Promoting Economic Prosperity Through Tax Reform

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Introduction:

The United States government is able to function because it has revenue and that revenue is a result of taxation. Taxation is a necessity and a certainty in order for a government to function; as was quoted famously by Benjamin Franklin- “Our new Constitution is now established, and has an appearance that promises permanency; but in this world nothing can be said to be certain, except death and taxes”. (1) Taxes are a financial charge upon the citizens to raise revenues for running and improving services that the government offers to those citizens. These services come in the form of law enforcement, military, economic infrastructure, subsidies, welfare, and public services. The United States government implements these taxes in a form of representation of the communal values of the citizens of the nation. Since the founding of our nation there have been many political discourses on the theories of the taxation system and how they should be implemented. These discourses have been deep and divided at many levels and were at their core the reason for our country being formed by declaring independence from the British Empire. This taxation conflict started with the American Revolution from 1765-1783, which lead to the infamous slogan “No taxation without representation”. (2) As a result of this taxation conflict, on July 4, 1776 the thirteen American colonies declared independence from the British Empire thereby regarding themselves as sovereign states. Taxation at this time was low at all levels of government as the newly formed Americans constructed their own tax policy and were no longer assessed taxes by the British Parliament. The founding fathers were deeply concerned with taxes and they extensively debated how taxes would be implemented. James

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Madison stated, “a national revenue must be obtained; but the system must be such a one that, while it secures the object of revenue it shall not be oppressive to our constituents.”(22) This statement by Madison was made during the discussion before congress determining the first act to raise revenue. The founding fathers implemented the necessary levies to create and sustain the necessary functions of government. There was apprehension to make sure that the taxes did not cause any oppression of the people and the goal was to protect America from having a tyrannical form of government that they previously saw enacted by the British parliament. Since then, the United States has expanded and expounded on its once simple tax code in an exponentially progressive way throughout the years, drastically convoluting the revenue gathering process. This has made it much more difficult for taxpayers, both individually and as businesses, to file and has lead to taxation and spending policies that have hindered economic growth. Additionally, the costs and benefits of the tax code are not distributed in an equal or representative fashion of the population. This has caused much heated debate and political divisiveness which has separated groups and made it so individual groups have taken up political battle lines to maintain their collective tax biases and footholds in an effort to get the other groups to pay more of the share of the total revenue needed to maintain the government.

**Complexity:**

The issue of complexity is a bipartisan issue and the general consensus is that the code, as it stands now, is far too convoluted with each side injecting their version of how the code should be simplified. The reason for the complexity of the current tax code is because of the conflicts of tax policy goals between all of the participants in the tax code.
policy-making process. The reason for the tax code should be that the tax code’s purpose is to provide revenue while at the same time being simple and encouraging economic growth and prosperity. However, finding common ground on how this can be accomplished to achieve the common goal of simplification is where conflict and political gridlock occurs. The current tax code is meant to reflect characteristics of an individual and groups of individuals. It is this commitment to the needs of the individual that has been instrumental in leading to the current tax code’s vast complexity.

One major reason for the complexity of the tax code is the politics behind the tax code itself and the battle lines and interest groups created by the need to defend the individuals and groups that give politicians support based on their perceived or real benefits from the tax code. As an example, interest groups who are in favor of tax subsidies for their particular groups influence politicians. These politicians gain or lose power based on the support or lack thereof of these interest groups and their constituents. These types of subsidies are what ultimately pollute the simple nature of the tax code and make it much more complex as each interest group successfully implements another subsidy to the system.

Another major layer of complexity is added when trying to create tax deterrents for legal tax avoidance. These avoidances give the ability for some individuals and groups to pay less in taxes that reduces their tax liability thereby requiring the revenue be made up by another group of individuals. One example of tax avoidance would be the legal deductions that some call ‘loopholes.’ A primary goal behind implementing legal deductions in the form of loopholes is to encourage individuals to keep more of their income and reinvest it in the economy and for businesses to keep more of their profits
and to reinvest that in their businesses to encourage growth. These legal deductions can also be designed to act as a deterrent from businesses moving overseas to more advantageous tax economies. Although the idea of legal deductions is good in theory, it has largely failed as more and more U.S. companies are moving overseas, enticed by cheaper labor and still lower taxes. This in part is due to the fact that even though there are these tax loopholes, they don’t makeup for the overall higher taxation still levied upon U.S. companies and at the same time they continue to add to the complexity of the tax code for businesses.

Another aspect of this tax code complexity is the provision by the government to reinsure or limit its loss of revenue. Additions of deductions in the tax code are added or ended in order for the government to maintain a revenue neutral balance each fiscal year. Added spending by the government necessitates an increase in revenue and makes it an absolute that revenue does not decrease. As the government in recent times has begun to spend more and more exponentially, this has made it more difficult to propose any simplification of the tax code while retaining a revenue neutral balance. This is the point where politically the battle over the tax code becomes broad and divisive as every faction and group hurries to save their groups interests, deductions and loopholes.

The current complexity in the tax code is an unnecessary strain on the American taxpayer as well as U.S. businesses. The complexity issue spans all income brackets. For example, Timothy Giethner was nominated for secretary of the Treasury in 2008. Despite the fact that his nomination was successful it was not until after he was installed that it was discovered that this trained economist and monetary expert had underpaid his taxes the precious decade by an astounding $34,000 dollars. The mistakes that were made on
Giethner’s tax returns were attributed simply to his misunderstanding about his own tax status. Giether apologized for his mistake during a senate hearing saying, “These were careless mistakes but they were unintentional. I want to apologize to the committee for putting you in the position of having to spend so much time on these issues when there is so much pressing business before the country.”(23) A simpler tax structure would be less burdensome and would allow the taxpayer to fulfill their tax obligation with ease. The tax code should have clarity to enable people to make wise choices for a better financial future. With tax reform and a simpler tax code, taxpayer’s would be able to file with ease and pay proportionally. The taxpayer deserves this reform because our nation’s elected officials have deviated from the founding father’s intention of taxation, as it no longer fairly reflects all of the population. The tax code has ballooned due to rampant special interests and spending and does not reflect on the actions of the individual taxpayer and business. In 1913 the tax code was simple and for the most part fair and consisted of 400 pages. Today the tax code has expanded to an astonishing 73,954 pages.

The growth of the tax code started with its very inception when the United States implemented the income tax in 1913. A significant driver in tax code expansion was World War II, as heavy funding was required to support the defense of our nation and the defeat of the enemies in Europe and Southeast Asia. “By 1944 nearly every employed person was paying federal income taxes (compared to 10% in 1940).” (3) That was a dramatic shift in the amount of revenue needed by the government. Since that time the tax code has continued to expand with another greatly accelerated expansion of the tax code occurring from 2001 to the present with approximately 4,680 changes to the tax code. This plethora of taxes that Americans pay now causes an enormous waste of time


and resources. “According to a TAS analysis of IRS data, U.S. taxpayers and businesses spend about 7.6 billion hours a year complying with the filing requirements of the Internal Revenue Code.”(4) That statistic does not even take into account the millions of additional hours that taxpayers must spend when they are required to respond to an IRS notice or an audit.

By reducing the complexity of the tax code, the system would improve in two important ways. One way that could help the taxpayers to save time, money, and anguish is by reducing the burden of filing. According to the IRS “Individual taxpayers find the return preparation process so overwhelming that more than 80 percent pay transaction fees to help them file their returns. About 60 percent pay preparers to do the job, and 22 percent purchase tax software to help them perform the calculations themselves.”(4) This study also concluded that the median individual taxpayer (as measured by income) spent $258 in 2007 for tax prep, up from $220 in 2000, in constant, inflation-adjusted dollars.”(5) The complexity leads to misunderstandings of the code. As an example, to the average citizen it would seemingly not seem reasonable that a taxpayer who claims minimal or even no tax savings may face a mandatory, non-waivable $300,000 penalty per year for failing to file a disclosure form that he may not even know he is required to file when in fact that is the case.

The second way of reducing the complexity of the tax code is by making the tax code simpler and one that is still revenue neutral by reducing the many numerous provisions that apply to the same taxpayer activity. These provisions often times have just slightly differing rules that apply to each activity. Combining and consolidating of the many provisions so as to simplify the tax code would certainly simplify the tax filing

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process and in most cases if implemented correctly would have very little or no effect to the revenue to the government. Some examples of the redundancy in the tax code are the multi faceted provisions for education such as the deduction for “Tuition and Fees” and the “Hope and Lifetime learning credit”. Another example is the multiple provisions for families such as the “Child credit”, the “Dependent Exemption credit”. Then there are the duplicating and overlapping deductions for savings plans including Keogh plans, Individual Retirement Accounts, Roth IRA’s and Educational IRA’s saving incentives. A last example are the multiple tax rates applied to long term capital gains dependent on which of 5 income and categories the capital gains fall. Combining these tax codes that apply to the same principles would make tax preparation and filing much simpler.

**Economic Theory:**

Economics is the social science that investigates the behavior of individuals, groups, and organizations, when they manage scarce resources, which have alternative uses, to reach desired ends. Throughout history there have been many economic theories that have been used in order to achieve desired conclusions. The government has a direct impact on the economy by altering the tax rate. Two of the most prevalent economic systems are socialism and capitalism. These two opposing ideologies have recently been the context of debate when it comes to the future of the economic system of the United States. The debate centralizes around the role of the government and the amount of intervention it should have within a nation’s economy. These views have completely different perspectives when it comes to how taxes should be assessed on the citizens and businesses and the rates involved.
Capitalism focuses largely on the idea of free market principles with little government intervention. The foundation of Capitalism argues that the system creates more prosperity and is geared more to the individual. Its premise includes the fact that free markets will create more opportunity for growth by allowing those free markets to set prices by supply and demand with more private ownership driving the economic growth in an ever ongoing attempt to increase profit. Socialism focuses on large government control of the private sector and higher taxes to ensure equality between classes. The ideology behind socialism can be summed up as the government limiting success and therefore de-incentivizing entrepreneurs. This push in socialistic ideology was recently displayed through the political protest called “Occupy Wall Street.” These protesters were advocates for social and economic ‘equality’. The perceived goal behind the protestors’ Occupy movement was to eliminate the greed and corruption on Wall Street and throughout the corporate word. Their belief was that these corporations were essentially ‘in bed’ with the government when it came to taxes and as a result America’s wealth was in the hands of this small faction of the country. The protesters’ slogan was “We are the 99%,” which highlights the income disparity between corporate America, the 1%, and the rest of America, the 99%. This movement was influenced by President Barack Obama’s comment about income inequality in his weekly address on YouTube. In the video the President discussed his financial plan for America in 2013. Obama addressed the so-called ‘Fiscal Cliff” by stating that the changes he has made to the tax code are “more progressive than it has been in decades.”(6) The president then elaborated by emphasizing that this progressive tax structure hangs in the balance of the 1% - “ask the wealthiest Americans to contribute and pay their fair share.”(6) These remarks
catalyzed an onset of heated debate both in and outside the political realm, broadening the division of the political parties and the general public. It even caught the attention of a famous comedian, Jon Lovitz, and prompted him to work his discontent with Obama’s remarks into his act. “The problem with the economy isn’t that people aren’t paying their fair share of taxes”(7).

Our country is supposed to be the land of opportunity, where anyone, regardless of background, race, ethnicity, or sex can achieve the American dream. Recent policy changes in the tax code based on this liberal perception of tax “fairness” would imply that there is less and less opportunity. This new idea of a progressive tax structure is restraining a once free market system, which seems to be contracting as government expands. The idea that there is class warfare taking place between the 1% and the 99% is a fallacy. America was not built on a class-based system and neither is its tax code. There is no class structure of 1% and the 99% that implies that there is a finite amount of money in where the rich are getting richer which makes the poor to get poorer. The 1% fallacy that claims they do not pay their fair share is ridiculous. According to the IRS the top 1% paid more than a third of all taxes (34.2%). This statistic was taken in the calendar year of 2003 and included all income. More recently the congressional budget office or CBO reported that the top 20% pay 92.9% of income taxes. In fact, the top 40% of wage earners in America pay 106% of taxes. That means that the lowest 60% of earners are receiving government funds rather than contributing anything. So if there is any fair share claims it would have to be that the low-income earners are the ones who are not paying their fair share. Milton Friedman an economist and statistician who won the Nobel prize in economic sciences and is well known for his work on monetary history and theory,


complexity of stabilization policy, and consumption analysis addresses the idea of socialism in an interview. He was asked how he felt about capitalism knowing that there are so many economic disparities around the world. Milton was asked, “Is greed the best thing to fix this problem?” He replied, “Tell me is there some society that does not run on greed? You think Russia doesn’t run on greed? You think China doesn’t run on greed? What is greed? Of course none of us are greedy its only the other fellow whose greedy. The world runs on individuals running on there separate interests. The greatest achievements from civilizations have not come from government burros. Einstein didn’t construct his theory form an order from a bureaucrat. Hennery Ford didn’t revolutionize the automobile industry that way. The only cases in which the masses have escaped from the grinding poverty you are talking about. The only cases in recorded history are where they have capitalism in largely free trade. If you want to know where the masses are worse off it’s exactly that kinds of society’s that depart from that. So the recorded of history is absolutely crystal clear. That there is no alternative way so far discovered to improve a lot of the ordinary people that can hold a candle to the productive activity’s that are unleashed by a free enterprise system.”(8)

Overall the conclusion to the role of economic theory in taxation is that the rush to Socialism appears to be increasing the number of participants in our society who are not contributing and putting more pressure on those who contribute the most, thereby diminishing the economies ability to grow in a robust fashion as it had in past years.

**Laffer Curve Theory:**

This theory proposed by Arthur Laffer shows the relationship of tax rates and tax revenue that is collected by government. Arthur is an economist who worked in the Reagan’s...
administration as a part of his Economic policy advisory board from 1981-1989. The chart below is a simple depiction of Laffer’s theory.

The chart reveals that the government will not receive any revenue if the taxes are at zero. At the other end of the spectrum, the government will also not receive any revenue if the tax rate is at 100% because no individual would work if the government seized every penny an individual earns. Arthur explains in his theory that there is a revenue-maximizing tax rate, which prior to his theory was believed to be 70% in the 1970’s. In reality, this rate was far too high and in fact discouraged people who were in that tax bracket to engage in productive behavior. When rates are that high it motivates people to find ways to hide or reduce their reported earnings and avoid paying taxes. Arthur explained that when tax’s rate are this high the government is actually limiting its revenue collection because individuals are less motivated to earn money and therefore report additional earned income to the government. The high tax rate was too high during the 70’s and as a result the country was on the wrong side of the Laffer curve. The implication of this theory can indicate that indeed some tax cuts pay for themselves. For example there is evidence that the tax revenues rose when President Ronald Reagan cut
the top income tax rate from 70% to 28%. There is also significant data, which shows that a reduction in the capital gains tax rate has the same effect. This relationship between tax rates and worker productivity do not apply to all types of taxes. This effect is largely seen in supply side tax cuts such as income tax, capital gains tax, and dividend tax deductions, which will all, generate Laffer curve like effects. Cuts applied to these types of taxes encourage people to work more, save more, and invest more, which leads to more taxable income. Even John Maynard Keynes, who was an economist who advocated for high government spending during times of a recession even if inflation was a byproduct of spending stated that “taxation may be so high as to defeat its object, and that, govern sufficient time to gather the fruits, a reduction of taxation will run a better chance than an increase of balancing the budget”(9) The evidence for the validity of the Laffer curve theory is clear. For example the IRS publishes the statistics of income report and the numbers reported in 1980 focused on the tax returns showing the taxable showed that nearly 117,000 high-income people with income over $200,000 who were in the 70 percent tax rate category paid $19 billion dollars in taxes on a reported income of $36.2 billion dollars in income. When the tax rate had subsequently dropped to 28 percent under the Reagan administration in 1988, the results followed the Laffer curve theory. The number of high-income earners jumped to 724,000 and the reported tax revenue jumped to $99.7 billion dollars on $352.9 billion dollars of income. This means the rich paid five times as much tax to the government in revenue when the tax rate was slashed and created nearly 6 times the amount of high-income earners.

**Tax Reform:**
In order to simplify the tax code and effect policy that increases revenue while at the same time encouraging economic growth, real tax reform must take place. By reforming the overall tax code with a few simple but fairly radical changes, the nation’s debt would slow and economic growth caused by said changes would exponentially increase revenue. These changes to the current tax code would focus on the federal level to create economic prosperity.

The first change to the tax code to promote economic growth would be cutting the corporate tax rate. The corporate tax rate in the United States is the highest in all of the developed nations at “39.1 percent”(10), which is the combined statutory rate of and average of the federal and state and local rates. The corporate tax rate refers to legal entities defined under the law as a profitable firm. The corporate tax is levied at all levels of government including state and federal levels. Depending on the type of corporation there are two corporate tax rates involved. The statutory corporate tax rate is the rate that is imposed on taxable income of corporations, that being corporate receipts less deductions for labor costs, materials, and depreciation of capital assets. The effective tax rate or ETR is what the corporations pay after their deductions. Therefore, “the effective corporate tax rate ETR measures the taxes a corporation pays as a percentage of its economic profit.”(11) Corporations file as C-corps or S-corps, which distinguish how they comply with the tax code. C-corps allow for unlimited amount of of shareholders and is a better option for larger corporations. The high corporate tax rate imposed on U.S. companies essentially acts as a deterrent to expand business and create jobs. As a result, many U.S. corporations end up moving business operations overseas. One of the many examples of companies who have relocated in order to achieve more revenue is Aon.
which is a company that specializes in risk management, insurance and reinsurance. Aon reported $11.28 billion in 2011 revenue and in 2012 moved its headquarters from Chicago to London. The company said the move “would reduce its tax rate by five percentage points, increase its profits by about $100 million annually, and allow them to expand by hiring more employees.”(12). The corporate tax high rate had provided a distinct incentive not to move assets. More than “1 trillion in cash is estimated to be sitting within foreign subsidiaries of US firms preventing further domestic economic growth.”(21)

The high corporate rates also lead companies to store their earnings in foreign nations rather then investing and expanding the employment in the US. For example, “J.P. Morgan found that 60% of the cash held by 602 U.S. multi-national companies is sitting in foreign accounts. If an income tax cut is offered to companies that return this cash, the study estimates that $663 billion would be invested into business expansion and job growth in the United States.”(13) Another benefit to lowering the corporate tax rates would result in increased international investment in the United States, which would ultimately create more jobs. In a recent study in 2006 “corporate tax rates and foreign direct investment (FDI) in 85 countries, a 10% reduction in the corporate income tax rate is associated with an increase in foreign direct investment equivalent to 2.2% of the country's Gross Domestic Product (GDP). That investment money can be used by U.S. businesses to invest and expand their workforce.”(14) During President Reagan’s time in office from 1987-1991, the U.S. lowered its corporate tax rate from 46% to 34% based on the tax reform act of 1986. One of the results of this reduction in the corporate tax rate
was that the unemployment, which averaged 8.2% from 1982-1986, dropped to an average of 5.9% from 1987-1991.

This issue of lowering the corporate tax rate seems to be a bipartisan issue, but do to political ideology and concern with candidate’s election or reelection the political


This study found that high corporate tax rates "causes or exacerbates many... significant economic distortions." The report calls for lowering the rate of the top two corporate tax brackets to "increase the stock of available capital - new businesses, factories, equipment, or research - improving productivity in the economy," and says that it would reduce the incentives of US companies to shift operations and employees abroad.”(15) All of these initiatives would help accelerate growth and reduce tax biases based on the misconceptions that corporations do not to pay their “fair share”, so that American corporations can focus on savings and reinvestment.

Also the foundational question comes into play of what a corporation or business really is composed of and that is people. When a corporation is successful, the people in its employ are successful. Famous entrepreneur and celebrity investor, Kevin O’Leary, from the critically acclaimed show- Shark Tank discusses the role of a business in an interview by saying “I don’t expect a business who’s DNA is to profit to have a real soul

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or consciousness because that’s not what they are made for. They are made to provide jobs for us and we should understand that about them.” (15) Economist Dr. Milton Friedman also discusses what business is by saying, “What is business? There’s no business to be taxed, there are people-only people can pay taxes. Can I tax this floor? Can I tax the building? The building can’t pay taxes-only the people can pay taxes. So when you talk about a tax on business it has to be paid by somebody.” (16) This topic was also brought up during the 2012 Presidential election. During the election, Republican candidate Governor Mitt Romney was quoted saying “corporations are people my friend”. (23) What Governor Romney was expounding on was the vilification of corporations being wrong. Corporations are made up of people. When the corporation is attacked, the many people that make up the company are attacked. Also, it’s not even the corporations who are paying this tax. The cost of the tax is passed on to the shareholders, customers, or employees. Whether a person owns shares of a company or simply purchases their products, that added cost is being passed on. Higher taxes means higher prices for goods and growth in shareholder wealth means increased capital gains tax. Lowering the corporate tax or eliminating it altogether would ultimately mean more goods at lower prices and more jobs. For example, the Safeway Corporation, which is one of the largest supermarket chains in North America looks into building new stores or remodeling old ones it sets a target return on its investment or R.O.I of 22.5%. If however there was no corporate income tax the return on the same dollar investment could have been 34.1%. Although this change may not seem significant it surely would affect Safeway’s business decisions. That difference in additional profit to Safe could have meant it could open 20 new stores; remodel an additional 80 stores creating an additional
3,600 jobs. This example when applied to more than 2 million corporations would add millions of jobs and millions of dollars of revenue. The graph below illustrates how the United States has kept the corporate tax rate stagnantly high, while other countries have gradually decreased their corporate tax rates.

The U.S. Has Stood Still While Other Nations Have Cut Their Corporate Tax Rates

An analysis of the information in this graph shows that in order to be competitive globally it is imperative to reduce the corporate tax rate to 20%. If the United States


The corporate tax rate is 39.1% the OECD rate with the U.S. numbers deducted from their weighted average, the OECD corporate tax rate is nearly 20%.

Many critics of cutting the corporate tax such as the Joint Committee on Taxation or JCT have claimed that eliminating the corporate tax rate along with the Alternative Minimum Tax, would ultimately end up in a loss of revenue of $1.3 trillion over ten years. Their model does not account for changes in the economy over the long term however. The model is called static scoring, which, in this example, assumes that every tax cut will inevitably lead to loss in revenue and every tax hike means more revenue which is not always the case. For example, if a fast food restaurant was to sell hamburgers at a rate of $1 each and they sold 50 hamburgers the store would make $50. Now if the fast food restaurant were to sell the hamburgers at a rate of $5 each, in theory, this would mean that the restaurant could make $250 a day. However, this assumes that the spike in price would not affect consumer behavior toward purchasing the burger. This in effect, is a microcosm of our current government’s view on taxation. The recent push for a more progressive tax code assumes higher taxes, like a higher priced burger, means more revenue. It does not take into consideration the subsequent response in human behavior or long term economic effects. The model that needs to be applied is the dynamic scoring model. This model focuses and calculates the overarching effects of tax policy. In order to properly achieve tax reform “lawmakers must weigh the need for fiscal prudence against the economic benefits of cutting the corporate tax rate. In balancing the costs, they should ask what the economic effects of trading the elimination of various tax breaks for that lower rate will be. Ultimately, they must compare the net revenue and budget
effects of the tax changes—as the tax reform alters employment, wages, profits, and the
taxes derived from them—to the net economic benefits for the population.”(17)

The second needed change to the tax code would be a reduction in shareholder
taxes. Like the corporate tax, the United States has some of their highest shareholder
taxes in the world. The shareholder tax consists of both the capital gains and divided tax,
which is essentially double taxation placed on corporate profits. The dividend tax is taxed


crucial to spurring prosperity in the economy. A study from Harvard Economist Dale
Jorgenson discovered that “half of all economic growth in the United States from 1940 to
1980 was spurred by capitol formation.”(21) Capitol gains tax which effects economic
growth has been recognized by both political parties. President John F. Kennedy in 1963
stated “The tax on capitol gains directly affects investment decisions, the mobility and
flow of risk capitol…. The case or difficulty experienced by new ventures in obtaining
capital, and thereby the strength and potential for growth in the economy.”(21) In 2013,
the capital gains and dividends tax saw the largest increase among existing taxes, which
now are taxed at a 23.8 percent rate at the federal level and at the state and local level the
shareholder taxes push the tax rate to 27.9 percent. California boasts the highest
combined state and federal rate on capital gains at 33%, the second highest in the world.
Many countries don’t tax capital gains or dividends. In order for America to be
competitive with other developing nations it is important to reduce the current tax levels.
If the government were to embrace a dynamic scoring model when approaching tax
policy and took into consideration historical data, they would realize the long-term
implications of lower tax rates and implement accordingly. This subject was raised during the 2008 Democratic primaries in a debate between Hillary Clinton and Barrack Obama. Charlie Gibson posed a question referencing the benefits the government sees by lowering the rates on the capital gains tax. Charlie stated “You have however said that you would favor an increase in the capital gains tax-as a matter of fact you said on CNBC and I quote ‘I certainly would not go above what existed under Bill Clinton’ which was 28 percent-its now 15 percent-its almost doubling if you went to 28 percent but actually Bill Clinton in 1997 signed legislation that dropped the capital gains tax to 20 percent and George Bush has taken it down to 15 percent and in each instance when the rate dropped, revenues from the tax increased and the government took in more money and in the 1980s when the tax was increased to 28 percent the revenues went down so why raise it at all, especially when a 100 million people in this country own stock and would be affected?” Barack Obama responded by saying “well Charlie what I said is we will look at raising the capital gains tax for purposes of fairness.”(18) This type of partisan ideology is why the nation is in such gridlock in an attempt to achieve economic growth and prosperity. This graph shows the effect the United States would see if it were to eliminate the rate on long-term capital gains and qualified dividends. This will reveal the federal revenue and GDP. In order to achieve more economic prosperity reducing capital gains tax to 15% across all marginal income tax brackets which would create more jobs and investment while increasing the amount of revenue the government would receive.

The third change to the tax code would be to change the individual income tax levels. April 15th is the deadline for people to report their income to the IRS and most would agree that filing has become a rigorous and intrusive process. As was discussed

earlier, most Americans cannot figure out the tax code and seek professional help just to file their income taxes. Although the IRS may know a lot about the citizens, the citizens of the United States do not know a lot about our tax system. Most small businesses are taxed at the individual income taxes rate and are not recognized in the corporate code. These businesses file as S corporations and their profits are taxed at the individual rate. Unlike C corporations, which are subject to double taxation, S corporations only have to pay one level of taxation. Where as C corporations are tax on net income and then taxed to the shareholders after the profits of the company after they have been distributed. Currently, federal and state individual income tax rates for most of these types of businesses amount to approximately 50% in most of the high taxed states. Like the corporate tax, America’s individual income tax rates are among the highest in the world. Such high rates not only punish businesses but also discourages entrepreneurs and risk takers. President George W Bush fiscal policy recognized this effect and subsequently cut the rate during his presidency. This was known as the “Bush Tax cuts,” which were later extended by President Barack Obama. After President Bush’s presidency he was interviewed on Fox News and he commented on the individual income tax rate by saying “70 percent of jobs are creating by small businesses. Most small businesses are taxed at the individual rate and therefore raising any income taxes will cause there to be less capital available for small businesses which will make it harder to create jobs.” (19) This chart shows how business income is at the individual rate rather than the corporate rate.

In order to promote economic prosperity the top individual income tax bracket would receive a 10% marginal rate reduction. The current highest bracket, which is those who have an income over 406,750 dollars, which is the majority of small business owners, have a marginal rate of 39.6%. Reducing this down to 29.6% would increase incentive and encourage entrepreneurship. Which would eliminate the current heist tax bracket bringing it down to those who make 350,000 and over. Then those who have an income 186,000 to 350,000 only pay 24% marginal rate. The next bracket would consist of taxable income on those who earn 89,000 to 186,000 would pay a marginal rate of 20%. Then the lower income bracket would be from 0 to 89,000 taxable income pay a
marginal rate of 10%. This is an example of those who is filing status is single. The marginal rates would be the same regardless of filling status, which would benefit small business owners and entrepreneur. This will help create a more prosperous nation.

**Faith and Taxes:**

As a Christian it’s important to incorporate faith into every facet of one’s life, including taxes. So what does the Bible say about taxes and economics? Throughout Scripture there is little said about economic theory, the role of government, and taxes. It is important to note that Christians should not shout where God whispers, because we are called not to be disciples of democrats or disciples of republicans but rather Disciples of Christ. When we recognize ones views on the political realm is not conducive to one’s salvation, we are able to then discuss these issues on a level that does not divide us but draw us closer in our relationship with each other in the search for the best system to promote prosperity and well being of the people. It’s also important to note that the New Testament was written to speak to us on an individual level not at a corporate level. Many people have misinterpreted some of the commands given to individuals as applying to civil authorities such as our government. One of the more popular New Testament misconceptions is the government’s involvement in giving to the poor. There are many verses in the Bible that reference the importance of people giving to the poor. For example, 1 John 3:17 reads “But if anyone has the world's goods and sees his brother in need, yet closes his heart against him, how does God's love abide in him?”(20) and Hebrews 13:16, which reads, “Do not neglect to do good and to share what you have, for such sacrifices are pleasing to God.”(20) Another is 2 Corinthians 9:7 which states “Each one must give as he has decided in his heart, not reluctantly or under compulsion, for God

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loves a cheerful giver.” (20) These verses have led some to assume that government should be the moral authority and facilitator when it comes to helping the poor. However, this is simply Scripture being taken out of context as it applies to the individual and the church, not the government. These are the roles that Christians should follow assuming that the government will not be the steward for the poor, but rather we are to do this important job individually and as a church. The fact is that the government does a poor job of executing these safety net welfare programs and they are more effectively implemented on the individual level. These welfare programs are ineffective because it effectively locks people into poverty giving no invective to get out of it. The hope would be that the church would provide for those who are in need but then to lead and encourage those to in the future be able to provide for themselves.

Scripture in the book of Mathew does talk about taxes. In Mathew 22:15-22 Jesus replies to the Pharisees who thought they had trap in his words. The Pharisees ask Jesus the question- “is it right to pay the imperial tax to Caesar or not?” (20) Jesus responded by saying, “So give back to Caesar what is Caesar’s, and to God what is God’s.” (20) This verse has many theological implications. The first is that Jesus did not become a military leader or political threat to the established rulers of the world. Second those who became followers of Christ would not suspend them from their obligation to the governing authorities. Third, God as creator is sovereign over everything and with regards to what belongs to Caesar (i.e. the government) is secondary after God. This text does not mean that there can be different views on economic theory and that tax reform would be better for both the government and the people. Another idea that is brought up and labeled as a biblically based argument is heavily taxing the rich people out of some act of social

justice. As a result, especially as of late, the wealthy have been targets in lobbying for tax increases. A large segment of the U.S. population has injected emotion into this belief, which has caused some to reference the Bible in their argument for wealth redistribution through taxation of the rich. Any resistance to this type of thinking has often been followed by accusations that the rich are evil and only care about protecting their money. Hebrews 13:5 states “Keep your life free from love of money, and be content with what you have, for he has said, ‘I will never leave you nor forsake you.’”(20) Notice that this verse does not say that “money” is the route of all-evil but to only keep free from the “love” of money. So those who have accumulated wealth through their hard work should not be assessed disproportionately higher taxes. Rather God desires for his children to be hard workers as it is written in Colossian 3:23 “Whatever you do, work heartily, as for the Lord and not for men”(20) Also in Mathew there is a story that explains the importance of being good stewards of what is given to you and having smart investment strategy. Mathew 25:20-21 says “And he who had received the five talents came forward, bringing five talents more, saying, ‘Master, you delivered to me five talents; here I have made five talents more.’ His master said to him, ‘Well-done, good and faithful servant. You have been faithful over a little; I will set you over much. Enter into the joy of your master.’”(20) Our government has done a poor job of investing taxpayer money in a manner that would not suggest good stewardship. A National debt exceeding 17 trillion dollars, including an increase of 7 trillion dollars in 5 years speaks for the terrible job the government has done in handling money. One should not want to have the government take any more taxes at all based on the debt accumulation record alone. The government has also made foolish business decisions in investing in companies that end up failing.

For example, the government gave Solyndra, a solar company, a $527 million loan; that company went bankrupt shortly thereafter. That $527 million in taxpayer money was wasted on an investment the cost more than the return. It was largely based on special interest groups’ political influence rather than a sound investment strategy for the American people. This type of spending based upon political ideologies rather than sound business decisions shows why the government has shown itself to be bad stewards and should not be the judge of the private sector’s spending strategies, but rather leave the money in the pockets of the taxpayers for them to invest in the manner they choose.

**Conclusion:**

Overall, it has been established that taxes are a necessary part of government. Taxes in their most basic form are essential in providing public goods and services for all Americans. However, the tax code today has become so complex and confusing that it has lead to taxpayers either spending more money on services that assist them to comply with the code or to attempt to evade or minimalize the code altogether. This country was founded on the desire to have representation before taxation, as they were not given that benefit before the revolution leading to independence. Much like that government leading to revolution, today the American people are not seeing the cost benefit of the tax code- a code which contains a word count of over 4 million words. A tax code, which is creating a country deep in debt, persistent high unemployment and a non-competitive global corporate tax structure. The tax code could easily be consolidated and simplified for a revenue neutral plan that would benefit the American people. Tax reforms are necessary to move toward a more competitive corporate tax structure, and at the individual taxpayer level, necessary in incentivizing the private sector. For the government and the American
people to benefit, the government must create a tax code that allows for innovators and entrepreneurs to thrive in the competitive markets around the world. Changes to the tax code such as reducing the corporate tax, would ultimately bring back businesses from overseas and create more jobs at home. Changes to reduce or eliminate the shareholders tax will create more investment in America and create more jobs. A reduction in the individual income tax rates will spur economic growth by encouraging individuals to invest in the economy with more of the money they earn. This reduction would also allow small businesses that file at the individual rate to become more competitive and encourage investment. All of these pro-growth changes would benefit Americans and help our national economy. All tax brackets would benefit and become more prosperous though these changes. Those who were in a lower tax bracket would prosper by having the ability to be employed. For example multinational companies like Cisco are moving and filing in different countries to lower their tax rate. These multinational companies are moving to places like Ireland, which have their corporate tax rate at a third of the United States rate. The way the code is currently written the government is essentially subsidizing investment in Ireland. With around 600 American companies are in Ireland and they employ about hundred thousand people which are Jobs that could be given to the American people. By cutting the corporate, shareholder, and the individual income tax rate would enable company’s to hire more workers. Also those in a lower tax bracket would have more incentive to invest and take risk to earn more and start their own businesses. These changes to the tax code will enable Americans to become more prosperous because it halts the government in the economic lives of citizens. Removing
these barriers to entrepreneurship and opportunity. Also these changes coincide with the
Christian faith and represent good stewardship and wise financial planning.
Works Cited

(1) "Benjamin Franklin Quotes II." *Benjamin Franklin Quotes II.* N.p., n.d. Web. 28 Apr. 2014.


