For: Senate Finance Committee public solicitation
of ideas on tax code overhaul – 4/15/15

Ideas and Principles for Individual Tax Reform

Principle #1: Equivalent Tax Rates for Earned and investment Income[1]

Different rates for different income categories are a top source of complexity in the tax system. In addition to contributing to simplification, elimination of the disparity would help combat income inequality. Tax-favoring capital over labor perpetuates the income inequality gap and also undermines the disposable income growth of the middle class, which is a key to increasing the healthy consumer engine needed to drive business expansion. Equal tax rates were done before (in 1986 Act @ 28%) without adverse consequences to the system or the economy.

Principle #2: Low Rate / No or Fewer Deductions

In order to achieve both tax simplification and a lower rate of taxation, the current maze of deductions, amortizations, and exemptions, with their complex limitations rules and phaseout computations, should be curtailed. Whether to retain any at all, such as home mortgage interest (one residence only) and charitable contributions (both with caps) is a matter of fine-tuning.

Principle #3: Retention of Moderate Graduated Nature

Keeping the rate design moderately graduated, e.g. four brackets at the 100K, 250K, 500K, and above breakpoints, would reduce income inequality that a flat/regressive system entails, and would achieve a fair distribution of revenue sources.

Principle #4: Permanent Elimination of Alternative Minimum Tax (AMT)

The elimination of most deductions and preferential investment income treatment should render a parallel AMT tax system unnecessary, thus further contributing to tax law simplification.

Principle #5: Address Two Key Tax Preferences ("Expenditures")

Continue the tax benefits accorded various qualified retirement plans in order to encourage long-term savings and reduce government safety net pressure. However, consider eliminating the tax exclusion for employer-sponsored healthcare plans in order to achieve more equality across the income levels, since a higher proportion of low-income and even middle class lack access to employer plans. The latter action should also foster greater competitive pressure on the healthcare provider markets.

Principle #6: Strengthen Collection at the Source

Tax fraud and evasion still contribute to significant leakage in the enforcement of whatever tax laws are in place. Ongoing reductions in IRS funding for audit & enforcement will exacerbate the revenue loss. The tax code must be designed to tighten the process by providing for more collection at the source, and less reliance on taxpayer 'voluntary' compliance.

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[1] The result would be for all capital gains (short or long term), interest income, dividends (no 'qualified' distinction), and rental income taxed at the same 'ordinary income' rates as earned income. The matter of muni-bond income is more complex, since removal of its tax-exempt status, though ideal from a simplification and fairness perspective, would be disruptive to the municipal capital markets and require thoughtful mitigation steps.