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The Evolution and Future of the Individual Tax System

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The Evolution and Future
of the Individual Tax System

Kristofer Hoffman

July 26, 2000
One might be able to say that the foundation of the United States was built on taxes. A popular war cry during the American Revolution was "No taxation without representation," since the colonists wanted a vote on their tax system. The federal individual income tax system has been debated since the Civil War Era, and even today the tax system is heavily criticized by some people. In order to fully appreciate which direction the tax system should go, citizens need to be informed on how the income tax system got started.

This paper will lead you through the rough and slow beginning of federal taxes and into its present day status. Once we see how taxes were born and transformed over the years, I will evaluate the effectiveness of the tax system in order for the reader to decide if change is necessary. Finally, I will offer several different alternatives to the present tax system so that the readers can compare and contrast the various possibilities.
Off and On Taxation

The income tax system in the United States has evolved over the years based on the economic needs of the country. Keeping this basic premise in mind, it is easy to deduce the beginning of income-based taxation theory in the US: the War of 1812, the first war after independence. The idea of the income tax came about after the United States government had amassed a national debt of $100 million in order to fight in the war (Witte 67). Before and during the war the main revenue producer for the government was customs duties on foreign items coming into the US. These duties had even been doubled in 1812 at the onset of the war, but less revenue was produced due to lower international trade during the war times (Witte 67). Excise taxes on goods, commodities, houses, slaves, and land were instituted during the war, but more revenue was needed. The idea of the income and inheritance tax was brought up in 1814, but before any law was enacted the war ended in 1815.

The first income tax actually enacted was during the next great war America faced – the Civil War. Of course, at first all the traditional lines of revenue production were tried: tariffs doubled, sale of public land increased, excise taxes were raised and created, and new license fees were imposed (Witte 67). Needing still more money, a congressman from Pennsylvania proposed a direct tax on land in each state that would be apportioned by population. This proposal split Congress into two sides: the industrial North and Northeast versus the agricultural South and West. The Northern congressmen wanted high tariffs on foreign goods so that the goods produced in their region would be protected from international competition. The rest of Congress from the South preferred
income and wealth taxes since their constituents predominantly did not have wealth. In addition, the poorer agricultural people were the main ones suffering from high tariffs since these taxes raised the prices of goods they bought.

The land tax measure was defeated in the House, but a progressive rate income tax was passed in 1862 that would tax income between $600 and $10,000 at three percent and any higher incomes at five percent (Witte 69). While this bill passed with relative ease, a second income tax bill in 1864 would create more debate and controversy. This bill proposed raising the graduated rates to ten percent in order to offset the $1.8 billion national debt (Witte 69). During this debate lobbyists started interacting with legislators to persuade them to add other measures such as deductions for rent expenses, real estate income, and farm income.

While this second income tax was passed in 1864, the New England states were quick to push for its repeal after the war ended. In 1872 the income tax was repealed after a vote which split Congress along geographic lines: seven New England states and California voted overwhelmingly for repeal while fourteen southern states and New Hampshire voted against the repeal (Witte 70). This vote is easy to understand when looking at the income tax revenues from each area. Those states which voted for repealing the income tax paid 70 percent of the revenue while those who voted against the repeal paid only 11 percent of the tax revenue (Witte 70).

Individual income taxes, though not in the law anymore, had sparked some heavy debate and polarized Congress. The 1880's were a prosperous era, so tariff and excise taxes were able to fund the federal government. The next century, though, had a gold panic in which banks feared the government would not back up the dollar with gold.
This panic revealed the government's financial weakness and brought the recurring issue of how the government can become more financially stable. As during the Civil War debates on individual income taxes, Congress was split between the eastern states and the Southern states. The main opposition to the income tax came from New York. The main points against the income tax were as follows:

- Dampen the incentive to invest and maybe even drive America's richest people to different countries
- Discriminate against the richest class (due to the $4,000 exemption)
- Infringe on people's rights
- Generate fraud and corruption
- Taxing the rich and not the poor is the first step towards socialism

The proponents of the individual income tax, though, debated the following issues during the congressional debates:

- Income and wealth are extremely skewed, so taxes should reflect this distribution.
- A small percent of the richest people's incomes would not be a huge burden for them.
- The tariff is twenty times greater than any income tax proposal, and the "working man" pays the majority of this tax (Witte 72)

The individual income tax was passed which had a $4,000 exemption and a flat tax of 2 percent above that.

The 1894 income tax only lasted for a few months, though, until the Supreme Court ruled it was unconstitutional. The main issue that the Supreme Court debated was
whether taxes on all sources of an individual’s income are considered “direct” taxes because the Constitution specified direct taxes must be assessed uniformly (Witte 72). After evaluating this issue, the Supreme Court ruled that taxing municipal bond interest infringed on states’ rights, and taxing rent and personal property was a direct tax that was not assessed equally. They also ruled, though, that taxes on wages are legal because they are not direct taxes, but since the other provisions were illegal the whole income tax was overturned.

The overturn of the individual income tax did not restrain legislators from trying to formulate a new bill that would be upheld in court. During the Spanish American War, as in all previous wars, sects of Congress unsuccessfully tried to write a new tax law that would stay within the confines of the court ruling. In 1906, a new group of liberal Republicans took control of the Senate, and they supported income taxes rather than high tariffs. These key Republicans drafted an income tax bill, but when a compromise was finally reached they were afraid the bill would fail. They discussed the issue with President Taft who suggested a corporate income tax rather than an individual, and thus the individual income tax was narrowly avoided for a few years.
The push towards the Sixteenth Amendment, which allows individual income taxation by the federal government, came soon after this previous individual income tax failure. There are a few reasons why more people became supportive of a progressive income tax at this time. First, the Republican party divided itself between the conservatives, led by Taft, and the progressives whom were led by Theodore Roosevelt (Witte 76). With this rift in the GOP, the Democrats were able to gain more power and eventually the presidency in 1912. Another big reason why citizens and government officials were willing to impose an income tax was because of studies released during that time. Many reports were published concerning the disparity between the richest class and the poorest class of people. This study also showed that the “rich are getting richer, and the poor keep getting poorer,” especially from the time of 1890-1909 (Witte 76). In addition to these reports, an expose concerning Standard Oil and another concerning the banking system showed how monopolies were abusing their power. Since these reports received a lot of publicity, more people started pushing for a progressive tax system, which would tax the elitist part of society that was profiting from their monopolistic power.

Senator Joseph Bailey, a Democrat against taxes, proposed the Bailey Bill that was similar to other tax bills of the time. Bailey’s motive was not to actually pass a tax measure, but instead to further alienate Republicans who spoke up against taxes as favoring the rich (www.cats.org). To Senator Bailey’s amazement, Roosevelt and other liberal republicans supported this measure. The conservative Republicans, though, tried
to get the bill defeated by changing the Bailey Bill into a constitutional amendment, not just a bill (www.cats.org). This strategy would force three fourths of the states to ratify the bill before it could be signed into law and added to the Constitution, and the conservatives were hoping this would not happen.

The actual ratification process among the states has been questioned many times by scholars and disgruntled taxpayers. There have been allegations that Kentucky switched the votes around, the Minnesota governor never actually took a vote, and various other states could not produce voting details (Beckman and Benson). The courts refuse to question whether the process was legal, though, since the Secretary of State at the time verified that all states had ratified the amendment (www.geocities.com/CapitolHill/2278/stahl). The process had taken a long time with Alabama being the only state to ratify the amendment in 1909, but by 1913 the thirty-sixth state had voted to ratify the amendment.

With the political popularity of lower tariffs and income taxes, President Woodrow Wilson called an emergency session of Congress to move forward on these changes. Even though the Sixteenth Amendment made it legal for the federal government to tax wages, there was no system in place to do so. The first income tax after the amendment was passed had the following characteristics:

- $3,000 exemption for single, and $1,000 additional if married
- Interest on state and local bonds as well as salaries of public servants were exempt
- 1% on incomes up to $20,000
- 2% on incomes between $20,000 and $50,000
• 4% on incomes between $50,000 and $100,000
• 7% on all income higher than $100,000 (Witte 76-77).

The interesting part of these early debates is that many of the philosophies and tax laws in practice today were brought up then. For example, dependency deductions were suggested in the Finance Committee, and the House Ways and Means Committee suggested taxing capital gains differently (Witte 77). Also, deductions from income could be made such as business expenses, paid taxes, and casualty losses. Thus, the first permanent statute of the individual income tax was finally born with much debate, but very little effect since 98% of US citizens were not required to file due to the large exemptions.
Early Years Under the 16th Amendment

As in every war prior, World War I created a huge financial need in order to mobilize troops. This war was different, though, in that it was the first war where an individual income tax system was already in place. When the budget deficit hit $177 million between 1915 and 1916, Congress raised the lowest tax rate from one to two percent, and raised the highest tax rate to thirteen percent (Witte 81). Other measures such as expanding the taxation of stock dividends were also enacted to boost revenue. Though these changes in themselves were not revolutionary, the main lesson learned by Congress and politicians was how easy it was to raise large sums of money through minor revisions of the tax law (Witte 81).

The 1917 War Revenue Act was the next step to try to raise even more money for the war effort. This act had dramatic changes on the taxation system as follows:

- Exemptions were lowered to $1,000 for singles, $2,000 for married couples
- 2% tax on income above that amount
- Various surtaxes on amounts of income that put the highest tax bracket at 50% of income above $1 million (Witte 84).

These new tax measures were effective by raising $800 million in 1917 (the year they were passed) and raising $3.7 billion by 1918.

Even though these new tax rates were extremely progressive, not much debate went on in Congress due to legislators not wanting to appear against the war. These first tax revisions, though, can not be overemphasized as a major turning point in American politics and the beginning of the tax system we know today. America stopped relying on
excise taxes for its income and turned to the income tax system, and politicians saw how easy manipulating the income tax system was as a way to appease their constituents. By lowering the exemptions or raising the tax rate by a point or two, the legislators saw huge amounts of revenue with very little public backlash.

By the end of the war other tax measures had also been implemented that raised the highest tax bracket to 65 percent, and then it was raised again to 77 percent (Witte 85). By 1919, the 1 percent of people with incomes above $20,000 were paying 70 percent of all income taxes (Witte 86). The discrimination against the top class of people was overlooked though as war debts were the main focus. After the war, though, the Republicans won back major positions in the government and started returning the tax system to the normal rates.
Growth of Taxes

While much detail has been given to the beginning of the federal individual income tax system so far, there will not be as much detail describing the next couple of decades in tax history. This paper will now focus on changes and nuances in the taxation system that have transformed it from the relatively simple way it began into the behemoth that it is today.

During the 1920’s the first item on the agenda for Secretary of the Treasury was to return the taxation system to “normal rates,” since World War I was over. Remember that before World War I the highest rate was 7%, but after the War the highest rate was initially lowered from 77% to 50% (Witte 90). These new tax rates more closely resemble current tax brackets rather than the tax brackets established as the taxation system started. Another monumental change that occurred during this decade was concerning capital gains tax rates. This highest tax rate for capital gains held two years or more was 12.5%, which can be seen in current day capital gains tax rates of 20%. Before this time, all capital gains were taxed at normal rates, but politicians saw the advantage of encouraging people to invest in capital assets (such as stocks) in order to keep the economy healthy.

The 1930’s were the antithesis of the 1920’s. During the roaring 20’s, Congress incrementally decreased tax rates and raised the exemptions. During the Great Depression though, Congress raised rates once again and lowered exemptions. In fact, the Great Depression was the first time in the history of the United States when taxes were raised so sharply during peace times. During these eras in taxation, the main
lessons that politicians learned were how to complicate the taxation system with incrementalism. Instead of drastically raising or lowering tax rates, Congress played with special tax provisions that would slightly alter the tax system. For example, the difference between earned and unearned income was established during this time, and earned income was given a larger exemption (Witte 99). Also during the 1930's, President Roosevelt pushed many measures through Congress that closed loopholes in the tax code. For example, before the changes, rich families were able to divert individual income into family partnerships for lower taxes, but after the revisions in the tax code these family partnerships were harder to establish.

The next economic need of the country occurred during World War II. Most experts agree that this economic crisis changed the federal income tax system into the current system (Witte 130). During earlier versions of the tax system, Congress changed the higher tax brackets and exemptions, which still only affected the upper middle and elite classes of American society. The World War II changes, though, made the individual income tax applicable to most of the population. Congress could no longer justify why every American citizen should not be liable for some taxes. With this broad reaching income tax, though, certain special circumstances arose, and Congress responded by creating particular intricacies that attempted to make the system fair. With these special provisions, though, the income tax system grew more and more complex.

Since the Korean War followed soon after World War II, the brief tax cuts turned back into raising more revenue through increased taxes. The post-Korean War era saw a radical change in the tax code. The Eisenhower administration revamped the entire Internal Revenue Code and passed the Internal Revenue Code of 1954 (Witte 146). This
was the first time since 1913 (the original tax code) that the code was rewritten in an
effort to close "more than 50 loopholes" (Witte 146). Certain characteristics that are still
in the code today were established in this re-written tax code such as the following:

- Definitions of exemptions and dependents
- Increased deductibility of medical expenses
- Credit for retirement income
- Deductions for child care expenses
- Exemption of employer paid health care (Witte 147).

This dramatic changing of the code was necessary due to the increasing complexity of the
US economy. When the code was originally written in 1913, Congress had no idea those
government programs such as social security or unemployment insurance would arise,
and thus there was no explanation on how to treat these items for tax purposes. Also, the
individual income tax had started as a tax on the rich but had grown into a tax for
everyone. Another big change occurred during this time. Government no longer worried
about taxes being disproportionately placed on the rich, but instead debated the right level
of taxation to curb inflation and keep the deficit under control.
Changing Philosophy Behind Taxation

After the Internal Revenue Code of 1954 was passed, the tax laws were essentially unchanged for the next eight years (Witte 155). During the next two decades of the 1960's and 1970's, though, the tax revisions came and went fast and furiously. A couple of common characteristics emerged during this time frame. First, politicians used the tax code more and more to foster their ideological goals and win public support. For example, in the 1962 and 1964 tax bills, businesses and capital formation were favored with tax cuts, but a couple of years later the nation was antiwar and anti-business with more focus on liberal domestic policies. This change in politicians' perception of a national attitude led to additional changes in the tax law (Witte 173). No longer was Congress basing tax laws on raising money for wars or keeping a fair system, but instead politicians were trying to reach specific policy goals through the use of the taxation system.

This change in usage of the taxation system can also be seen in some other common characteristics established during that time. Changes to the tax system started being called "tax reforms" as the different political parties vied for public support. Politicians, both Republican and Democrat, started using this and other buzz words to win public support. During these two decades, taxes were also lowered as politicians wanted to win public support and re-election. During this time of using the tax code as a political tool, though, the tax code became an enormous complexity. When thinking of all the different politicians with individual agendas adding and subtracting provisions for their own needs, one can easily see how this time in history created a monstrous tax code.
For example, during this time the minimum tax was established that taxed “preference items” at a set percentage, but the items on the list of preferences continued to change with each administration.

While the 1981 tax cuts were monumental in amount, the actual politics and process of these cuts had happened repeatedly throughout history. I believe that all the actions that had created the tax system, and the usage of the tax system had already been established by the 1960's and 70's, and later tax changes such as the 1981 tax cut are just continuations of the same politics.
Summary of Lessons

While looking at the evolution of the federal individual income tax system, one can see how the system obtained the features we are accustomed to today. First, income tax politics is incremental in nature, meaning politicians change small parts at a time. By looking at history, all attempts at radical changes in the taxation system were overwhelmingly defeated in Congress. Whenever changes were made to the tax code, most of the time the actual tax rates were not changed, but instead credits, bracket ranges, and allowances were altered. The result is that the average American citizen is not sure whether taxes were raised or lowered. This versatility in changing the tax code gives politicians enormous power to change social policy, but with a byproduct of a huge complex tax system. In addition, reducing taxes has become a battle cry for almost every politician in the recent age. Regardless of whether taxes should be lowered or not, many politicians vow to lower taxes in order to win votes. Finally, taxes reach everyone in mainstream society now. In reviewing the history of the US tax code, one sees that initially the income tax was a tax of the richest people. It was not until World War II that all classes are taxed at one rate or another. Today, nearly everyone from welfare recipients to the permanently disabled is required to file a tax return, even if only to apply for credits or refunds.
The Current State of the Tax System

The tax system in its current state is far different than when it began. It started as a strictly revenue producing procedure, but has since been politicized into a tool for social change. During this process, the Internal Revenue Code grew from the basic Form 1040 into the 480 tax forms today (www.flattax.house.gov). The IRS also publishes 280 sets of directions to explain the 480 forms (www.flattax.house.gov). An opponent of the current tax system estimates that 300,000 trees are cut down each year so that the IRS can send out more than eight billion pages of forms and instructions (www.flattax.house.gov). During the 1988 Taxpayer Compliance Measurement Program conducted by the IRS, the IRS estimated that 40% of all taxpayers underestimated their tax liability, but 82% of those guilty were unintentionally noncompliant (www.fairtax.org). The most common errors were as follows:

- Lack of requisite knowledge of tax law
- Difference in interpretation of tax law
- Lack of sufficient record keeping
- Incorrect math (www.fairtax.org).

In order to comply with the growing complexity of the tax system, average citizens have to pay tax preparers to do their taxes, which adds to the burden of actual tax compliance. The tax compliance industry is $200 billion annually, which averages out to $700 per man, woman, and child (www.flattax.house.gov). Though some of these compliance costs are attributed to businesses, one can assume that these businesses do eventually pass the costs on to the consumer. Even taxpayers who wish to prepare their
own tax returns can spend at least 13 hours doing so, even by IRS standards (www.irs.gov). And this time estimate is for the Form 1040 only; the IRS time requirements go up depending on if additional forms such as Schedule A or D are necessary. In aggregate, it is estimated that Americans spend 5.4 billion hours complying with tax code (www.flattax.house.gov). In looking at these statistics, one can see that frustration and bewilderment can be common emotions of a taxpayer trying to figure out the tax code.

The complexity of the tax code provides more than just additional costs for the common taxpayer, the code also allows tax evasion. With all the different caveats involved in the tax code, an individual can choose which credits and deductions he wishes to exploit. These dishonest taxpayers have multiple ways of hiding income and reducing their tax liability due to the volumes of tax code providing excuses. A well-informed tax evader, who avoids the IRS red flags, can fudge the deductions with the only chance of getting caught as being audited. Based on IRS statistics, tax evasion has increased by 67 percent during the decade of the 80’s and “counted” for two percent of the US gross domestic product in 1992 (www.fairtax.org). The study in 1992 also revealed that tax evasion, as a percentage of income taxes collected, amounted to 22% (www.fairtax.org). Income taxes on illegal activities were not included in that study, so the average taxpayer can think that for every $100 he or she pays in taxes, someone else is only paying $78 and keeping the difference.

Another downside of the tax system today is the economic hindrances it places on taxpayers. Taxes on interest and dividends are some examples of how the tax system reduces the incentive to save. With America being as consumer-oriented as it is, some
experts say that citizens should be given more incentives to save for retirement or big purchases rather than relying on Social Security or borrowing money. Municipal bonds are the only nontaxable source of income available, but most financial experts agree that this source of income is not putting a person's capital to its best possible use in terms of receiving the highest yield. If people were given more incentive to invest in business, the American economy could grow with this new surge of capital. In fact, Dale Jorgenson, chairman of the Economics Department at Harvard University, estimates that for each dollar the government raises through its current tax system, it actually hurts the overall economy by $1.39 (www.flattax.house.gov).

Another flaw in the current tax system is the heavy lobbyists' influence. Special interest groups have been able to petition Congress to add certain measures to the tax code. While most of these tax loopholes are on the business side rather than the individual side of taxes, one needs to remember that the government is going to get money somehow, so if businesses pay less then individuals will pay more. Another interesting study, in the figure below, shows the correlation between lobbyists and words in the tax code (www.flattax.house.gov).
Other Options: Flat Tax

There are a couple of flat tax proposals by different groups, but I have focused this paper on the Armey-Shelby flat tax. This proposal would totally get rid of the IRS and the current tax code. The first two years under this code would have a flat 19% tax rate on all wage, salary, and pension income and then 17% for all subsequent years (www.flattax.house.gov). These tax rates would be the same for businesses and individuals, so wealthy individuals would not have the incentive to develop family limited partnerships or other similar tax shields. The standard exemption would be $12,200 for a single person, $24,400 for married filing jointly, and $5,500 per dependent child (www.flattax.house.gov).

One of the biggest advantages to this tax system would be the simplicity of complying with the tax law. The one and only tax form for individuals would be a postcard asking for names, addresses, total wages, dependents, and taxes paid. The Tax Foundation estimates that 94% of tax compliance costs would be eliminated with a flat tax (www.flattax.house.gov). Interest and dividends could be earned without the individual worrying about the tax consequences because the actual businesses would pay tax on this money before they declared dividends or paid interest on their bonds. This end of double taxation is another advantage of a flat tax that would increase investment in capital and thus help the economy. Yet another benefit of a flat tax would be decreased influence of lobbyists. The tax code would not be tinkered with to favor a certain special interest group, so all people would pay the same taxes.
Opponents of the flat tax point out that the payroll taxes of FICA and Medicare would still be in effect with the flat tax, thus the actual tax rate would be higher than the quoted 19 or 17%. Similarly, since payroll taxes are only charged on wages and salaries, the investment income would not have these additional taxes. This omission would give the rich, who are able to invest, a tax advantage over those unable to invest. In addition, when one compares the current tax brackets to the flat tax rates, the largest advantage goes to the highest tax bracket. The poorest people would actually have higher tax rates, and the richest taxpayers' rates would be lowered from 39.6% to 17%.

Another disadvantage of the flat tax can be seen by looking back in history. Even though people call the above proposal a “flat tax” it is actually progressive in nature due to the exemption, though very slightly progressive compared to the current brackets. Similarly, the beginning of the federal individual income tax began as a slightly progressive income tax. Opponents of the flat tax point out that this tax change would just be re-starting the whole income tax degradation again, and eventually the country would end up exactly how it is now. Finally, critics are quick to point out that the actual passage of such a measure would be next to impossible to pass through Congress due to lobbyists’ opposition, let alone whether the American people could adjust to such a drastic change to the taxation system.
**Other Options: The Fair Tax**

The Fair Tax is one group's version of a national sales tax. This national sales tax would eliminate all federal income tax as well as all payroll taxes. Citizens for Fair Taxation, the group supporting this tax measure, proposes a 23% national sales tax that would be added on to state and local sales taxes (www.fairtax.org). At the end of each month, every citizen would receive a check that would rebate the sales tax paid on necessities.

With workers being able to keep all of their paychecks, one of the advantages of the Fair Tax would be the elimination of the regressive payroll taxes. Payroll taxes are regressive due to the Social Security tax being paid on wages up to $72,600, thus rich people have “untaxed” income while lower income never reach this exemption amount. Another advantage of this tax proposal would be the autonomy people are given concerning the amount of taxes they pay. If someone doesn’t want to pay a lot of taxes, they will limit their purchases so as not to pay the sales tax. Likewise, if higher classes of people insist on buying multiple luxury cars, they will have to pay the sales tax associated with these purchases.

Another advantage that proponents of the national sales tax point out is the lower prices of goods. Even though the tax on goods might go up dramatically with a national sales tax, the cost of producing goods should decrease. Since businesses will no longer have tax expenses or tax compliance expenses, experts estimate that costs to produce should decrease by 20-30% (www.fairtax.org). Still another advantage might be that American businesses become more competitive on the international market. Americans
would have the incentive to invest rather than spend with a national sales tax; so more capital could be pumped into American businesses. Additionally, US businesses would no longer have the tax expenses associated with the federal income tax, so the international market would be more receptive to the lower prices. In addition, another advantage would be the proven track record of a sales tax. The actual initiation of the sales tax would be adding the additional percentage to the sales tax already collected. Finally, similar to the flat tax the national sales tax would eliminate the lobbyists’ influence in Washington.

Opponents of the Fair Tax are quick to point out the flaws. First, the national sales tax would require the repeal of the Sixteenth Amendment, which would require that two thirds of Congress and three fourths of states agree to such a measure. Critics say that these votes would never happen, so the sales tax is theoretical only. Another disadvantage of the national sales tax would be Congress’s ability to raise the sales rate percentage incrementally. With the other state and local sales taxes added in, consumers might not realize that the national sales rate increases. Also, in every attempt an industrialized country has tried to have a national sales tax, the sales tax has ended as a value-added tax (www.flattax.house.gov). The value-added tax imposes a tax on each stage of the production process, so the actual end buyer pays these taxes rather than a sales tax at the point of sale. In addition, a value-added tax requires much more administrative work and hides the actual tax paid by the consumer.

The main disadvantage, though, that critics raise is that the 23% sales tax rate is not feasible. Upon in depth analysis of the mathematical assumptions of the Fair Tax, Citizens for Tax Justice claim that the 23% rate would have to be much higher to equal
the federal government’s current income and payroll tax income. For example, the mathematical model includes all government purchases as subject to the national sales tax. Obviously, the government can not pay itself 23% of all purchases of military supplies and other procurements (www.ctj.org). In addition, the sales tax figures include services provided by churches, veterans’ hospitals, and banks with free checking accounts. In order to keep these services tax-free and cover governmental purchases, adversaries claim the national sales tax would have to be closer to 56% (www.ctj.org).
Conclusion

The federal individual income tax started as a tax on the richest part of society. It then slowly evolved to include every class of people. With this evolution, politicians started changing the tax code in the name of equality. When politics started getting involved in the decision making process, each political party had its own agenda on who deserves the biggest tax breaks and what money should be devoted to certain programs. These politics can even be seen in the presidential candidates today—Bush wanting larger tax breaks for the budget surplus while Gore wanting the additional money to strengthen current governmental programs.

There are certain tax proposals that attempt to cure the problems with the current tax system, with each option offering its own obstacles. One has to ask whether any drastic change to the taxation system would be possible by looking at history. The current tax code has been changed incrementally, and no overhaul has ever been seriously considered in Congress. Legislators are weary of the unknown consequences of such dramatic changes, and lobbyists are quick to point out flaws in tax systems where their power would be limited. During the Reagan administration, a flat tax was proposed, and lobbyists were quick to rally the lower and middle classes in opposition to the “tax break for the rich.” The conclusion I have found through this research is that tax reform is necessary, but the direction is still unclear. As IRS commissioner Shirley Peterson said, “If we don’t change our system of collecting taxes, it will break down... Our traditional approach cannot sustain an acceptable level of compliance.” (Schnepper 483).
Works Cited


