Harvard's Mankiw: Nuke Corporate Income Tax, Shrink Personal Income Tax

By Dan Weil
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Almost everyone agrees that both the personal and corporate income tax systems are a mess.

The personal tax code is lined with loopholes, while the maximum federal corporate income tax rate of 35 percent is the highest in the developed world.

So what's the solution?

"Let's repeal the corporate income tax entirely, and scale back the personal income tax as well," **Harvard economist Greg Mankiw writes in The New York Times**.

"We can replace them with a broad-based tax on consumption. The consumption tax could take the form of a value-added tax, which in other countries has proved to be a remarkably efficient way to raise government revenue."

Critics complain that a flat consumption tax hurts the poor and is a sop for the rich. But those concerns can be addressed, Mankiw says.

"One possibility is to maintain a personal income tax for those with especially high incomes. Another is to use some revenue from the consumption tax to fund universal fixed rebates," he notes.

"Major tax reform may be too much to hope for, given the current dysfunction in Washington. Nonetheless, it's worth keeping the possibilities in mind," Mankiw adds.

"Corporate tax inversions aren't the largest problem facing the nation, but they are a reminder that a better tax system is within reach, and that only politics stands in the way."

Conservatives are in conflict over tax reform. Some want to cut tax rates, and some want to increase tax credits.

Daniel Mitchell, a senior fellow at the Cato Institute, favors tax cuts over tax credits.

"The supply-siders argue that if you want to encourage more work, saving, investment and entrepreneurship, then it is a good idea to reduce marginal tax rates on productive behavior," he writes in **The Wall Street Journal**.

"The reduction in marginal rates alters the trade-off between labor and leisure — favoring the former — at any given level of income, as well as the trade-off between saving and consumption."

Reform conservatives are that since the top personal tax rate is approximately 40 percent, lower tax rates won't do much and child tax credits and payroll tax relief are better options.

"The logical compromise might be to focus on reforms that boost saving and investment, such as lowering the corporate tax rate, reducing the double taxation of dividends and capital gains, and allowing immediate expensing of business investment," Mitchell explains.

"These reforms would have strong supply-side effects. And since more saving and investment will lead to increased productivity, workers will enjoy higher wages, including households with children."