



Monday, April 12, 2010

Eliminate Tax Brackets and Complicated Forms With a Flat Tax

Think it's too easy to be true? Here's a postcard from Reality-ville

By *Daniel Mitchell*

Posted April 12, 2010

Daniel Mitchell is a senior fellow at the Cato Institute in Washington. His video explaining the flat tax is [available here](#).

Every April, Americans endure the misery of the [Internal Revenue Service](#) code. It is hopelessly complicated and nerve-wracking since the IRS has such immense powers to destroy people's lives. It is time to implement a simple and fair flat tax.

Instead of the hundreds of forms required by the IRS, the flat tax uses two simple postcards. Families use the household postcard, and all they need to know is their labor income, available on a W-2 form. They then subtract an allowance based on family size. The remaining amount is taxable income, and the tax bill is based on the flat rate. The business postcard is equally simple. All businesses, from Microsoft to a hot dog stand (as well as individuals with "Schedule C" income), start with total revenues, and then calculate taxable income by subtracting wage costs, input costs, and investment costs. The IRS then gets a flat percentage of that remaining amount.

The special interests hate the flat tax because it means no loopholes, no complexity, no shelters, and no special preferences. All income is treated equally. Some taxpayers may not like losing various [deductions](#), but treating income equally also means that there is no double taxation, so the death tax and capital gains tax are abolished.

Most Americans support tax reform because they want fairness. The current system is a crapshoot riddled with corrupt provisions, and the tax treatment of upper-income households is a good example. Sometimes rich people are hit with punitive tax rates. This is not good for them, but it also hurts the rest of us by reducing investment and [entrepreneurship](#). Many wealthy taxpayers, though, scam the system by using lawyers, lobbyists, and accountants. That also is bad for the rest of us since funds are allocated

inefficiently.

With a flat tax, by contrast, there are no special preferences or special penalties based on income. If Bill Gates has 100,000 times as much income as the average taxpayer, he'll pay 100,000 times as much tax. Not more, not less.

Economists like the flat tax since it would increase growth and job creation, while also making America more competitive. This is because a flat tax means a low tax rate. By replacing high tax rate with a low flat rate (probably 17 percent), the flat tax will encourage more productive behavior. Politicians understand that high tax rates on tobacco reduce smoking, so why don't they realize that high tax rates on work and entrepreneurship discourage growth?

A flat tax eliminates double taxation. By getting rid of the tax bias against saving and investment, the flat tax will encourage more capital formation. Every economic theory—even Marxism and socialism—acknowledges that saving and investment are needed to boost wages and living standards, yet the current system imposes extra taxes on people who set aside some of today's income to finance tomorrow's growth.

A flat tax reduces compliance costs. According to the Tax Foundation, dealing with the tax code—measured by the time, energy, money, and other resources that we devote to simply trying to figure out the right number to put on our tax returns—will cost us \$338 billion this year. This tax on paying taxes will fall by more than 90 percent with a flat tax.

Finally, a flat tax shrinks the IRS. The Internal Revenue Service has morphed into an enormous bureaucracy costing \$12 billion each year. The IRS employs more people than the FBI and CIA combined, and virtually all of this expense and bureaucracy could be wiped out under a flat tax

We shouldn't blame the IRS, by the way, for today's awful tax system. All of the mess is the result of 97 years of social engineering by politicians. Both Republicans and Democrats have been swapping loopholes for campaign cash ever since the income tax was imposed back in 1913.

Tax reform may seem like an impossible dream, but it can happen. Achieving a flat tax in America will not be easy. Everyone who benefits from the current system—politicians,

accountants, bureaucrats, and lobbyists—will fight to keep the IRS. But if the American people get angry enough, anything is possible.

[Read why an imperfect tax system beats an unproven one](#), by Holley Ulbrich, senior fellow at the Strom Thurmond Institute.

1 **2** [Next Page >](#)

Copyright © 2010 U.S.News & World Report LP All rights reserved.