

Consumption and Flat Tax

A List Of Issues

C. Eugene Steuerle

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There are many ways to jump into the major tax reform debate. Perhaps the easiest is to take an outstanding plan--the "Armey plan" or the "Nunn-Domenici plan"--and then debate its merits and flaws. This type of debate is likely to proceed in the manner of the health care reform debate last year, when we went from one reform plan to the next without ever really having a stable base on which to focus our attention.

Rather than start with a specific plan at this early stage, therefore, I suggest starting with a wide range of issues that must be addressed in trying to design any plan. The following list, therefore, is provided as a partial guide for thinking about reform.

Primary Goals (Includes both principles and objectives of different advocates):

- Simplification
- Savings
- Efficiency
- Fairness Among Taxpayers (equal treatment of equals)
- Progressivity
- Reducing Taxes
- Reducing Marginal Tax Rates
- Export Incentives
- Expensing of Cost of Purchases of Capital Equipment

Broader Issues of Public Policy

- Tax Reform Versus Budget, Welfare, and Other Policy Reforms
- Priorities
- Interactions

Some Broader Issues of Taxation

- Ability to pay and benefit theories of taxation
- Who should pay for defense, education, social security, protection of property?
- Transparency (hidden taxes; taxes on "business")

The Tax Base

Common Income and Consumption Tax Base Issues, including:

Broadening Base Issues:

- Charitable Contributions
- Home Mortgage & Returns to Home Ownership
- State and Local Taxes
- Social Security Taxes
- International Capital
- Employer-provided Health Insurance
- Educational Expenses
- Campaign Contributions
- Financial Services for Consumers

Double Taxation Issues:

- Corporate Income Taxes
- Minimum Taxes
- Taxes on Inflationary Returns

Consumption Tax Base Issues, including:

- Expensing of Asset Purchases
- Interest and Dividends
- Borrowing
- Interest Expense
- Sales of Foreign Affiliates
- Sales of Exports/Purchases of Imports
- State and Local Bond Interest
- Wages
- Retail Sales Tax

Tax Rates

- Degree of Progressivity
- Simplification of Pure Flat Rate (withholding at source)
- Exceptions for Poor & Zero Rate Brackets
- Interactions Between Tax Base and Tax Rates

Consumption Versus Income Tax: Other Issues

- Effects of Lower Taxes on Savers
- Retirement Policy (elimination of special incentives and penalties)
- Remaining Income Accounting Systems (Including Financial Accounting, Foreign Taxes and Treaties, State Income Taxes, Phaseouts of Tax Benefits, and Means-tested Programs -- EITCs, Food Stamps, etc.)

Administration & Transition Issues

- Measuring Net Saving
- Value Added Tax Design (credit or subtraction methods)
- Treatment of Old Capital and New Capital
- Timing Issues
- Gaming and Arbitrage Issues
- Windfall Gains and Losses
- Taxing Services in a Retail Sales Tax
- State and Local Taxes

Considerations by Income Class

High-Income Taxpayers:

- Limited base-broadening left after tax reforms of the 1980s
- Who pays for elimination of corporate tax, consumption tax treatment, lower rates

Middle-Income Taxpayers:

- Largest potential base-broadening
- Most saving (pensions, housing) already preferred

Low-Income Taxpayers:

- Limited Saving
- In Multiple Income Tax Systems (see remaining income accounting systems, above)
- Earned Income Credits and other Subsidies

Obviously, there are additional ways to divide up the tax reform debate. Nonetheless, any serious proposal must be able to deal seriously and systematically with all of the issues noted here, and then some.

Other Publications by the Authors

- [C. Eugene Steuerle](#)

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