

THE TAXONOMIST

Tax Missimplification—It's Not A Done Deal

By Robert S. McIntyre

Two days after his re-election, President Bush offered the public some guidance on what he says will be a central goal of his second term: “tax simplification.” Bush said he wants to “encourage people to invest and save,” i.e., he favors still more tax cuts for the rich. He added that he’ll propose a tax code that “rewards risk,” i.e., one that offers even more tax breaks to business. No surprises there. But as previously hinted, this time around Bush offered a twist: His plan will be “revenue neutral.” Of course, that requires raising taxes—by a lot—on everyone else to break even.

The two leading right-wing proposals to replace the progressive income tax are a flat-rate wage tax and a high-rate national sales tax. Either would increase taxes on most Americans by thousands of dollars a year. That’s not something that you’d think would be popular. In fact, while Bush only touched on these ideas during his campaign, the national-sales-tax scheme was put to the electoral test in several House and Senate races. It didn’t do well.

In Georgia, for example, Republican House incumbent Max Burns lost a race that featured ads criticizing him for supporting a national sales tax. In South Carolina, Democrat Inez Tenenbaum came from far behind to almost catch Republican Jim DeMint in a race for an open Senate seat, entirely due to her attacks on the sales-tax plan DeMint had introduced in Congress. Defenseless, DeMint began claiming he didn’t support his own bill (and resorted to gay bashing to win). Seven-term North Carolina Republican Representative Charles Taylor survived a scare only after he, too, denied that he supported his own sales-tax bill. In Colorado, Democrat Ken Salazar beat beer baron Pete Coors for an open Senate seat after condemning Coors’ “crazy” sales-tax idea. Likewise, the flat-rate wage tax was an issue in a number of races a few years ago, and it also flopped badly.

An additional complication for the president and for tax-deform backers is the bitter war on the right between flat taxers and sales taxers. Sales taxers generally hate the flat tax because it doesn’t “abolish the IRS,” by which they mean rename it. Flat taxers like Grover Norquist detest the sales tax (and its cousin, the more easily administered value-added tax) because they think

a sales tax would be too easy to increase—and might lead to reduced deficits or (gasp!) more government programs.

So here’s my fearless prediction: Bush will appoint his “bipartisan commission” (say, nine Republicans and Zell Miller), staff it with people from The Heritage Foundation and the Cato Institute, and tell it exactly what kinds of options he wants it to propose. In due course, the commission will return with its list of options, all of them variants on a flat wage tax and a flat sales tax. And once these plans get analyzed in the press, the administration will lose its enthusiasm.

Which is not to say that we fair-tax advocates should sit on our hands and just watch the fun. First of all, tax deformers may try to fool the public. One ploy might be to suppress information. Heritage has already taken a preemptive step in this direction by decrying all “distributional tables” as inherently misleading. Or perhaps Bush will propose a combination wage tax and sales tax, but publish tables showing only the tax-cutting effects of the first. Congress’ formerly nonpartisan Joint Committee on Taxation took this tack in its analysis of Bush’s 2001 tax reductions; its tables simply left out the “uncertain” effects of estate-tax repeal, even though everyone knows that the estate tax hits only the very largest fortunes. Our side needs to be prepared to expose and rebut these kinds of shenanigans.

We should also present our own tax-reform ideas. Tax simplification should mean closing loopholes and taxing people and corporations on what they really make, not on some figment of their accountants’ imaginations. Graduated rates aren’t complicated, but are essential to protect the poor and middle class and ensure that top earners pay a decent share to support the country that makes their prosperity possible. A true tax-reform plan would no doubt be noxious to Bush and his loophole-loving allies in Congress. But it would resonate with the public, and could help set the stage for new leaders in Washington who’d deliver the kind of tax simplification that most Americans want and deserve.

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