

THE PROGRESS REPORT

## **IRS Takes Critic's House**

By Fred E. Foldvary

On April 15, 1999, income tax day, federal and local government law-enforcement agents seized the house of Floyd Wright, a writer who has published books about income taxes with titles such as *Beat the IRS: I did and How to Become a Non-Taxpayer*. The U.S. Marshals and a sheriff's deputy forced the 80-year-old man out of the house he had lived in for 25 years.

Wright told the WorldNetDaily (April 27, 1999) that he did not see any search warrant. The IRS claims that Wright mishandled his deceased wife's living trust, of which his house is a part, but Wright thinks the real reason is his research and publications about the IRS. His current wife Ruth Wright stated her belief that the IRS wants to quiet her husband, and that the eviction was a "get even" tactic.

The trust authorized that Wright could live in the home until he died. The Internal Revenue Service had filed a lawsuit against Wright earlier in the Federal District Court in Sacramento, California. Wright lives in Grass Valley, California. Judge Edward J. Garcia ruled in favor of the IRS, and an appeal was turned down in both the Ninth Circuit of Appeals and Supreme Court.

Floyd Wright said that what upset him most was how the agents handled the situation: "I wasn't as angry about how they argued that I should leave the property as I was about how they didn't give me notice."

Such troubles are inevitable outcomes of taxing income, gifts, and estates. The United States and most States, as well as many countries, tax income, gifts and inheritances, with costly procedures such as probate to transfer the property. People then set up legal entities, such as trusts, to make it less costly to handle the ownership and transfers. Government then sets up complex rules about various types of trusts.

The IRS and other government agencies have wide discretion over which persons and organizations to examine and act against. This creates an opportunity for the agency to act against those who have been vocal critics of its policies.

It is difficult, if not impossible, to reform the enforcement of income taxes, because by its very nature, income taxation creates incentives to avoid and evade being taxed, and thus leads to enforcement to prevent excessive evasion. Critics then arise to expose abuses in enforcement and suggest tactics of tax reduction, and the IRS has an incentive to silence criticism by attacking its critics. Judges, appointed by the same government that is enforcing taxation, tend to side with government when the legality and tactics of enforcement are challenged.

It was 120 years ago that the American economist Henry George pointed out, regarding the taxation of income and sales:

"For just as the collection of a tax depends upon the diligence and faithfulness of the collectors and the public spirit and honesty of those who are to pay it, will opportunities for tyranny and corruption be opened on the one side, and for evasions and frauds on the other. The methods by which the bulk of our revenues are collected are condemned on this ground, if on no other" (Progress and Poverty, 1879, p. 416).

As a remedy for this and many other problems with taxing productive activity, Henry George proposed a single tax on land rent. Then it does not matter how the title is held, whether by a person, a company, or a trust. Whoever has title pays the community rent. The government simply assesses the land value or rent, and sends the title holder a bill.

Besides replacing taxes on income and sales, the single tax on rent would also eliminate all gift and inheritance taxes, and therefore eliminate the complex laws we have on the tax treatment on trusts, which brought Floyd Wright into contention with the IRS. While a gift may be unearned to the recipient, if the donor legitimately earned the income, then the funds are earned income, and the donor should not be punished for giving away his money rather than spending it.

With the single tax on rent, if critics arise to protest it, then the government could not act against them. So long as the tax on rent is paid, there would be no legal authority to seize real estate or other assets. Since the assessments are public records, and the landholder can appeal to the courts and to impartial assessors, any bias would be exposed quickly and reversed.

**Many people don't like having their income taxed, but then they turn to alternatives such as sales taxes or flat-rate income taxes, which are subject to the same inherent dysfunctional incentives.**

**Only when public revenue comes from land rent, which cannot be hidden or moved, and from voluntary user fees, does public finance avoid the incentives for fraud and tyranny that Henry George noted so long ago.**