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Tax reform

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By Sam Brownback - As we debate the important matter of an economic stimulus package, I hope those of us setting policy in Washington do not lose sight of the need for fundamental tax reform. While immediate efforts to stimulate growth are important, a permanent reform that addresses the labyrinth complexity and unsupportable burdens of the tax code is absolutely essential to maintain a dynamic and growing economy.

Beyond the maze of tax rules and regulations stand two realities: First, current tax rates for many low- and middle-income Americans have declined in recent decades. In 2008, even without tax rebates, some 41 million out of 139 million (30 percent) returns will have no income-tax liability. That doesn't include an additional 15 million to 20 million taxpayers who do not or are not required to file. Second, navigating the complex code to take advantage of those lower rates is an anxiety-inducing and burdensome process.

There is one thing that virtually every American believes: The tax code is unfair and incomprehensible. The hard-working factory worker believes the tax code is filled with loopholes to benefit wealthier Americans. Families who are rich only by the government's standard puzzle over the inequity of 20 percent of American families paying 86 percent of all federal income taxes and 69 percent of all federal taxes.

While lower rates are a positive development, why does the government subject people to such a complex process? Wouldn't we all be happier if we didn't require expert help to determine our federal tax liability? From these two considerations, and a third — that these lower rates will increase if the Bush tax cuts expire in 2011 — arises my legislation, Freedom to Choose Tax Reform Act (S.2518). This concept begins with the proposition that many Americans detest the complexity of federal tax laws and would welcome a simplified system that imposes an equal or lower tax liability.

After several years of work and analysis by the Joint Economic Committee and others, I developed this family friendly, pro-growth tax alternative as a first step toward meaningful and permanent tax reform.

The Freedom to Choose Tax Reform proposal would offer an optional, two-rate (10 percent, 23 percent) tax system. Under the reform, a taxpayer's income up to \$102,000 of income (the 2008 Social Security earnings cap) would be subject to an income tax of only 10 percent; income above \$102,000 would be subject to an income tax of 23 percent.

To keep the system simple, no deductions, exemptions or credits would be allowed, except for a \$1,000 individual tax credit that would increase each year with price inflation. The credit would be available for each tax filer, the tax filer's spouse and each person in the tax filer's household who is a dependent. This could include children, family members with disabilities and elderly parents.

My reform can succeed where others have failed because we are not attacking the tax code head-on. Individuals would be allowed to choose whether they want to pay their income tax under Freedom to Choose Tax Reform or the old system. This is similar to the successful Hong Kong tax model where individuals have a choice under which system they want to file.

Thus, individuals who have a zero or negative tax liability may choose to stay in the current system. Other individuals who have a minimal tax liability might also choose the reform because it would eliminate the need to pay for accountants or tax software.

In short, under my proposal — because of the freedom of choice — no one would have to pay more than what they pay in the current system; some would pay less; and everyone who opts into the system would enjoy the financial and emotional benefits of an uncomplicated, simple tax return.

Transparency would reign supreme under this reform. Questions regarding one's eligibility for certain benefits of the code would no longer require the input of a tax expert, nor would one have to worry about being hit by the onerous alternative minimum tax (AMT).

Families would especially benefit from the Freedom to Choose Tax Reform. The reform would completely eliminate the marriage penalty by allowing married couples to split their incomes.

Income splitting is a fancy way of saying that the person who earns the money is taxed on what they earn. No longer would a mom who takes a side job to help pay for her children's piano lessons or who goes back to work after her kids are grown be taxed on her first dollar of income at the highest tax rate her husband pays.

A further consideration for my reform is that while it is not technically a "flat tax," it would ensure that no American filing under the system would have to pay more than about a quarter of their income in taxes to the federal government. Some might call this an alternative maximum tax.

We often forget that besides the income tax, the federal government also takes up to an additional 15.3 percent out of our paycheck to pay for Social Security and Medicare taxes. While the current proposal does not affect Social Security or Medicare, the reform is structured to ensure that any filer would have a maximum total federal tax rate of about 25 percent. And most filers would have an even lower rate.

Lastly, the pro-growth advantages of the reform are noteworthy. All income under the reform, regardless of source (wage or investment) is treated the same, meaning that the distinction between long and short-term capital gains is eliminated.

Presently, to enjoy lower tax rates on capital gains (aside from a primary residence), a taxpayer must hold an asset for at least one year. Under the reform, this one-year holding period is eliminated, and the 15 percent capital gains rate is effectively reduced to 10 percent up to \$102,000. Elimination of the holding period should allow for freer movement of capital from less to more productive uses, and hence increase economic growth.

It is my hope that, the benefits of my reform will be found attractive by both sides of the aisle. I look forward to championing this proposal to ensure long-term growth and a bright economic future.

Sen. Sam Brownback, Kansas Republican, is a member of the Joint Economic Committee and the Appropriations Committee.
