House Ways and Means Chm. Proposes Reducing Tax Rates

Chairman of the House Ways and Means Committee Dave Camp (picture, left) has proposed reducing the tax rate to 25 percent for both individuals and corporations as a key provision of a tax reform package, but also acknowledged that the process of rewriting the federal tax code could be a lengthy one.

The Hill reports:

Camp first specified the goal of 25 percent rates in an interview with the *Wall Street Journal*. Washington officials on both sides of the aisle have given general support to the idea of lowering rates while eliminating many tax loopholes and breaks in recent months, but those statements have often been light on specifics.

Both Camp and Senator Max Baucus (D-Mont.), chairman of the Senate Finance Committee, issued statements indicating that the tax code must be changed in order to create jobs. Both men requested that the congressional Joint Committee on Taxation conduct research on the best method of dealing with tax reform.

Currently, the highest marginal corporate tax rate is 35 percent, a figure that was preserved in the tax cut compromise struck between the Democrats and Republicans at the end of last year. Likewise, the top individual tax rate is 35 percent, a figure adopted by the Bush administration and set until the end of 2012.

Camp also took the opportunity to point out that the United States is one of only a few nations in the world that taxes a companys income from abroad. Most other countries utilize a territorial system, in which only income raised in that specific country is taxable.

President Obamas fiscal commission has put together a bipartisan group of senators to consider legislation that uses tax code reform to help reduce long-term deficits.

The Democrats and Republicans disagree on tax reform issues, including whether or not the package should be revenue-neutral, at least at first.

Organizations such as the National Taxpayers Union and Citizens Against Government Waste have long advocated for tax reform and the abolition of the current tax code, to be replaced by a flat or a Fair Tax. Such a flat tax system would use a constant tax rate, without graduation in the rate structure. It is a single uniform rate and a standard deduction.

The Fair Tax, on the other hand, eliminates all federal income taxes and replaces them with a national consumption tax on retail sales. Its allure is that it taxes consumption rather than production. Likewise, it ensures that all Americans are paying taxes, including those that work off the books and those that make their money through illegal endeavors.

The Americans for Fair Taxation (AFFT) spent nearly 10 years drafting a Fair Tax legislation package, which is described as follows:

> The FairTax proposal is a comprehensive plan to replace federal income and payroll taxes, including personal, gift, estate, capital gains, alternative minimum, Social Security/Medicare, self-employment, and corporate taxes. The FairTax proposal integrates such features as a progressive national retail sales tax, dollar-for-dollar revenue replacement, and a rebate to ensure that no American pays such federal taxes up to the poverty level. Included in the FairTax plan is the repeal of the 16th Amendment to the Constitution. The FairTax allows Americans to keep 100 percent of their paychecks (minus any state income taxes), ends corporate taxes and compliance costs hidden in the retail cost of goods and services, and fully funds the federal government while fulfilling the promise of Social Security and Medicare.

A number of lawmakers and organizations have advocated changes to the federal tax code as a means of stimulating the economy, creating jobs, and reducing deficits.

According to Camp, however, tax experts have reported that tax cuts would not necessarily reduce deficits, as the experts have declared that to offset cutting rates to 25 percent would require around $2 trillion in revenue over 10 years.

As noted by conservative economist Thomas Sowell, however, Cuts in tax rates do not mean cuts in tax revenues. He explains:

> There have been many sharp cuts in tax rates under Presidents Calvin Coolidge, John F. Kennedy, Ronald Reagan and George W. Bush. There is a track record.
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> What does that record say? It says, loud and clear, that cuts in tax rates do not mean cuts in tax revenues. In all four of these administrations, of both parties, so-called "tax cuts for the rich" led to increased tax revenues with people earning high incomes paying not only a larger sum of total tax revenues, but even a higher proportion of all tax revenues.
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> Most important of all, these tax-rate reductions spurred economic activity, which we definitely need today.

However, political deadlock and agendas will likely inhibit any efforts to reform the current tax system any time soon.