business tax (continued) deductions; double taxation; flat tax Business Tax Form, 94f business tax form example(s): for banks, 116f; for corporations, 99f, 100f; for general businesses, 94f; for physicians, 104f; for small businesses, 102f, 106f, 107f Calderón, Felipe, xi capital formation, 131; after tax reform, 105; flat tax v. current tax in, 105; stimulation of, 62, 95, 108, 127, 132, 193 capital gains, xiv, 111; double taxation of, 18, 79, 92, 111–12, 175–76, 187; elimination of, 175, 193; under flat rate system, 111–12; under flat tax, 111–12; from house sale, 164; on owneroccupied homes, 176; Tax Reform Act of 1986 impact on, carrying costs: before/after tax reform, 147; tax reform impact on, 147-50 Carter, Jimmy, 6 cash-flow expenditure tax, 62, 75. See also after-tax income; consumption tax(es) charitable contributions, xv, 5, 151, 156; after tax reform, 151–53, 157-58; deduction amounts v., 154t; as deductions, 43, 54, 90, 151-53, 157-58; under flat tax, 151-53, 157-58; flat tax treatment of, 151-53, 157-58. See also nonprofit organizations cheating, on taxes, 5, 9, 21–23, 51; cost of, 1, 4. See also tax evasion child care expenses, 171 children/dependent deductions, churches, 151, 152, 189

Civil War, income tax for, 29, 30 Clinton, Bill, 2, 34; on fair share, 35; flat rate attacked by, 76; on Tax Reform Act of 1986, 39 Colorado, flat rate tax of, xi Commission on Federal Paperwork, 10 Commission on Taxpayer Compliance, 22 company car, 179 compensation; benefits as, 172; definition/exclusions of, 212; tax on, 84, 177, 214, 215 compliance: business tax costs of, 14; direct costs of, 9, 10-17, 28; indirect costs of, 9, 17-20, 27-28 consumption tax(es), xiv, 4, 61-63, 95, 109; Brown's proposal for, 78; cash-flow impact of, 111; flatrate tax as, 63, 132; forms of, 62 corporate dividends; corporate income and, 187; double taxation of, 18, 59-60, 131, 187 corporate income: dividends and, 187; double taxation of, viii, xiv, 59-60, 187 corporate income tax, 57-61, 139, 183; flat business tax v., 52, 83; revenue from, 20, 28, 53. See also business tax; corporation tax; deductions; double taxation; flat corporation tax, 17–18, 60; mechanics v. incidence of, 57; tax form example for, 99f, 100f. See also business tax; corporate

dividends; corporate income tax; deductions; double taxation; flat tax cost definitions: of business inputs, 213–14; of capital equipment/ structures, 214; of land, 214 Costly Returns: The Burdens of the U. S. Tax System (Payne), 10

Crane, Philip, 72 viii, xiv, 59-60, 187; of current tax revenues, flat tax entrepreneurs, 17, 193; of revenues v., 85t inheritance, 190; on residential deadweight losses, 9 property, 176; of savings, 109, Declaration of Independence, 3 132 DeConcini, Dennis, 72, 197 Duncan, John, 197 deductions: business meals as, 159, earnings; business type of, 176; flat 212; charitable contribution tax v. current tax by, 137t totals v., 154t; charitable economic behavior, tax rates and, contributions as, 43, 54, 90, 69 - 71151-53, 157-58; for children/ Economic Recovery Tax Act of dependents, 171; current 1981, 46, 67 practices for, 41, 46, 49, 54–56, economy, underground. See 157, 159; for depreciation, 95, underground economy 120; depreciation transitions in, elderly, 171-72 122, 173–74; for fringe benefits, entrepreneur(s), 133, 134, 145; 93, 95, 179, 196; for interest, 86, double taxation of, 17, 193; 90, 120, 122, 133, 146, 162–63, making investments as, 145-46 194; interest transitions in, 122– entrepreneurial activities; 24, 164, 177–78; losses of, 5, investment/interest and, 133-35; 122, 144, 146, 147, 156, 177; pension funds and, 131-32, 133medical/dental expenses as, 159-60; of mortgage-interest, 25, 86, entrepreneurial efforts, incentives 90, 122-23, 127; shrinking tax for, 133-35 base and, 55; special types of, equal distribution, of income, 42-54, 61; state/local taxes as, 55, 43 161–62, 168–69, 174–75; for equity, 40-44 upper-income taxpayers, 56 Estonia, flat tax of, viii Deficit Reduction Act of 1984, 33 excess burdens, 9 dependent care expenses, 54, 170, exclusions, 49, 112, 170, 183, 212 171 exempt organizations, 216 depreciation, 57, 120, 173, 184, exemptions, 30, 31, 49; for 194; deductions for, 95, 120; tax blindness, 172-73; for savings, reform transition for, 122, 173-108. See also deductions; loophole(s) disincentive costs, 17-20, 44, 74, 191, 192 exports, 115–19 fairness: concepts of, 4, 38-39; of dollar value, 207 double taxation, 5, 59-60, 112; of current tax system, 9, 35-37, 67; defining standards within, 38-40, business income, xiv, 59, 112, 43-44; economists on, 40; flat 131; of capital gains, 18, 79, 92, tax and, 37-38, 136, 142, 185; 111–12, 175–76, 187; of corporate dividends, 18, 59–60, tax burden distribution as, 51; test of, 63 131, 187; of corporate income,

family allowances, calculation of, 206 federal deficit, 127, 153-55 federal government, bankruptcy, federal income tax: avoidance of, 9, 17, 20, 24–28, 44, 51, 67, 136; corporate tax in, 57-61, 139, 183; current state of, 5, 8, 11, 17; current tax brackets of, 41-42, 45-46, 138-39; direct compliance costs of, 9, 10-17, 28; evasion of, 21-24, 28, 51; fairness of, 9, 35-37, 67; first U.S. system for, 30; history of, 29-34; horizontal equity and, 41–42, 44; indirect costs of, 9, 17-20, 27-28; individuals in, 53–57; Kennedy administration and, 33, 35, 65-67; Mellon reductions of, 32, 35-36, 64-65, 64t; progressivity and, 48, 54, 63; Reagan administration and, 2–3, 33–34, 67–69; revenue-neutral reform of, 52, 208; total costs of, 28; types of, 52-53; vertical equity in, 42-43. See also flat tax; taxpayers federal income tax (1913), 30 federal income tax burden, by income percentile, 68t Federal Tax Regulations 1994, 6 First National Bank, operating data, 207 flat rate: alternative tax systems v., 39; calculating income from, 84-86; capital gains under, 111-12; Clinton's attack of, 76; Form 1040 compared to, 13-14, 61; of sales tax, 37, 62, 81; of Social Security tax, 19, 37, 119; of wage tax, 83-84, 138-39 flat tax, viii-xi; for banks/insurance companies, 113-15; business

examples of, 98–105; business expenses under, 174; business tax and, 83, 90-97, 173-82; capital formation under, 105; capital gains and, 111-12; charitable contributions under, 151–53, 157–58; earnings under, 137t; economic impact of, 127-36; economic/social benefits of, 190-94; endorsements for, xiv, 74, 76-78, 197-98; exempt organizations under, 216; fairness of, 37–38, 136, 142, 185; federal deficit impact of, 153-55; fringe benefits under, 93, 95, 103, 169-70, 179–80; GDP and, 49, 63, 84–85, 112; general description of, xiii-xiv; housing market and, 146–51; immediate impact of, 141; for imports/exports, 115–19; income distribution through, 136–42; interest rates under, 143–46; intergovernmental relations under, 167-68; investment incentives of, 105–11, 127, 145; issues supportive of, 3-4; media reporting on, 75–78; nonprofit organizations under, 180, 189–90; opposition to, xiv– xv; personal allowance under, 48, 81, 170, 174, 214–15; political support for, xiv, 38, 72-74, 197-99; postcard symbol of, vii, 5, 7, 73, 79; quality of life under, 155-56; retirement accounts under, 195-96; revenue-neutral reform of, 52, 208; rival tax plans to, xv; sales commissions under, 173, 213; self-employed under, 37, 82, 90, 174, 176–77; Social Security under, 195-96; stock market and, 193; stock options under, 172-73; tax revenues under, 85t;

| trust funds and, 55–56, 189–90; variants of, 124–25 flat tax impact: on business, 181; on investment, 105–11, 127, 145; on labor, 130–31; on marginal tax rates, 128–30, 190–91; on stock market, 193 Flat Tax Law: in bill to amend Internal Revenue Code, 211–17. See also Hall Rabushka flat tax | tax revenue calculation with, 84–85, 112; tax base calculation with, 49, 63, 112; under Tax Reform Act of 1986, 70 General Motors' Business Tax Form, 99f General Motors, operating data, 207 Georgia, flat tax of, ix Gephardt, Richard, 72 |
|---|--|
| bill | gifts, 127, 190; of appreciated |
| flat tax revenues, current tax | property, 157; of art, 48–49; |
| revenues v., 85t | inheritances as, 190 |
| flat tax system: business tax form | GNP (gross national product), 41, |
| examples in, 94f, 102f, 104f, | 133 |
| 106f, 107f, 116f; interest | Gordon, Roger H., 18 |
| deductions in, 86, 120, 122, 146, | graduated tax rate structure, 46-47 |
| 162–63 | Gravelle, Jane G., 18 |
| Forbes, Steve, viii | gross domestic product. See GDP |
| foreign exchange markets, 180-81 | gross national product. See GNP |
| foreign investment, 181, 194 | Gruevski, Nikola, ix |
| Form 1040: benefits of discarding | Guernsey, flat tax of, x |
| of, 191; flat rate compared to, | Gwartney, James, 64 |
| 13–14, 61; time spent on, 11, | H & R Block, 8 |
| 12t | Hall Rabushka flat tax bill; |
| Form 1040A, 13 | adoption potential of, 197–98; |
| Form 1040EZ, 11, 13–14 | bipartisan support for, 72–73; |
| Form 1099, 92 | current system v., 61; in detail, |
| Form 4562 (Depreciation and | 211–17; endorsements of, 76–77. |
| Amortization), 11, 25 | See also Flat Tax Law |
| Form 8829, 11 | Hall, Robert E., 77. See also Flat |
| forms. See Business Tax Form; | Tax Law; Hall Rabushka flat tax |
| business tax form example(s); tax | bill |
| forms; Individual Wage Tax | Hamilton, Alexander, 1 |
| form; specific tax form | Hansen, George, 197 |
| 401(k) plan, 88, 111 | Harberger, Arnold, 18 |
| fringe benefits: business tax | Hausman, Jerry A., 18 |
| deductions for, 93, 95, 179, 196; | Helms, Jesse, 197 |
| current treatment of, 79, 86; flat | Herschensohn, Bruce, 75 |
| tax treatment of, 93, 95, 103, | historic preservation incentives, 166 |
| 169–70, 179–80. See also | home, mortgage-interest, 25, 86, |
| benefits; nonwage income; | 90, 122–23, 127 Hoover, Herbert, 32 |
| pension | Hoover, Herbert, 32 |
| GDP (gross domestic product): flat | Hoover Institution, xii, xv, 77 |

inflation, 46-47

horizontal equity, 41-42, 44 house sale, capital gains from, 164 housing market, 163-66; flat tax and, 146-51; low income and, 165 HR 4585, 197 illegal sector tax gap, 21 Illinois, flat rate tax of, xi imports, 115–19 incentives; for business investment, 14, 21, 63; for entrepreneurial efforts, 133-35; of flat tax investment, 105–11, 127, 145; for historic preservation, 166; to work, 128-31 income: adjusted gross type of, 54-57, 137, 142, 161–63; business of sheltering of, 26-27; of businesses, 142, 183; equal distribution of, 42-43; flat rate calculations for, 84–86; individual v. corporate types of, 175; interest as, 79, 83, 113, 115, 143, 163; multinational, flat tax of, 115, 117, 119; as negative taxable, 97; nonwage type of, 139–40; from pensions, 13, 84; from rentals, 111, 179; from sales commissions, 174, 213; stock options as, 172-73; as taxable, 54-55, 97, 211, 214; taxing principles of, 92-93. See also business income; double taxation income distribution: after taxes, 42-43; through flat tax, 136-42 Indiana, flat rate tax of, xi individual income tax, 53-57. See also federal income tax; wage tax individual retirement account (IRA), 13, 82, 88, 111, 195–96 Individual wage tax, 88-90, 169-73. See also wage tax

Individual Wage Tax form, 89f

inheritances, 165, 190 insurance: benefits and, 172; under flat tax, 113–15; proceeds from, 190, 196 integrated flat tax, 82-88 Intel Corporation, operating data, Intel Corporation's Business Tax Form, 100f interest: current deductions for, 90, 133, 162-63, 194; entrepreneurial activities and, 133–35; flat tax deductions for, 86, 120, 122, 146; home mortgage type of, 25, 86, 90, 122–23, 127; as income, 79, 83, 113, 115, 143, 163; from life insurance proceeds, 190, 196 interest deductions: in current tax system, 90, 133, 162, 194; in flat tax system, 86, 120, 122, 146, 162–63; on home mortgage, 25, 86, 90, 122–23, 127; loss of, 122, 144, 146, 147, 177; tax reform transition for, 122-24, 164, 177-78; taxable, 55 interest rates, 114-15, 143-46 intergovernmental relations, 167– Internal Revenue Code: flat tax bill amendment of, 211-17; as is today, 6-8 Internal Revenue Service (IRS): forms/instructions of, 7, 11, 12t, 199; indirect costs of, 21-28; tax evasion response by, 21-24; yearly audits/mistakes by, 15, 21, 82, 91 investment: after tax reform, 105-11, 127, 145; in business, 14, 21, 63, 164; current tax and, 76, 131; as entrepreneur, 145-46; in entrepreneurial activities, 133-

35; flat tax incentives for, 105– Madison, James, 1, 28 Malkiel, Burton G., 19 11, 127, 145; foreign types of, 181, 194; incentives for, 14, 21, marginal tax rates: after tax reform, 63, 76, 124; tax avoidance 128-30, 190-91; Bush through, 17, 67; tax shelters v., administration and, 68-69; flat tax impact on, 128-30, 190-91; investment expensing, 109 1981 cuts of, 46-47; progressivity investment incentives, tax rates v., and, 48-49, 63; rising of, 46, 63, 76, 124 68–69. See also tax rate(s) IRS. See Internal Revenue Service Massachusetts, flat rate tax of, xi Jorgenson, Dale W., 18 Mauritius, flat tax of, ix Kasten, Bob, 72 medical costs, 159-60 Kazakhstan, flat tax of, ix medical deduction, abuses of, 159-Kemp, Jack, 72 60 Kennedy administration: federal Mellon, Andrew, 32, 35-36, 64-65 income tax under, 33, 35, 65-Mellon tax cuts, effects of, 64t 67; tax rates under, 65-66 Mexico, flat tax, xi Kennedy, John F., 33, 35, 65-67 Michigan, flat rate tax of, xi Keogh plans, 82, 88, 111, 195 Mongolia, flat tax of, x Kotlikoff, Laurence J., 18 moving expenses, 160-61 Kuwait, flat tax of, x Moynihan, Patrick, 1 Kyrgyzstan, flat tax of, ix multinational business, 115–19 labor: capital v., 188, 192–93; flat narrowing tax base, 49-50, 169-70 tax impact on, 130-31 negative taxable income, 97 Laffer, Arthur, 75 New York Times, xiv, 4, 75–78, 197 land speculation, 166–67 1964 tax cuts effect, on upper-Latvia, flat tax of, viii income taxpayers, 66t legal sector tax gap, 21 nonprofit organizations, flat tax life insurance proceeds, 190, 196 treatment of, 180, 189-90 Lindsey, Lawrence B., 66 nonwage income, 139-40. See also Lithuania, flat tax of, viii, ix benefits; fringe benefits; pension Little, Arthur D., 10, 14 Omnibus Budget Reconciliation loans, 114-15, 133, 134 Act (1987), 33–34 local taxes, 35, 55, 161-62 Omnibus Budget Reconciliation loophole(s), 24-27, 49-50; tax base Act (1990), vii, 2, 33 size and, 50-51. See also tax avoidance Omnibus Budget Reconciliation Act (1993), 2 loss, of interest deductions, 122, Panetta, Leon, 72, 197 144, 146, 147, 177 partial taxation, of benefits, 119, low-income housing, 165 196 low-income taxpayers, 5, 41, 184; Passell, Peter, 78 personal allowance and, 185-86 luxury tax, 58-59, 71 Payne, James L., 10 Macedonia, flat tax of, ix Pennsylvania, flat rate tax of, xi

pension: contribution to, 73, 82, Richardson, Margaret Milner, 1 88; income from, 13, 84; Romania, flat tax of, ix simplified employee pension Russia, flat tax of, viii (SEP) and, 82, 88. See also sales commissions, 174, 213 benefits; fringe benefits; nonwage sales tax, 37, 62, 81 income savings, 108, 109, 132 pension funds: entrepreneurial Schedule A (Itemized Deductions), activities and, 131-32, 133-35; 25, 162 wage tax and, 88 Schedule C (Profit or Loss), 25 personal allowance: calculation of, self-employed, flat tax and, 37, 82, 206-8; under current system, 81, 90, 174, 176-77 137; eligibility for, 170; under Serbia, flat tax of, viii flat tax, 48, 81, 170, 174, 214-Shoven, John, 19 15; low-income taxpayers and, simplified employee pension 185–86; progressivity v., 124 (SEP), 82, 88 personal income tax, 17–18, 87, Sixteenth Amendment, 30–31 137–39. See also federal income Slovakia, flat tax of, viii, ix Social Security tax, 19, 37, 119 Peterson, Shirley, 1 Social Security, under flat tax preparation time, for tax forms, 12t system, 195-96 progressivity: federal income tax Stamp Act of Congress 1766, 3 and, 48, 54, 63; marginal tax state level, optional flat tax, xi, xii rates and, 48-49, 63; personal state taxes, 55, 161-62, 168-69, allowance v., 124; tax rates v., 174 - 75124 Statistics of Income Bulletin (IRS), quality of life, 155-56 54, 160, 208 Quayle, Dan, 197 stock market: after tax reform, 193; Rabushka, Alvin, 22, 77–78. See flat tax impact on, 193 also Flat Tax Law; Hall stock options, as income, 172–73 Rabushka flat tax bill Stuart, Charles E., 19 Rawls, John, 41 Symms, Steve, 72, 197 Reagan administration: federal target income hypothesis, 71 income tax under, 2-3, 33-34, tax(es): alternative minimum type 67-69; tax base under, 33-34; of, xi-xii; brackets for, 41-42, tax rates under, 67-69 45-46, 138-39; burden of, 9, 32, Reagan, Ronald, vii, 2–3, 33–34, 40, 44, 51, 68t; of cash-flow 35, 67–69 expenditures, 62, 75; cheating rental income, 93, 179 on, 1, 4, 5, 9, 21-23, 22, 51; restaurant industry, 159 corporation type of, 17–18, 57, retirement: accounts and, 195–96; 60; as deductions, 55, 161, 162, benefits and, 52, 83, 84, 195-96 revenue-neutral reform, 52, 208 175; degressive type of, xi; valueadded (VAT) type of, 52, 62-63, Rhode Island, optional flat tax of, 78. See also business tax; federal хi

income tax; flat tax; local taxes; state taxes; taxpayers

tax audit, 15, 21, 82, 91

tax avoidance, 9, 20, 24–28, 44, 51, 136; through investment, 17, 67. See also fringe benefits; pension; pension funds; tax shelters; underground economy

tax base: deductions impact on, 55; expanding of, 95, 160–61; GDP and, 49, 63, 112; loopholes impact on, 50–51; narrowing of, 49–50, 169–70; Reagan administration and, 33–34

tax calculation, 83–86, 206–8. *See also* Internal Revenue Service

tax, cash-flow. See after-tax income; cash-flow expenditure tax; consumption tax(es)

tax cheating, 5, 9, 21–23, 51; cost of, 1, 4; Tax Reform Act of 1986 and, 22. *See also* tax evasion

Tax Equity and Fiscal Responsibility Act, 33

tax evasion, 21–24, 51; loss of revenue from, 28; tax avoidance v., 24. *See also* tax cheating; underground economy

tax expenditures, 49. *See also* deductions; exemptions; loophole(s)

tax forms: flat tax business example of, 94f, 99f, 100f, 102f, 104f, 106f, 107f, 116f; Individual Wage Tax form as, 89f, of Internal Revenue Service, 7, 11, 12t, 199; postcard-size of, vii, 5, 7, 73, 79; preparation time for, 12t

tax gap, 21 tax lawyers, 7, 26

tax preference items, 49. See also deductions; exemptions; loophole(s)

tax rate, Tax Reform Act of 1986 and, 33

tax rate(s): economic behavior and, 69–71; graduated structure of, 46–47; investment incentives v., 76, 124; Kennedy administration and, 65–66; Mellon's cuts in, 32, 35–36, 64–65, 64t; progressivity v., 124; Reagan administration and, 67–69

tax reform: capital formation after, 105; carrying costs and, 147–50; charitable contributions after, 151–53, 157–58; depreciation transition for, 122, 173–74; economic/social benefits of, 190–94; income distribution through, 136–42; interest transition for, 122–24, 164, 177–78; investment after, 105–11, 127, 145; marginal tax rates after, 128–30, 190–91; stock market after, 193. See also flat tax; Flat Tax Law; flat tax system; Hall Rabushka flat tax bill

Tax Reform Act of 1986, vii, 2; capital gains impact from, 70; Clinton's criticism of, 39; flat tax movement and, 74; GDP under, 70; tax cheating impact of, 22; tax rate reform of, 33; upperincome taxpayers and, 35, 67

Tax Reform Act of 1995, 211–17 tax revenues, flat tax v. current tax and, 85t

tax shelters, 9; abuse of, 191; elimination of, xi; investment v., 17; property taxes as, 24. *See also* tax avoidance

tax system: abuses of, 159–60, 191; burden of, 9; federal, fairness of, 9, 35–37, 67; flat, fairness of, 37–38, 136, 142, 185; interest deductions in, 90, 133, 162–63, 194

taxable income, 54-55, 97, 211, See also federal income tax; income taxation, double. See double taxation taxation threshold, 48, 54 taxing business income: flat v. current system of, 83, 86, 91, 139, 142; at the source, 87, 92. See also business income Taxpayer Compliance Measurement Program, 21 taxpayers: blind/elderly as, 171-73; low-income level type of, 5, 41, 184; upper-income level type of, 35, 56–57, 66–67, 81, 155. See also double taxation A Theory of Justice (Rawls), 41 threshold of taxation, 48, 54 trust funds, 55-56, 189-90 U. S. National Income and Products Accounts, 84–85 Ukraine, flat tax of, viii underground economy, x, 17, 51, See also tax evasion

upper-income taxpayers, 56-57, 66-67, 81, 155; deductions for, 56; 1964 tax cuts effect on, 66t; Tax Reform Act of 1986 and, 35, Utah, optional flat tax of, xi value added tax (VAT), 52, 62-63, vertical equity, 42-43 wage tax: calculating of, 83-86; flat rate of, 83-84; flat rate v. current rate of, 138–39; for individuals, 88–90, 169–73; nonwage income and, 139-40; pension funds and, 88. See also fringe benefits Wall Street Journal, xiv, 4, 36, 72, 77, 197 welfare costs, 9 Whalley, John, 19 withholding, 217 Witte, John, 43 work incentives, 128-31 workers' compensation benefits, 172 Yun, Kun Young, 19