bit about how they feel about it now.

MS. BOWMAN: Howard, thank you very much. It is a pleasure to be here this morning. My work at AI, skates over a huge amount of public opinion data and is likely to be looking at public attitudes toward the bombing of Syria or President Trump as I am to be looking at tax attitudes. So, I consider myself a kind of dilatant of data as I look over a huge amount of survey data in many areas.

I became particularly interested a long time ago in thinking about tax attitudes. They're obviously very important for the reasons that Vanessa outlined and decided to look back historically at public attitudes. We take no survey at AI, I just rely on data in the public domain to try to make some sense about what people have been saying about tax data. When we have a period of time where you have a significant reform as we did in 1986, you really can look at attitudes in a particularly interesting way. So, what I thought I would do is just say a few words about the differences in similarities in the public mood. As Vanessa said, the political moment matters very much and there's no question that that's true.

In 1986, Ronald Regan's approval rating until Iran Contra in December was above 60 percent in every poll that year. Donald Trump's approval rating at this particular point is in the 38 to 44 percentage point range. That matters, I think, in trying to push a major policy forward. As Vanessa said,

we're much more deeply polarized than we were in 1986 and I think that too, will have an impact on the possibility of tax reform overall.

There have only been three occasions since the 1960's where our attitudes about government turned up and became more positive. After the 2011 tax, after 9/11, attitudes became more positive for a very short period of time. At the end of the Clinton presidency, 1999 - 2000, the economy was humming along, people were very, very positive about the way things were going in the United States. The third period was 1984-1987. I think you all remember it was morning in America. We felt positive about the country. We felt positive about the things that government could do. I think that really matters a great deal on tax reform. It matters in so many other areas. One of the things I've been fascinated in looking at in terms of public attitudes towards rising inequality, the public believes it's real, it's serious and when you ask them in the abstract, of course, people want the government to do something about rising inequality.

But let's take another question just on this one specific example that perhaps puts this issue in a very different perspective. This is a question that has been asked four times by Bloomberg and Stelzer and Company since 2013. In thinking about the gap between the rich and everyone else, do you think it would be better for the government to implement policies designed to shrink the gap or do you think it would be better for the government to stand aside and let the market operate even if the gap gets wider. Four times the questions have been asked virtually identical results on every question. The public is split down the middle. If we had higher confidence in government, would we have more confidence in government to address income inequality, I think it's possible. But certainly, attitudes toward government matter in terms of the success of a major reform like taxes.

If you look at the survey data from 1985 and 1986 and I looked at some of the averages, people were much more satisfied with the way things were going in the country. Part of that was morning in America but let me just give you the comparison to today. In most of the satisfaction questions, satisfaction with the way things are going in the country today between 65 and 72 percent said they were satisfied in 1986. That's 29 percent right now. That's a huge difference in terms of thinking about government policy and moving ahead.

But what was most interesting to me about the tax debate in 1986 was how little

engagement there was in terms of the public. A stunning question asked a week after the debate was over we passed a major tax reform build, parties working together, took a long period of time. Two-thirds of Americans told Money Magazine in a poll that they didn't know enough about it to have an opinion. They have been hearing so much about it for weeks. We're not deeply engaged on these issues overall.

But that may give Trump perhaps some running room here and let me explain what I mean. He has something going for him that's very important going forward in thinking about tax reform. When people are asked in poll after poll as they had been since he became president, what's the most important thing that Trump could do for you, for the country going ahead, what's the most important thing. That question was asked in a lot of different ways. And the answer is almost consistently, create more jobs. Correctly or incorrectly in the handful of questions and right now we only have about ten questions on this since Trump has become president, people think that somehow reforming the tax code will do something to create more jobs.

One final point about tax reform and tax changes versus something like healthcare. It was interesting to me 1986 that people wanted change rather than the status quo. If you look at the debate we just had on healthcare, something that is so acutely sensitive for all of us, people feared change. That's not true of tax reform. They actually think positive things can come from tax reform. That plus the view of creating jobs may, in fact, the tax reform may be linked to creating more jobs in the country if we make our companies more competitive, may give Trump some running room on the issue overall but I don't think people will be very engaged.

MR. GLECKMAN: Karlyn, let me ask you about that. I saw these numbers from your paper and I was absolutely struck as well that after all that debate, after all that time, I was writing for Business Week at the time. I was writing an article a week and at the end of it two-thirds of people had no idea what tax reform was about. Made me feel really good.

The other thing that some of us old enough to remember 1986 remember is Right Rosti. So, Dan Rostenkowski, Chairman of the Ways and Means Committee, started what was probably one of the first social media campaigns in history when he went on TV and said, support me, support the President of the United States, Ronald Regan, and send me a post card saying you support tax reform. I can't remember what it was but tens of thousands of people wrote back and said they did.

Today, we're an entirely different world of social media. Do you think, Karlyn, that it actually would be true that after two years of debate over tax reform in 2017 that two-thirds of people would still say we don't know anything about it?

MS. BOWMAN: I think it is quite likely, actually. This goes to some of the points in Vanessa's paper. This insight is not mine but it's one that's just had an enormous impact for me in thinking about public opinion in general. This comes from Dan Yanukovych one of the greatest sociologist, probably the greatest living sociologist. Dan wrote an essay a long time ago in which he said that people like us, people sitting in this room, we base our opinions on the accumulation of new factual information. We're not going to pay attention to the details. I'm not going to go home tonight and read the Republicans healthcare bill or something about climate change, it's just not on my radar screen. But he said that publics don't form opinions based on the accumulation of factual information. I really want to talk to Vanessa about that. He argues that people always start with their values. And that's why the kinds of things that Vanessa is doing in her research about what those values are, are so very important.

I'm always struck in polls when people are asked, well where do you get your information about the new healthcare bill. It's rarely ever from solid sources of factual information. From my friends and neighbors, from my family. Those are always conversations that start with values. So, any kind of major reform has to start with values but we will always be factually challenged.

MR. GLECKMAN: Interesting. Look at how much confusion there is about ACA and that's been in place for six years. One of the issues that Vanessa talked about is complexity. It is interesting when President Trump talks about taxes, he doesn't often talk about it in the context of tax reform but he talks about it in the context of tax cuts or in the context of simplicity which I think is another way to talk about complexity. Bob, I want to ask you a little bit about this from your time at NTU and also on the oversight board of the IRS. How important is this public concern about the complexity of the tax code and how does it affect people's views, people's attitudes about taxes?

MR. TOBIAS: I think it has been suggested this morning that the concept of tax reform is complex. It comes down to values and tradeoffs. And the more complex it is means there's more of it that I don't really understand. And if I don't understand it there's more cynicism that I'm paying more that I owe and that all you out there are paying less than you owe. I create the narrative because I don't know.

So, the IRS and all of us depend on voluntary compliance to administer the U.S. tax code. The Government Accountability office simply stated, "IRS's enforcement of the tax laws promotes voluntary compliance by giving all taxpayers a sense that others are paying their fair share". So, the IRS plays a very large role in ensuring or provide assurance that everyone is paying what they owe. But the fact of the matter is that today the IRS can give less assurance then it has in the past. The reason that's true very statistically, is that the tax compliance gap continues to increase and in this past year it's at \$548 billion. So, at a time when it's at \$548 billion, the IRS audit and tax collection functions have declined over the past five years by about 17,000 people. And the amount of the IRS budget in tax adjusted dollars and inflation adjusted dollars is at the year 2000. So, my sense is that with less compliance, the pretty much stable 83 percent compliance rate is going to decline because the IRS is giving less insurance.

So, how that translates is that now there are about 54 percent of all filers use paid preparers. If I use a paid preparer, I have no idea how it's calculated. I get the form, I sign it, I pay, or I get a refund. I have no idea whatsoever. And what's interesting is that you would expect that, I said 54 percent. About half use paid preparers but 54 percent of people who make \$30,000 or less, also use paid preparers and they use it primarily because they have to file a tax return to get the earned income tax credit. So, whether you're at the lower end or the higher end, you have no idea what leads to the result of how much taxes you pay.

So, I may not only resent paying taxes but I also have resent paying a tax preparer to tell me what I owe. So, I feel helpless because I put my fate in the hands of a paid preparer while fearing that others are going to be able to manipulate the system and pay less than they owe. So, I, like the President during the campaign, do not want to become a loser by paying more than I owe. So, tax reform that increases rather than decreases complexity is not only going to increase skepticism that you're not paying what you owe and I'm paying more than what I owe so the calculation is I might start cutting corners to ensure that we're all equal.

MR. GLECKMAN: I think an interesting issue, I play this parlor game which loses me all sorts of friends but it is instructive. Ask people at the next cocktail party you go to, how much tax they paid last year. Don't ask them in the next two weeks because maybe they'll actually know but after that.

And it is remarkable to me that no one knows. They may know how much of a refund they got but they really have no idea how much income tax they paid much less how much total tax they paid. I wonder, Vanessa talked a little bit about it, Karlyn sort of touched on it as well. But how is this lack of knowledge of how much you're actually paying, affect your opinions about taxes.

MR. TOBIAS: I would even add something to that. How many people know what percentage tax that they pay. So, when someone sees in the newspaper that the marginal rate is 35 do they think that they pay 35 percent in federal taxes, do they think they paid 10 percent or 20 percent. There's no basis, I believe, that most people have no clue about what percentage their tax rate is and so they have no real way of comparing themselves to others. But that doesn't stop me from doing it. That doesn't stop me from concluding what the facts are because as we all know, if we don't know we create a narrative to fill in the blanks.

MR. GLECKMAN: So, I'm going to play Chris for a minute. He sent me some of the work that he's done. One of the questions he was looking at is, they asked people how much thought different groups paid in all federal taxes versus for how much they thought they should pay. And the results are interesting on both sides of it. The first half of the transaction is exactly what we're talking about. So, they asked people about the top 1 percent and they said that they thought that the top 1 percent paid about 28 percent in all federal taxes but should pay about 38 percent. Well, at 28 percent for the top 1 percent is actually pretty close, that's not bad. But then watch what happens. They asked about the middle class. People think the middle class pay about 30 percent of their income in total taxes, what twice what they actually pay and they think they should pay about 23 percent. So, they even think they should be paying more than they're really paying. The bottom 10 percent, they think they're paying 15 percent which is like five times what they actually pay and they think they ought to be paying 10 percent.

So, I think what Bob is saying is exactly right. People have this gross misperception of what the distribution is of taxes and it really kind of messes up their view about what people ought to be paying. I'm going to come back and talk a little bit about Chris's results but Len, let me turn to you and ask, from an economist view about people's perception about taxes.

MR. BURMAN: I was thinking about this when I agreed to join this panel at 6:30 this morning. Economists don't think very much about progressivity or they haven't traditionally. It is

something we punt on. We say fairness of the tax system is up to the public and while they do model we say well there's a social welfare function that kind of reflects the aggregate views about what people should pay at different levels. And then we do a whole bunch of math and do a whole bunch of assumptions and get these implausible conclusions that vary depending upon your political preferences. There have been some efforts in the past, actually some efforts now that kind of justify looking at progressivity as basing people on the left in particular coming up with arguments for well maybe that's something that the government ought to be paying attention to on rigorous economic grounds. Lester Thurow had a paper 30 or 40 years ago where he talked about the income distribution as a public good, kind of like a park. And better income distribution would make people happier and everybody could share with it and we're thinking income distribution would make them less happy and therefore be worth doing things to make the income distribution better.

There's a new growing body of evidence on the relationship between economic and equality in growth and for a long time, conservatives talked about this thing of redistributive policies were a drag on economic growth. And now, liberals are saying, no if there's a lot of inequality it creates problems like crime and poor education systems and things like that that actually create a drag on growth. I don't find the evidence particularly persuasive.

The one thing economists agree on is on this notion that we call showing that we really know how to communicate with people, horizontal equity. The idea is that people in similar positions should pay the same amount in taxes. One of TPC's first conferences 15 years ago made the point that there's not a single politician who things horizontal equity is a valid policy goal. Politicians, their stock in trade is convincing everyone that they're special. I got a tax break for you, I've got other things that will help you specifically. The growth of tax expenditures, I think, is evidence that politicians think this is a winning strategy. They're more than 200 tax expenditures that the Office of Management and Budget tallies up every year. Chris's research shows that there is a lot of bipartisan support for the biggest tax expenditures. Also, a lot of misconceptions, Vanessa pointed this out too, about how they work.

I think economist's blind spot about inequality maybe up until 20 years ago, maybe it made sense. We like markets. We all go to graduate school and we learn about how under certain circumstances, unfettered markets can produce enormous wealth. Anything you do to get in the way of these idealized,



unfettered markets would be harmful, it would slow down the economy. And 20 years ago, it seemed like markets were producing an okay distribution. Most people were experiencing growth in their earnings and incomes and feeling like they could get ahead. I think this last election is an indication of a whole lot of people feel like they've been left behind and there's a lot of data that suggests that for large swaths of working class that their incomes are not growing at all or not growing very fast relative to the overall economy.

The problem is that the things that are driving down middle class incomes are structural. It is primarily automation more than for competition even though that was a big issue in the election. As computers and robots get better, wages and salaries for people to do things robots can do are going to go down. So, figuring out a way to deal with distributional issues could be necessary to preserve our democracy. The alternative is you might get populous demigods or propose policies that are inimical to growth like trade wars and barring immigration and building walls. They don't actually help low income people that they're purporting to assist. So, we need to really think about this as a profession and I think the research of political scientists, says we need to think a lot about framing too. This didn't come up but I know in other analysis, you can't talk about redistribution. That sounds socialist. You can talk about things like supporting work and supporting children. Another thing that economists tend to poo poo is this idea of earmarking. Trying to tie taxes to the programs that they're nominally funding and economists say, well money is fungible. You can say payroll taxes are paying for social security but it doesn't really matter because that money could be used for other purposes otherwise.

The fact is, social security, which is probably one of the most regressive federal taxes has widespread support and that's because people support the program that it funds. When Republicans were talking about things they might do to salvage their health reform effort, one thing they talked about was getting rid of -- actually keeping the high income payroll tax that was dedicated to extending Medicare solvency. I think it was because they saw that people supported Medicare and that even though it was something that a lot of Republicans didn't like personally, they thought that politically it would be hard to cut that back. So, maybe thinking about ways that you could tie policies that are dealing with legitimate concerns about how markets are working, earning income distribution. With tying specific taxes to the things that they're doing, the people might support might be a way to build durable supports

for these things in the long run.

MR. GLECKMAN: Thanks Len. Let me follow up a little bit on what Len said and I'm going to play Chris for a minute and talk about some of the other results that he would have presented had he been here which I think is really interesting. Len touched on this. So, one survey asked people about a series of specific tax breaks. Healthcare, pensions, the mortgage interest deduction, the earned income credit, deductions for charitable contributions, college savings, student loans and asked people by party what they thought of these various tax breaks.

The results are very interesting. So, most people like all of them. The one exception was Republicans, only about 44 percent of Republicans didn't like the earned income credit which is interesting because it was an idea that was created by Milton Freedman. There was an interesting hierarchy. Overall, the most popular tax breaks were for healthcare. The second most popular were for retirement savings, for pensions. That didn't matter whether you were a Democrat or Republican. Then after that, there was some difference. Republicans tended to like the mortgage deduction, the charitable deduction. Democrats were more likely to like the earned income credit and actually for them, the charitable deduction was the least popular tax break. The other interesting point about this was a quarter of respondents had no opinion at all on all of them and there was no difference between Democrats and Republicans. So, again this question of are people aware of tax breaks and even those tax breaks that could benefit them, no.

The other thing he found which was very interesting was the importance of self-interest. This isn't going to be a surprise to this audience but probably worth noting that home owners like the mortgage deduction. Workers that received employee benefits like the exclusion for employee benefits. Students and adults with student loans liked tax breaks for student loans.

People were also asked questions about who they thought would make the tax code fairer. About a third thought the Democrats would make the tax code fairer. About a quarter thought that Republicans would make it fairer and almost 40 percent thought neither party would make it fairer. And then the same question about simplicity. 20 percent thought Democrats would make it simpler, 20 percent thought Republicans would make it simpler and half thought neither party would make it simpler.

And then finally, I always call this the Russell Long question. When asked, what should

be done to reduce the national debt, a series of questions about spending but then two questions about taxes. 60 percent thought you should increase taxes for people making over \$250,000 a year and 20 percent thought they should raise taxes on everyone. Because you all remember Russell Long who said don't tax me, don't tax the fellow behind the tree and that is certainly the result.

The other thing that Chris did, a separate paper that I guess not yet published but we can talk it a little bit. It's a fascinating piece that looks at direct spending for social safety net programs versus the earned income tax credit. This goes to the interesting question of framing. People are much more likely to support the earned income credit than they are direct spending for welfare programs for example. They are more likely to think that the earned income credit is less beneficial to minorities than the welfare programs are. And then when Chris asked them about whether they thought these programs should be increased or decreased, so first they asked them about welfare and about 37 percent of people thought the program should be decreased and 26 percent thought it should be increased. When it came to the earned income credit, 24 percent thought it should be decreased and almost half, 47 percent thought it should be increased. Though it is actually remarkable when you frame essentially identical programs as a tax expenditure, as a tax preference, people like it far more that when it's a direct spending program and they're least likely to racialize it as Chris puts it in his research.

So, this question of framing, I think, is an interesting one. Karlyn, let me ask you as a survey researcher and somebody who looks at survey research, how important is this framing and particularly, how important is it in the context of taxes.

MS. BOWMAN: It is enormously important. You sited Chris's work and when people were asked who is more likely to make taxes fair. If you look at a very large number of survey questions over time there are just all sort of interesting subtle things that tell you something about how questions are being framed. For example, for a long time Republicans had an advantage on cutting taxes. That is completely gone. I think because politician's promises on taxes may be less credible than they were in the early 1980's. But if you ask which priority is more likely to hold taxes down, Republicans still have a pretty interesting advantage on that but certainly not on cutting them because politician's promises aren't credible, and certainly Democrats always have the advantage on fairness. So, how you set these questions up, I think, really does affect the responses and some of this goes to the traditional views of the

Republican and Democratic party. But the fact that tax promises are so much less credible than perhaps they once were, I think is pretty significant too.

MR. TOBIAS: I would add that if I already don't trust you which is what Chris's data shows, I don't trust you, then the only way you're going to break through to me is by framing something that touches on my values or my interests. So, that's why I think framing is so important to cut through to get attention that is so dismissive at this point in time.

MR. GLECKMAN: Let me ask each of you, I want to go back again to the results that Karlyn was talking about from 1986. So, two-thirds of people were basically disconnected from the debate. We're about to have this debate again. How important is it? Does it matter if the public is engaged in this or will, in fact, their disengagement, as Bob suggests, make them more cynical about the result.

MR. TOBIAS: Well, it seems to me in 1986, this sort of not too far interpretation is that in 1986, I would live in an environment where my kids would be better off than me. Today, I live in an environment where my kids, my expectation is that maybe my kids are going to be less well off than me. So, I think I live in a much more pinched world. I don't see broadly. And so, I'm really worried now, I'm anxious about uncertainty, I'm worried about what is going to happen to me and I don't trust anybody. So, it seems to me that breaking through all of that to have a meaningful conversation on the facts based on my perceptions and fears enhances tax reform in today's environment. Enhances the difficulty of tax reform in today's environment.

MR. GLECKMAN: Len, do policy makers have to engage the public in this debate or should this just be an inside game?

MR. BURMAN: That's a really good question. It would be nice if the public felt like they could participate and I think one reason why the tax system has been such a mess is that policy makers could hide behind the complexity, particularly in the business tax area. I don't think anybody really understands how business taxation works. One of the results Karlyn found was that people widely support the corporate income tax and economists talk about how what's a double tax and you probably had a trident fix the corporate income tax so that it doesn't matter if you're incorporated or unincorporated in terms of how much you pay in taxation. The location of multinational corporations and border

adjustable taxes when we're all consumed with this inside Washington. I think for most people outside this room it's just kind of this background noise.

So, the interesting thing in 1986 is that Ronald Regan could give a speech and get people engaged. Dan Rostenkowski went on TV and said Right Rosti. You don't see any politicians really trying to do that. The health debate, President Trump never even tried to make the case for it to the public, he was just talking to the legislatures. It will be interesting to see if they take a different tack this time around. That is the long way of saying it is important to engage with the public and I'm not that optimistic they're even going to do it.

MR. GLECKMAN: Bob, I want to ask you about another issue about, we're talking a lot about people's cynicism and skepticism of taxes. An issue that's come up just in the last couple of years that I worry about a lot but I want to get your perspective on and that's the effect of ID theft and this ongoing issue. We just had an example the other day, it happened again, ID, 100,000 were stolen. How does this effect people's attitudes about taxes and are we doing enough about it?

MR. TOBIAS: Well, I mean, if people are surveyed about the IRS, they're most happy when they have no personal contact with the IRS. If my tax ID is stolen, man, I've got a lot of contact with the IRS to clean that up to get a new ID and my fear about it being stolen in the future, my fear about how the information is going to be used, ramps up. If I'm afraid, how many people am I telling about my problem. So, I think ID theft is a huge problem and it's a huge problem as we see it today. The story in today's *Post* was about helping people populate their form to get student loans so, the IRS was trying to provide a service and that information was stolen. But in the future, if indeed, the IRS is going to provide more underlying services, more contact through email which is what taxpayers want, then being able to have a secure website is going to be important to whether or not that is used. So, in terms of tax administration generally, in terms of how the IRS is viewed specifically and how tax administration is conducted in the future is going to be determined by how secure the IRS website is.

MR. GLECKMAN: Does this, am I overstating it to say that this could put voluntary compliance at some risk?

MR. TOBIAS: It could but so far, it's the ancillary service as opposed to people filing their returns that have been the big problems. So, so far it hasn't gotten to a critical mass but if it came to a

critical mass, I think it would.

MR. GLECKMAN: Karlyn, have you got any sense of how this whole question of internet security effects people's attitudes towards government, at least, in general if not specifically towards the IRS?

MS. BOWMAN: I really don't. I haven't see a lot of data on that. We certainly look at different age groups and how concerned they are about their own privacy and millennials really are very different in terms of sharing information and being willing to do that but that's about as far as I can go and that's really no on point.

MR. GLECKMAN: Len, let me ask you about another issue that Vanessa talks about a lot which is, and Bob eluded to it as well. This is a question about, even though people don't understand how much they're paying, they have this nagging sense that they're paying more than their fair share and the other guy is paying less and is cutting some corners. As an economist, how does that attitude, even if it is not really grounded in reality, affect the way you think about how a tax code ought to be designed.

MR. BURMAN: That's a really interesting question. I think actually an interesting thing in Chris's research is that over time there was actually a trend of more people thinking that they were paying their fair share. I think as Vanessa said it that it may be more of a concern for compliance than it is for design issues potentially. So, one possibility, to the extent that people think that others are getting these huge tax breaks and they're not then obviously it puts pressure on policy makers to produce more tax breaks for you because it makes you feel special.

The other thing is that to the extent that the tax system is based on voluntary compliance and the \$550 billion tax gap at this point, if there were a growing perception that other people weren't paying their fair share, it'd be more likely that people would tend to cut corners themselves. Although, as Vanessa points out, for wage and salary earners, there's not really much opportunity to do that.

MR. GLECKMAN: But you said before that you think actually that this would have a little effect on the idea of a broaden based tax reform.

MR. BURMAN: Yes, it actually could go the opposite direction. The thing that people don't understand or my guess is they don't understand, is that people have to pay for the tax breaks. So, because there's a mortgage interest deduction, there's \$300 billion lost to the exclusion for employer

sponsored health insurance and these other tax breaks, people have to pay higher taxes. Tax rates have to be higher just to make the numbers balance. So, the question is, could you explain to people that their taxes could be simpler and fair if they got rid of some of their tax breaks or scaled them back. That would be a hard sell though because people think these very aggressive taxes are benefiting. Some of Chris's survey research that working class people thought that they benefited a lot from the mortgage interest deduction and they don't. For mortgage interest deduction, they might be worse off on balance. Most of them don't itemize deductions so they don't get any benefit from a mortgage interest even if they had it and even for those who take it, it doesn't lower their taxes by very much. But my guess is people don't really understand that.

MR. GLECKMAN: Karlyn, do you have any sense of whether the public would be willing to support a tax reform that eliminated these preferences, lowered the rates? Would they feel that it was a better deal? Do you agree with Len?

MS. BOWMAN: I do agree with Len. I think it's very hard to read the survey questions. I mean, there is such a blunt and crude instrument I think, sometimes they can mislead by looking for that kind of detail. But I think people would like a simpler and fairer tax code, there's no question about that. But whether they think they're going to get one is a very different question.

MR. TOBIAS: But isn't that the allure of the flat tax? I mean, the allure of the flat tax is everybody is going to pay what they owe and it is going to be simple for me and it's going to be simple for you and we can do it on a post card. So, but, of course, then when reality sets in as to how much has to be paid, then people aren't so enamored with the flat tax. But it seems to me that that idea, that issue, stays around and hangs around as an alternative to the complexity issue that we're discussing.

MR. BURMAN: There was one of the best political science papers, certainly the one with the best cover was this one called, Homer gets a tax cut. Larry Bartels was a Princeton at the time and I think that one was looking at the flat tax and it was based on an election survey. It said, most people thought that the rich weren't paying their fair share and most of them thought that a flat tax would be better. And the flat tax proposals that were in place would have made the tax system much more regressive. And basically, one thing people don't understand very well is that taxes are a share of income rise pretty steadily with incomes notwithstanding the high income people's ability to take advantage of tax

breaks.

So, there are two issues. One is that a flat tax rate would not be more progressive than progressive tax rates. The other thing is that a real world flat tax would have tax breaks in it just like our current tax system does. The problem is that those are enormously popular. For politicians are really drawn to giving people special breaks then they would be if we had something called a flat tax just like the other end of the current tax system.

MR. GLECKMAN: So Vanessa, I think, in the discussion with Mark, raised an interesting question which was, she very strongly felt that it was a good idea that we go through this annual ritual of preparing our taxes because it kind of reinforces this sense of social solidarity such as it is in the United States. I want to ask each of you if you agree with that. Do you think it's a good idea? We could, in theory, go to a pure consumption tax. We wouldn't have to do that. What do you think? Is it a good idea to go through this ritual?

MR. BURMAN: Well, it is an opportunity for people to think about how the tax system affects them. The question is whether or not they actually draw any of the right lessons from figuring out their own taxes. There are conservatives who've argued that we should get rid of withholding and we should make people basically, you should make taxes as salient and as complex as possible or make it as burdensome as possible to the individual in terms of having to write a check periodically because it would reduce support for the tax system. If you look at support for the income tax which you have to file every April 15<sup>th</sup> or so versus payroll tax, the income tax is much more progressive and support for it is much lower than for the payroll tax. The payroll tax in part, because payroll tax support the program people support. But also, there's no burden really in filing it. It basically just comes out of people's paychecks if they're employed. So, whether it would produce a better tax system is an open question but it definitely making people go through the ritual makes them think about it.

MR. GLECKMAN: Bob, what do you think?

MR. TOBIAS: You know, I gave up filing my own taxes about ten years ago and I consider it a loss, I really do consider it a loss. I was very proud of the fact that I could manage doing the returns. I was proud of calculating my actual percentage tax rate which I still do after someone else performs. I was proud of that and I identified with what she said. I pay my taxes and I felt good about



that. I thought about the highways and the roads and all of the things that money went for. And now, I get an email from my accountant who says sign this and I'll e-file your returns and write a check. And then two weeks later, I get the form and I look through it. But it's not the same because I haven't put myself into the effort. So, I think something is lost when I can't connect with results of filling out that form.

MR. GLECKMAN: Okay Bob, I don't want to put you on the spot but why did you stop preparing your return yourself?

MR. TOBIAS: Very simply, I mom died. I inherited a rental property and I thought, oh man, no I can't do this. That was the tipping point for me. I just can't do that.

MR. GLECKMAN: Jane Grobel has a good answer to the question. She said, well I know how to change my oil too but I pay somebody to do it. Changing the oil takes much less time. Karlyn, do we know anything about whether or not the sense of social solidarity is enhanced or breaks down because of this annual ritual?

MS. BOWMAN: Not anything that I've seen. I confess, I've always wanted to meet the 10 to 12 percent of Americans who say that they love paying their taxes, they love filing their taxes. There are actually some people in one poll that Kelly Conway did many, many years ago. It asked whether you'd rather have a root canal or file your taxes. There were some people who said they were rather have a root canal than file their taxes. To me, it seems like it's important. When you ask people about patriotism, about questions about patriotism I'm pretty sure in some of the batteries, flying the flag, serving in the military, paying your taxes comes up as something people volunteer when they think what it means to be a good citizen or a patriot. So, there's some connection there.

MR. GLECKMAN: Not to be partisan about it but the president bragged about the fact during the campaign that he didn't pay taxes and it didn't seem to hurt him at all. So, what's that about?

MS. BOWMAN: They seem to like politicians who tell it like it is at least who maybe speak for many people who are doing the same thing that he is doing, trying to find loopholes that are legal if that's what he was doing.

MR. TOBIAS: I think he was very, he touched on that fear that someone else is not paying what they owe and I'm paying more than I owe. So, I like somebody who's taking care of themselves and is only paying what they owe. So, I like that. I like that quality because I'm fearful I'm

paying too much. So, this guy got lawyers, he's got accountants and all of this stuff and so I ignore the fact that he doesn't show me his returns to see how he does it, I ignore the fact that maybe for 20 years he paid zero taxes, but he's protecting himself. So, that's what I think I identify with.

MR. GLECKMAN: And I aspire to that too. Everybody needs a billion dollar loss to shelter their tax liability. Let me give you all a chance to ask a few questions. Bill, we'll start with you.

MR. GALE: Thanks, Bill Gale. I wanted to talk about the simplification issue which, I think, the discussion has been very misleading. It sort of suggests that simplification is a technical issue, we just need to turn the screws and get it right. And, in fact, it's anything but that. If you think about not just the tax system but the spending system, then suddenly the tax system, the income tax, looks much less complicated than the alternative. That is, if you were to take all the social policies and deductions and the long list that Howard read, if you took them out of the tax code and stuck them in the spending code, people would really hate it because then they would have to file their income tax, then they'd have to go somewhere else and file for their charitable deduction, they'd have to go somewhere else and file for the EITC, go somewhere else and file for whatever subsidy they get. So, the fact that people have so much contact with the government through the income tax system, means that it is a very good mechanism for running all these other subsidies through it. So, when we talk about simplification, we have to distinguish between whether we want to abolish dozens of social policies, which it is a social policy issue not just a simplification issue or whether we're talking about simplifying literally the income tax but complicating people's interactions with government by moving all of those subsidies into the spending system. So, I think simplification, everyone vows in favor of it but I think the actual system could be much more complicated than it is and there are actually enormous economies of simplification in running these subsidies through the tax code.

MR. BURMAN: Well, I think it is important to point out there are good reasons around some programs for the tax code. I'm not sure that the politicians actually weigh the pros and cons of doing all of these things for the tax code the way Bill and I might like them to do. The fact is, that a lot of, there are a lot of things where there is really not a role for government. It is not that it should be moved from the tax code to a welfare office but the program just shouldn't be there at all.

There are a lot of things where the tax code is just needlessly complicated. The earned

income tax credit, I think, most people in this room would probably agree, is a good program. There are lots of reasons why it is a good idea to run it through the tax code. There is no welfare stigma associated with it, it's easier than going to a welfare office during working hours through the year. But politicians have made the program really, really complicated. Actually, figuring out eligibility in a lot of cases is really challenging especially for low income families that might live in three or four different places over the course of a year and where their children might be with them for part of the year and not for the rest of the year. You could simplify it if you wanted to.

We've got tax subsidies for higher education mostly run through the tax code. There is a question as to whether that should be there at all or whether it wouldn't be better to just put more money into subsidized student loans and more Pell grants. But even if you wanted to subsidize higher education through the code, you don't need to have seven different deductions and credits. Every single one of the credits has got a different phase out range and there are ways you can consolidate them together to make things simpler. It would be good if people actually understood how the tax system was affecting them and the complexity gets in the way of that. I don't disagree with your basic point. It's certainly right that when you're thinking about whether something should be done through the tax code or through a spending program, you should have a realistic view of both. Spending programs are not costless, they're not perfect, they're not administered perfectly but there is still a lot more that could be done to make things simpler. I wish it mattered more to politicians.

MR. GLECKMAN: Bob, what do you think about that? From the administration of these programs perspective, is it most efficient to run this through the IRS or would it be better to run these through the agencies that do the direct spending?

MR. TOBIAS: Imagine yourself sitting on the telephone getting a call from someone who is trying to sort out EITC. The person on the other end of the line who has suggested has moved four or five times. Their kids are there sometimes and sometimes not and you've already waited 45 minutes to get on the phone and now you're really angry because you've waited 45 minutes. I'm receiving this telephone call and maybe because you're angry, you're speaking fast so I'm asking you to slow down and then, of course, that makes you angrier. And then shortly after that you hang up, you file incorrectly and then someone comes after you because you didn't file it correctly. A lot of those returns get audited.

Now, as suggested, making that simple would save everyone and there might be, the tradeoff is, there might be a little bit more fraud.

MR. BURMAN: You could actually cut down on fraud and make it simpler, it would just cost more money as a real tradeoff. You could just say there's a wage subsidy. You get a subsidy on your first \$10,000 of earnings. That would be really simple. There is a child subsidy, you get child subsidy if you have kids. The wage subsidy could be tied directly to payroll tax withholding.

MR. TOBIAS: If you made it that simple, everybody would be happy.

MR. GLECKMAN: Okay we solved something here. Several of my colleagues at the Tax Policy Center participated in the Vida Program and do voluntary tax preparation for low income people. And these are people who are PhD tax economists or tax lawyers who are used to doing big corporate deals. They come back after filling out the first couple of EITC forms and they go, oh my gosh. I've never seen anything like this. It seems like there is a way to simplify. Bob, though I want to kind of get back to Bill's question. Is it more efficient in the end to do this through the tax code rather than as direct spending? Notwithstanding the problems that you addressed?

MR. TOBIAS: I don't know enough to say that it would be less costly or not. I think that the issue that is raised and often not really addressed is which would be better at inception. Is it better to run it through the IRS and normally these programs are attached to the IRS or the rationale that's given is, well the IRS is the only place around that could effectively administer this program so we'll give it to the IRS to do. That's not answering the question of what's more effective. Is it more effective to do it outside of the IRS or inside the IRS.

MR. GLECKMAN: So, I want to go back to Chris's research for a second. If he were here I think he would say this. So, it talked a little bit about this project he did looking at direct spending, direct safety net spending and EITC. Two things that he found which were actually quite remarkable results. He looked at the how people respond to direct cash payments. There were two things that they saw in direct cash payments that they didn't see in tax credits. The first one was that they didn't see that tax credits were direct spending or government spending when they saw that the direct spending program was government spending and that's not surprising, I guess. But the other thing was, and I'll just read from his paper. It is important to note that many citizens fail to recognize or characterize tax expenditures

as specific forms of government intervention in the economy. So, not only do they not see it as spending, they don't even see it as government intervention in the economy. Somehow something else, even though it is a tax credit. So, I think that answers the question about why politicians designed it this way. They're really off the hook. They're not only not spending more money, they somehow appear to not even be intervening in the economy.

MR. TOBIAS: I think that's going to be the real issue around infrastructure spending. Is it going to be financed with tax credits for precisely the reason you offer.

MR. GLECKMAN: Karlyn, again a survey research question, what do you see in terms of people's attitudes about direct spending as opposed to tax cuts?

MS. BOWMAN: It is such a big universe I don't whether I can talk about it in broad brush strokes. Again, they're suspicious of tax cuts at this point and they are also suspicious with government spending. It just continues to grow and grow and grow in their minds correctly or incorrectly. I think it's, I don't have an answer because I think it's pretty complicated.

MR. GLECKMAN: Other questions from the audience. Yes sir, in the back.

MR. GYMAN: Hi, I'm Rusty Gyman. Up until last year, I retired. I worked for Bob for about ten years at the oversight board. I had to comment and a question. The comment was, at first I think Vanessa there deserves a commendation for her work. As many of you know, the oversight board has done and commissioned an annual survey of the public about attitudes towards the IRS and toward tax administration. The public does not hold that harsh negative view that you often see portray so I think that's a real service and I hope that gets more publicity. One of the questions I had and Bob and I looked at this once earlier on is that, recently the board survey asked whether you trust the IRS to fairly enforce the tax laws. The majority, 60 plus percent, basically agreed with that that they would fairly enforce it. But there was a sharp difference in ages. The percentage in the younger group 70 plus percent trusted the IRS and then in the older age groups maybe a little over 50 percent. To anyone up there but maybe to Karlyn to you as well, do you notice differences in the age groups and do they stick or do they change over time?

MS. BOWMAN: Let me just say a few words about views of the IRS. I know those surveys and I think they're wonderful surveys. In the few questions in the public domain that we have

about the IRS, the IRS is now recovered from its problems of a few years ago. It brought up one thing where I think I disagreed with Vanessa and that is the notion that we should get people to sign up to register to vote when they're paying their taxes. One of the things I've noticed about government agencies that appear to be successful in the public mind is that their missions are very clearly and very narrowly defined. Once you get an agency that moves beyond its general mission, has mirrored responsibilities of different kinds, those agency views and positive views of those agencies tend to come down very, very sharply over time.

It has been interesting to me that the military is the most highly respected institution in the country. All the scandals from tail hook to Abu Grad just seemed to wash over the military. Its mission is clearly defined, it protects and defends the country and the military stays up in the stratosphere compared to most other agencies. Views of NASA are extremely high. It does some very specific things. An agency never wants to be in the news as the IRS was a few years ago but it has definitely recovered.

Young people's attitudes on, first of all, they're less confident in central institutions generally whether it is government, marriage, big business and perhaps those attitudes will change over time. They tend to be mercurial in some ways. I don't know the age data though in terms of views of the IRS.

MR. GLECKMAN: It is an interesting issue. The IRS is being asked to do more and more things far beyond its basic mission of collecting money to pay for the rest of the government.

MR. TOBIAS: And its scandal was actually because the IRS was asked to figure out whether these organizations were political or not and that was really outside tax compliance.

QUESTIONER: Thank you. I wanted to just follow up on a comment that Len made and relating to the assumptions in economic models about rationale economic behavior. I think that Vanessa's work is very valuable and it also is kind of coincides with some of my experiences like Howard's about asking people, how much taxes do you pay, what is your affective tax rate, what is your average tax rate. Nobody knows. I don't know mine. I think that importance of the work is to try to integrate that work with what economists who are running models are assuming. I think this came to mind because the Tax Policy Center published a very short summary of a description of the models that they're using for dynamic scoring, yesterday I think was an update.

I was reading it and thinking about the rational taxpayer who was supposed to behave in a certain way and there seems to me a very big disconnect between that theoretical rational taxpayer and the taxpayers that Vanessa has talked to and surveyed and one's personal experience. So, it kind of means that when you're running these models using behavior predictions that there's a disconnect that you have to have a certain serious skepticism about what comes out. I would hope that the economists who are thinking about this would take that into account and whether they are.

MR. BURMAN: So, I agree with you. Rationality makes economic models a lot simpler because irrationality is kind of, there's an infinite amount of irrationality. There's a discipline in economics, behavioral economics that is actually trying to figure out how real people make decisions, talking to psychologists and others. Bill Gale actually has done some work looking at some behavioral responses to retirement tax incentives. And it is helping to shape better public policy to the idea of signing people up automatically for a retirement account rather than expecting them to spend five minutes filling out a form that could save them thousands of dollars on their taxes over the rest of their life. It makes a big difference.

The other thing is it's shaping the way we do empirical research. It is slow but I think more and more people are looking for possibilities that people might not understand their economic incentives the way they actually affect them. I was talking to Karlyn before this conference, there are a lot of things in the tax code that are really confusing. It is very likely that people respond to incentives that don't even exist. For example, there's this thing that tax wonks call, PID's, the phaseout of itemized deductions. A lot of people think that it makes itemized deductions less valuable. Well it doesn't for almost everybody. What it does do is it's a sneaky sur tax. It adds three cents to every dollar of your income above a certain point. It doesn't reduce the incentive to give to charity, it doesn't affect how much you get from the mortgage interest deduction or anything else. People don't understand that and it is possible that people are reducing charitable contributions because they think this tax incentive, they're losing the tax incentive. I think that is certainly a cost to complexity in the tax system.

MR. GLECKMAN: Yes sir.

QUESTIONER: I wanted to ask a question that hasn't been addressed yet on either of the panels. I'm one of these weirdos who really does like doing my taxes. I'm a tax professional and I'm

used to this stuff. I get very excited actually when people say, oh my taxes were really hard this year because I want to know why. So, maybe they rented depreciable property or they had an AMT issue, a state refund and they have to figure out how much was attributable to the state refund and about 80 to 85 percent of the time, I'm deeply disappointed with their answer because it begins with, I moved states this year. I'm wondering, to what extent, states are getting off the hook here a bit, especially with multiple residency issues. To what extent are the feds actually taking it on the chin a bit for the states in that regard. When talking about survey data, are they thinking about taxes and are they distinguishing between federal taxes and state taxes and do we have any sort of sense that people actually make that distinction at all.

MS. BOWMAN: People tend to think of their taxes as a lump. There are some taxes that are considered much more burdensome than others, the local property tax. Certainly, in the few surveys that asked the question, people find that that's the most disliked tax. But I think they tend to think of their taxes in a lump sum.

MR. TOBIAS: It is kind of interesting, the IRS takes it on the neck for tax policy. The IRS doesn't create tax law, it attempts, struggles with, to admit it to create, to implement what Congress creates. So, one thing, in the interest in trying to point that out, if you notice if you send a check to the IRS, you're supposed to send it to the United States Treasury. You used to send it to the IRS. Trust me, the IRS will cash it if you send it to the IRS. But it was an attempt to make a distinction between who creates the tax law and who administers the tax law but I think it was totally useless. I think it had zero impact. But, the IRS is held responsible for what Congress does.

MR. GLECKMAN: Other questions.

MR. TODOR: Eric Todor. So, I'll ask a question that you probably can't answer. The healthcare bill just failed and I think one of the reasons was very low public support for it and now they're moving on to tax reform which everybody thinks is the wonderful thing they have to do. So, I guess I wanted to ask the panel, what would a tax reform look like that would gain either public support or at least not big public acquisition?

MR. GLECKMAN: So, Karlyn, were there elements of the 1986 Act that people liked, we know most of them didn't even know what was in it, but those people that did, were there any elements



they identified that they liked?

MS. BOWMAN: Taking people in the lowest quintal, I guess, off the rolls. Of course, if you looked at the polls afterwards, most of those people didn't think they had been taken off the rolls so that was interesting in itself. I don't know anything about what the provisions should be but what I do know is that it appears to be bipartisan. That is incredibly important. To have a Rostenkowski, a Regan working together, a Bradley and all the other people who were involved at that particular point was just, I think, very important to moving it. We're also more polarized than what we were before so I think that would be very difficult. It has to have bipartisan support.

QUESTIONER: I'm discouraged by your polls that show that people are less interested than they were 40 years ago. Part of the issue is that maybe the tax code is not messed up enough that people feel like they understand that there's this real impetuous for reform. The Bipartisan Policy Center put together a plan which would have taken half of tax piloters off the rolls and had their tax returns calculated automatically. I'd like to think that that kind of thing might be really popular and simplicity would be helpful. The thing you think back to is when the Tax Reform Act of 1986, the first draft that was put out by Treasury was called, Tax Reform for Fairness, Simplicity and Economic Growth. The second version which was the one that political reality interjected was called the President's Plan for Tax Reform for Growth, Fairness and Simplicity. It basically moved to third billing. By the time they were done, the only simplification was they raised the standard deduction but there were a lot of new complexities.

MR. GLECKMAN: Any thoughts about that?

MR. TOBIAS: It seems to me that in a polarized world, bipartisanship is important but having people participate in some way in this effort would be incredibly important because that's the only way you're ever going to break through and reduce the cynicism and the skepticism. But that's so countercultural to Congress whose attention span is limited, to say the least. So, this would have to be a really concerted bipartisan effort over a period of time that sought to engage the country rather than being seen as a wind if something passes.

MR. GLECKMAN: It was interesting listening to Chairman Brady after having seen the experience of the health law where he's now saying, well, maybe we'll hold some hearings and maybe we'll have a markup and maybe we'll do this more in the context of regular order. I think, he's maybe a

little nervous after having seen what happened with healthcare so he may be taking your advice. Yes sir, in the back.

QUESTIONER: Some countries are moving to a cashless system. I think Sweden is trying to do that, for one. Would that open the doors to a more fair or simpler system?

MR. BURMAN: I hadn't really thought about what the implications would be for tax policy.

QUESTIONER: Just like Vanessa had mentioned that employees whose wages are well documented, have a very simple system in filling out their taxes basically. Here if one has no cash, all transactions are going to be tracked basically or have the ability to be tracked. Wouldn't that open the door to instituting a system that would be much easier for one thing.

MR. BURMAN: It is certainly true that when there is independent source of information to verify tax liability, compliance is a lot higher, that's why wage withholdings is like 99 percent compliance. When Congress has tried to actually expand information reporting, they get information from financial institutions, there's always been a lot of pushback against that. Probably in Sweden it is a lot easier to get all of the financial records so that the government can monitor compliance. I could imagine that potentially it could make compliance a lot higher but the government would have to get a whole lot of information on what individuals were doing financially and my guess is there would be a lot of resistance to that.

MR. GLECKMAN: So, the Nordic countries have tried another experiment which is interesting in this context of cynicism about, Len and I make the same amount of money but he's getting away with murder and I'm not. So, in a number of Nordic countries, tax payments are fully transparent. You go on the web and you can see how much your neighbor paid in taxes. They've struggled with this. There has been some interesting back and forth there. But it is an interesting question if we ever went to a system like that in the United States where at least younger people are sharing everything anyway. What if we knew and we could actually see how much horizontal equity there was. Would that reduce the amount of cynicism of Americans about the tax code. What do you think?

MR. TOBIAS: Not is you just use the current tax system because there are so, my situation, even though our gross income is the same, what taxes we pay can vary widely based on the deductions, based on the depreciation of my rental house that you don't have. I don't think it would be

informative. What would be informative, if the tax code was simple so we were really comparing apples to apples.

MR. GLECKMAN: We're about out of time. I just want to take the prerogative and ask one last question of the panel before we go. Given everything we've said, given everything we've heard from Vanessa, everything that you all have said, what does this tell you about the prospects for tax reform in 2017?

MR. BURMAN: I think we need to do a lot more public education to get real tax reform. I'm not really optimistic that we're going to get it this time around.

MS. BOWMAN: I would agree with that. But I think Vanessa's work is just so important in thinking about how we might get the public more engaged. I think it is going to be extremely difficult but I think it is worth the shot.

MR. TOBIAS: I agree with that. I think framing and recognizing that we're really talking about values when we're talking about taxes. When we're talking about reform, the reform is, is my mortgage deduction reformed or is your oil drilling reformed. And so, that's a reflection of values. But it's not spoken in terms of values and people aren't challenged to identify their own values and how that impacts on the recommendations they make. So, I'm agreeing that it's the framing, it's the discussion, it's the dialogue that's going to make a difference as opposed to saying, well you're going to pay \$50 more, \$50 less. That doesn't answer the question.

MR. GLECKMAN: Thank you all. Thanks to Karlyn and Bob and especially to Len, who jumped in at the last possible minute to fill in for Chris. So, thank you all very much.

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