

Real Tax Reform

A group of House Republicans has introduced a plan that could eventually break the logjam on moving tax reform legislation through Congress.

House members Paul Ryan, Jeb Hensarling, and John Campbell proposed a [“Simplified Tax” system](#) as an alternative to the current complex and inefficient individual income tax.

The Simplified Tax has two rates, 10 and 25 percent, a huge standard deduction of \$25,000 for married filers (half that for singles), and a \$3,500 personal exemption. It would eliminate all other deductions and credits that litter the current tax code. The dividend and capital gains tax rates would be made permanent at the current 15 percent.

I have proposed a [similar two-rate tax plan](#). Remember also that the bipartisan Tax Reform Act of 1986 created a two-rate income tax structure of 15 and 28 percent.

The GOP proposal is part of a broader package called the Taxpayer Choice Act, which includes elimination of the alternative minimum tax (AMT). While the [Democrats and the Bush White House want to replace a \\$1 trillion of future AMT tax increases](#) with other revenues, the House GOP plan would simply repeal the AMT. That makes sense because federal revenues have surged in recent years above historical levels. The White House should embrace the new plan as way out of their misguided AMT strategy.

Indeed, the White House could play a constructive role by bringing their corporate [tax reform ideas to the table](#). The House plan does not include corporate tax reforms, but they should be added to the mix. In particular, the Simplified Tax could be paired with a 15 percent corporate tax rate (down from the current 35 percent), which would match the current 15 percent rate on dividends. That would make the combined corporate plus individual rate on dividends similar to the top rate on wage and interest income, and reduce the tax code bias against corporate equity.

The result of these reforms would be a much more efficient tax code that treated different households and different types of income more equally. The lower rates on individuals and corporations would sharply cut tax avoidance and evasion, which has been a concern on Capitol Hill this year. Investment would pour into the United States, raising wages for every American worker.

As a way to grease the legislative wheels, the GOP tax plan would offer individuals the choice of staying with the old tax system or jumping to the new one. No taxpayer would be a loser under this plan. The only losers would be the [army of tax accountants and lawyers needed to keep the current system running](#).

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