



THE CASE FOR A FLAT TAX

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The American Revolution started as a tax revolt – over a single tax on tea! Now look at us. It seems like everything we do is taxed.

The system behind these taxes is a bureaucratic monstrosity; a dead weight on the economy. And it erodes our trust in the government that's taxing us. If you have enough lawyers, lobbyists, and loopholes at your disposal maybe you can game the system. That's fine for big corporations and wealthy individuals, but what about the small business owner or the middle class taxpayer? He just has to shut up and pay up. Nothing better illustrates the disaster that our tax system has become than the mother of all taxes: the federal income tax code. This tax alone, with all its attendant rulings and interpretations, is estimated to be about 10 million words – and rising!

Several years ago, Money magazine took a hypothetical family's finances and gave the numbers to 46 tax preparers. Forty-six different estimates came back. In some cases those differences ran into the thousands of dollars of what the family owed. This from experts who are considered to be the best in the business. But the taxes themselves are only part of the cost of this toxic code. There's also the cost of compliance – the time, money and effort it takes Americans to prepare their taxes.

A George Mason University study puts the annual cost of compliance as high as \$378 billion and the total annual economic cost (including work hours) at more than \$600 billion. Again, these are annual costs – as in every year! That's a lot of money that could be used in more productive ways—creating new products, new services, new medical devices, new cures for diseases.

Clearly, the time has come to drive a stake through the heart of this tax monster. So, what should be done? Like most things, the best solution is the most simple: A single flat tax with no deductions, except for a deduction for each adult and for each child. Fill out a sheet of paper or key in a few numbers on your computer, and you're done. This one change would not only make every citizen's life easier, it would also transform government, our economy, and our society by ending the complexity that gives bureaucrats and politicians so much power. They have power because they're the ones who dole out the tax favors.

It wasn't always this way. There was a time when corporations primarily lobbied Washington to keep government out of their businesses. That has changed. In the words of The Atlantic, “[T]he evolution of business lobbying from a sparse reactive force into a ubiquitous and increasingly proactive one is among the most important transformations in American politics over the last 40 years.”

This favor-seeking is centered on getting special treatment and tax breaks. A flat tax will help us begin to scale back that special interest-loving, crony-capitalist big government that we all complain about. Everyone would pay less—not only in taxes, but also in compliance. Investment and job creation would skyrocket. We'd experience a recovery that would grow the tax base and—irony of ironies—ultimately generate more revenue for government. I go into this in much greater detail in my book, *Reviving America*, but here, in essence, is how it works.

Everyone—individuals and corporations—pays a 17 percent flat rate. This single rate is absolutely critical. Whenever we have two or more tax rates, they're like rabbits: they breed. We saw that with the 1986 tax reforms, which consisted of two rates. They've since multiplied into the seven we have today.

Well, you might argue, this sounds great for the rich, and even the middle class, but what about the poor? Seventeen percent is a big burden. That's why, under this plan, a family of four who makes less than \$52,800 would pay no income tax. That's double the current federal poverty level. This will let people at low income levels keep more of their money.

And for those who think the rich should pay more, they will. Prior to the passage of the tax cuts that President Ronald Reagan pushed through Congress in 1981, the top one percent of American earners accounted for nearly 18 percent of federal personal income tax revenue. By 1988, that same group accounted for nearly 28 percent, an increase of 10 percentage points in only 7 years.

By eliminating loopholes and requiring everyone to pay their fair share, the flat tax offers a model of tax fairness. More than 40 countries and jurisdictions have enacted the flat tax. When all the facts are considered, the real question is not whether America should implement this vital reform, but what are we waiting for?

It's time for another tax revolution.

I'm Steve Forbes for Prager University.