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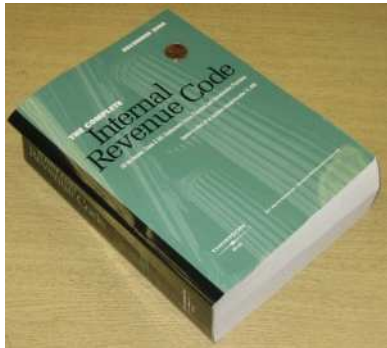
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A Flat Path to Tax Reform

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By Rebekah Rast -

71,684.

That's the number of pages included in the federal tax law for the year 2010, according to the CCH Standard Federal Tax Reporter. The number keeps growing with add-ins catering to special interests.

And more changes are sure to come.

It seems Republicans in Congress and Obama have finally agreed on a compromise for the expiring 2001 and 2003 tax cuts, though legislation still needs to move through both Chambers. Included in this compromise is a two-year extension of the tax cuts, which gives the 112th Congress an opportunity to deal with the root of the tax issue — the cumbersome federal tax law.

Those who aren't in support of the many exemptions, credits and deductions favoring special interests inside the tax code would like to see this new Congress work toward adopting a more flat tax system. This would get rid of all the exemptions and credits in the federal tax code and citizens would be left to pay a fixed percentage of their money, regardless of income level, to the government.

"We have hundreds of thousands of tax credits because someone decided it was a good idea to incorporate them into the tax system," says Bill Thomas, former Chairman of the Ways and Means Committee, the tax writing committee in the House of Representatives. "The problem is we have allowed for social-economic engineering in the tax code where some activities are privileged and others are not."

This has led to a great divide in the income tax rolls with about 47 percent of Americans not paying any federal income tax at all. In fact, a 2009 report by The Tax Foundation found that the top 1 percent of taxpayers filing returns from 2007 paid more in federal individual income taxes than the bottom 95 percent of taxpayers filing returns.

"Tax rules should apply to everyone and should not discriminate between income use, type or how it was acquired," says Daniel Mitchell, Ph.D., Senior Fellow at The Cato Institute. "We need to get rid of corruption in the current system."

Mitchell explains that a flat tax would work for individual taxpayers like this: "Households get only one exemption — a generous allowance based on family size — and then pay a low rate on any income above that amount. They do not need to worry about reporting dividends, interest and other forms of business/capital income. Those forms of income are taxed at the business level, thus obviating any need to tax them at the individual level since that would violate the principle of no double taxation."

A flat tax system does concern many middle-class Americans because of the elimination of write-offs and credits such as the mortgage interest write-off and the child tax credit.

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From Frum's Blog: A Defense Of Upton?

Tim Mak at Frum Forum mentions Americans for Limited

An article in the *New York Times*, written in 2006, points specifically to the mortgage interest credit. The author writes, "Economists don't agree on much, but they do agree on this: the interest deduction doesn't do a thing for home ownership rates. If you eliminated the deduction tomorrow, America would have the same number of homeowners, the same social networks, the same number of gardens.

"The deduction might help some people (like me) to purchase bigger homes than they otherwise would. And it certainly helps people who are selling mansions to get a higher price. But it is hardly the democratic subsidy people think. In fact, it's patently regressive," the author states.

Mitchell agrees saying, "People might prefer less expensive homes. Countries like Australia and Canada don't have a home-mortgage write-off and they still have higher home ownership rates."

The child tax credit has also been acknowledged recently because that too is scheduled to regress back to a credit of \$500 per child come Jan. 1, 2011, rather than the \$1,000 per child that is allocated now.

"When the child tax credit was doubled it knocked many people off the tax rolls," says Scott Hodge, president of The Tax Foundation. Because of the credit, many Americans no longer owed money to the government for the federal income tax.

"The child tax credit shouldn't be an economic driver, but we still have it on the books," says former Chairman Thomas. He says the credit can be seen as a form of reward from the federal government. "If you want to encourage and influence behavior, then you put credits and tax cuts on it," he says.

Americans for Limited Government (ALG) President Bill Wilson sees many of the tax credits and deductions as favoritism to some, but not to others.

"The federal government picking winners and losers is very evident in the tax code," he says. "For example, the tax code favors those who own a home versus those who rent. If all these incentives were to be erased from the tax code, then more money would be raised and taxes could potentially be lowered for everyone."

Changing the entire U.S. tax code would be no easy feat. But if the new Congress is committed to lowering taxes and cutting spending, changes to the tax system are necessary.

"In the current system it is hard to see who is paying and who is not paying taxes," says former Chairman Thomas. "We should create a system with fewer credits and exemptions. Everyone should participate in the tax system, even if it is a small amount."

ALG's Wilson agrees. "When Congress returns next year, it should get to work on permanently restructuring and flattening the tax code to remove tax subsidies, corporate welfare and exemptions."

Congress can start by throwing some of those 71,684 pages in the shredder.

Rebekah Rast is a contributing editor to the Americans for Limited Government (ALG) News Bureau.



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3 Comments for "A Flat Path to Tax Reform"



Frank DeMartini says:

December 8, 2010 at 10:57 am

Changing the tax code is a major accomplishment, but it has been done three times: 1939, 1954 and 1986. There is precedent and it can be done, but it needs a visionary such as Ronald Reagan to get it done. And, unfortunately, we do not have the visionary in the White House right now.

Further, all he cares about is special interests. And, as written, the tax code is full of special interests.

Government for opposing Upton over his earmarks. While we thank [\[Read More\]](#)

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