Q. **What is a broad-based income tax?**

A. One that minimizes tax preferences with the goal of increasing revenue at a given rate of taxation.

Expanding the definition of taxable income by removing or restructuring tax preferences could significantly increase revenue. In fact, the President’s Advisory Panel on Federal Tax Reform estimated that converting the current preference-riddled tax to a comprehensive income tax system would nearly double the tax base.

In truth, virtually all tax analysts reach similar conclusions. Holding other factors constant, a broader tax base means that a lower tax rate will raise the same revenue. Hence, base broadening can offset the revenue effects of lowering the tax rate.

The National Commission on Fiscal Responsibility and Reform (Bowles-Simpson, for short) aimed to broaden the tax base by eliminating up to $1.1 trillion worth of tax expenditures, with the revenue gains used to reduce both tax rates and the budget deficit. The Domenici-Rivlin tax reform proposal also features base broadening and would reduce the deficit with a mix of eliminating, reducing, and simplifying various tax expenditures.

Further Reading

