



The Tax Break We All Deserve

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Think of our tax system like an old house you just bought: The roof leaks, the floorboards are rotten, the pipes burst long ago and the foundation walls are crumbling. The solution is obvious. Call in the demo squad. The tax system's not just a mess (my words), "it's a sewer," says Daniel Mitchell, senior fellow at the Cato Institute. Don't stop reading just because I've quoted a tax expert from a libertarian organization supported by conservative activists David and Charles Koch. If you do, then *you* might be part of the problem.

Most people, left and right, agree on the problems: The tax code is too complicated, with too many loopholes that narrow the tax base, and too expensive to administer — and distorts economic behavior, too. Most agree on many of the solutions, too. They can't stop talking past each other. The right talks mostly in terms of supporting economic growth, while the left talks more about fairness and redistribution, and the system only gets more baroque.

But here's the dirty little secret: Both sides could get most of that — fairness and growth promotion — in a neutral tax system, one that has minimal effect on people's behavior. Design it to collect the revenue needed to operate the government, and stop trying to use it to re-engineer American life in an obscure, underhanded and ultimately ineffective way. If everyone could agree on that, we could design a system that's simple, transparent and broadly based with lower rates, and would save hundreds of billions on tax preparation costs because — here's the grand prize — we could just do away with individual tax filings. Sorry, H&R Block!

First, get rid of tax expenditures: tax deductions or credits that reduce money collected by the government. At more than a trillion dollars a year, they rival the size of the federal discretionary budget and they mainly subsidize the rich. We think we're supporting apple-pie stuff like home ownership or health care, but 51 percent of the total benefits went to the highest 20 percent of earners in 2013, while just 8 percent went to the lowest earners, according to the Congressional Budget Office. Who's surprised to learn that 68 percent of the preferential tax treatment for capital gains and dividends went to the top 1 percent?

And then, hardly anyone can understand the crazy quilt of contradictory incentives. The kaleidoscope of tax and income-related policies — including Medicaid, food stamps, earned income tax credit, retirement plans and all the other deductions — can penalize work and savings by the poor, or create great loopholes for the wealthy who'd be building more wealth anyway.

A few years ago, Boston University professor Laurence Kotlikoff proposed what he called a “purple” tax system, mixing blue and red. It calls for ending income tax, a new 15 percent national sales tax on all consumption (corporate and private), a payroll tax (for social security and Medicare) that starts at \$40,000 income and goes up without limit and a few offsets for the less well-off. Presto! No more tax returns! It's bound to be pro-growth and could be as progressive as politicians can agree on. The elements of Kotlikoff's plan might not be right, but the idea surely is.

It won't happen, probably, unless the political stars align in miraculous fashion. Neutral tax policy would require the slaughter of a thousand sacred cows, for starters. And politicians and policy wonks are so immersed in the current tax system that few can see beyond incremental change.

But let's not give up. Make the tax code simple; make it neutral. And then just stop. Once you start adding special provisions, you know the politicians will load it up like a Christmas tree.