So how do we end the confusion, clutter, and corruption—the angst and misery of having to prepare and pay our federal income taxes? If you read the previous chapters, you have no doubt reached the conclusion: Small fixes and tinkering won’t work. The current system is hopeless.

We must kill the tax monster, drive a stake through its heart to ensure it never rises again. We must replace it with a fair and simple flat tax system.

Come tax time, your return would be completed by filling out a single sheet of paper or postcard. Only then will we see real, lasting reform.

The Forbes flat tax will accomplish this. It will throw out today’s federal income tax code. It will eliminate the confusion, anxiety, and
discomfort that are part of the process of filing and paying our taxes. It will do away with the corruption and economic distortion produced by the current system.

The flat tax will free America. It will liberate us, as individuals and as a society, from the tyranny of the federal tax code.

The Forbes Flat Tax is a single-rate federal income tax and corporate tax of 17 percent. Income is taxed as close to the source as possible. No more double or triple taxation. Income is taxed once and only once. No more effort-sapping, discouragingly high tax rates. Just one, simple rate.

All the information you need to file will fit on a simple card or sheet of paper. With the flat tax, there’s no need to muddle over twenty-page tax tables. No more filling out page upon page of confusing returns.

The flat tax would replace today's federal income tax code, the biggest portion of the tax burden for half the population and the most abusive part of our tax system. (It does not supplant Medicare and Social Security taxes or, obviously, state and local taxes.) It is a first, major step towards a total overhaul of the entire American tax system.

Among key features of the flat tax:

**Generous and refundable exemptions for adults and children.** The flat tax eradicates the clutter of varying rates and deductions. It does retain a limited number of basic exemptions for children and adults that have been part of our tax system for decades. However the flat tax version of these deductions is more generous. Here's how they'll work:

- **Adults would be able to take a $13,200 standard exemption.** Single people who make less than that would come right off the tax rolls.
- **Married couples would receive a $26,400 deduction ($13,200 x 2).** No penalty at all for being married. Heads of households such as single mothers would have a 30 percent higher exemption of $17,160 to compensate for the additional burden of raising a child alone.
- **Families would receive generous exemptions for dependents:** a $4,000 exemption for each child or dependent, and a refundable tax credit of
$1,000 per child age 16 or younger. Parents of eligible children will receive the $1,000 tax credit for each child, as under the current system.

In addition, another feature of the current code—one that’s a bit complicated—would remain: If the child tax credit exceeds federal taxes owed, the family can receive a refund. For example, if a family makes $15,000 but paid zero dollars of tax they can still receive $600 of the child credit (15 percent of the $4,000 of income over $11,000), even though they paid absolutely no federal income tax.

We retain this complex relic of today’s code—tacked on the monster in 2001—to ensure that no one would pay more under the flat tax than he or she does under the current code.

All you’d have to do to get the refund is fill out that one-page tax form. The refund would work just like the current child tax credit.

A family of four would pay no federal income tax on its first $46,165 of income. In fact, they might receive a small rebate from the government. For instance, if that family of four had a tough year during and annual income came in at $40,000, it would receive a tax “refund” of $1,048 from the IRS.

That $46,165 for the family of four is more than twice the current federal poverty level. A family of six—mom, dad, and four kids—would owe no income tax until its earnings exceeded $65,930.

Once again, these deductions are far more generous than those available under our current system. Today, taxpayers start with just a $3,100 exemption. Single persons who do not itemize can only take an additional $4,850 deduction for a total of $7,950. A single head of household can take an extra $7,150 or $10,250 total ($3,100 plus $7,150). Contrast this with the flat tax’s standard exemption for each adult of $13,200.

Thanks to the elimination of the marriage penalty during President Bush’s first term, a married couple now takes a standard deduction of $9,700, in addition to two $3,100 exemptions—for a $15,900 total. Which would you rather have: a $15,900 exemption or a $26,400 exemption under the flat tax?
Flat-tax deductions for a family of four are almost $11,000 more generous than those the current code provides.

In addition to the child tax credit, my flat tax allows for the retention of the Earned Income Tax Credit (EITC), a feature of today’s tax code that is aimed at helping low-income families with children. The EITC is a back-door way of effectively refunding their Social Security and Medicare taxes. Any change in the EITC must be part of a package of Social Security reforms.

That’s the basic plan—just a 17 percent tax rate after generous exemptions. Perhaps as you read this you are already feeling lighter, imagining the heavy weight of the Beast lifting off your back.

The idea is simple, but it has massive implications for us as taxpayers: **The flat tax is a tax cut.** Anyway you slice it, your tax bill will be reduced under the plan. Think of what you’re paying now. Then compare that to what you’d owe under the flat tax.
There's also the huge indirect tax cut that the flat tax will deliver by reducing the costs of complying with our tortuous tax laws. Even if the flat tax only reduced compliance costs by half, that would amount, as we've said, to a reduction of $100 billion. Remember that $100 billion is half of what the “massive” Bush tax cuts supposedly will cost for the year 2005.¹

Under the flat tax, 65 million returns—or 42 percent of all returns—would owe no tax by the year 2010. That's right. We'll say it again: Millions of lower-income people will not have to pay any tax. This part of the flat tax is in line with the original intent of our income tax system: allow a portion of your earnings to be tax-free in order to maintain a sufficient standard of living.

Those who complain that the flat tax isn't progressive are mistaken. Just look at the effective tax rates in the Flat Tax Rate Table.

The flat tax eliminates all double-taxation on personal savings, dividends, and capital gains. This is especially good news for retirees. Dividends and interest payments would not be taxable because the tax on profits has already been paid at the corporate level and because interest payments would no longer be tax-deductible for corporations.

Retirement benefits—whether from Social Security, (don't forget, you already paid taxes on those contributions to Social Security during your working years) annuities or other retirement vehicles funded with after-tax dollars, or cash values from life insurance policies that exceed paid premiums—would no longer be subject to tax.² Right now the system penalizes people who choose to save rather than spend what they earn. Dividends are taxed on both the corporate and individual levels. This amounts to double or triple taxation.

By sweeping away savings, dividends, and capital gains taxes, the flat tax will create more capital and greater incentives for risk-takers. That would mean, over time, more savings and investments—leading to greater economic growth and a higher standard of living.

The flat tax would increase returns on capital. People would have the incentive to invest more. In addition, the value of investment assets
would be boosted by the flat tax’s benign rates. Just look at what happened when the capital gains tax for primary residential housing was substantially eased in 1997: The average value of a house grew significantly faster each year than before the break.

Politicians would no longer be able to give breaks for some types of investments and throw up barriers around others. You would choose how to invest your money—not the pols or tax collectors.

Additional benefits to business from the elimination of dividend taxation are detailed later in this chapter under the Corporate Plan.

Social Security benefits would also become free from taxation under this plan. Right now Social Security recipients face stiff taxes on their benefits if they receive dividends and interest and/or if they continue to work. Retirement should not be a time for the government to take a second bite out of your earnings.

By eliminating double-taxes on savings, the flat tax would help you save for retirement and would let you keep far more of your retirement income.

The flat tax would get rid of the “death” tax once and for all. This horrid levy is supposed to be totally phased out by the year 2010—only to rise again from the dead and be restored in 2011. The flat tax would make repeal of this tax permanent. You should be allowed to provide for your family by passing along the fruits of your labor. By ensuring their welfare, the flat tax will truly allow you to rest in peace. No taxation without respiration.

Killing the death tax would help preserve family businesses when the owner dies instead of forcing a breakup in order to pay the tax bills. By eliminating the death tax, we would encourage the creation of assets instead of the liquidation of capital or wasting money on estate planning, which takes a toll on the allocation of financial resources throughout the economy.

No complicated formulas or abuse from the Alternative Minimum Tax. Millions of American taxpayers must now calculate not only what they owe the IRS in the traditional way but also what they would owe under the Alternative Minimum Tax, which eliminates the benefits
How much money would your family save every year by using the flat tax? (Year 2006)

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>What you owe under the current tax system</th>
<th>Your savings with a 17% flat tax</th>
<th>Tax cut %</th>
</tr>
</thead>
<tbody>
<tr>
<td>30,000</td>
<td>-1,759</td>
<td>-428</td>
<td>24%</td>
</tr>
<tr>
<td>35,000</td>
<td>44</td>
<td>-328</td>
<td>100%</td>
</tr>
<tr>
<td>40,000</td>
<td>923</td>
<td>-228</td>
<td>25%</td>
</tr>
<tr>
<td>50,000</td>
<td>2,423</td>
<td>-28</td>
<td>1%</td>
</tr>
<tr>
<td>60,000</td>
<td>4,208</td>
<td>-113</td>
<td>3%</td>
</tr>
<tr>
<td>70,000</td>
<td>6,708</td>
<td>-913</td>
<td>14%</td>
</tr>
<tr>
<td>80,000</td>
<td>9,458</td>
<td>-1,713</td>
<td>18%</td>
</tr>
<tr>
<td>90,000</td>
<td>12,458</td>
<td>-2,513</td>
<td>20%</td>
</tr>
<tr>
<td>100,000</td>
<td>15,458</td>
<td>-3,313</td>
<td>21%</td>
</tr>
</tbody>
</table>

What would be your effective tax rate under the flat tax?*

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>Effective Flat Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30,000</td>
<td>-9.2%</td>
</tr>
<tr>
<td>$35,000</td>
<td>-5.7%</td>
</tr>
<tr>
<td>$40,000</td>
<td>-3.0%</td>
</tr>
<tr>
<td>$50,000</td>
<td>1.0%</td>
</tr>
<tr>
<td>$60,000</td>
<td>3.7%</td>
</tr>
<tr>
<td>$70,000</td>
<td>5.6%</td>
</tr>
<tr>
<td>$80,000</td>
<td>7.0%</td>
</tr>
<tr>
<td>$90,000</td>
<td>8.1%</td>
</tr>
<tr>
<td>$100,000</td>
<td>9.0%</td>
</tr>
<tr>
<td>$250,000</td>
<td>14.6%</td>
</tr>
<tr>
<td>$500,000</td>
<td>15.8%</td>
</tr>
<tr>
<td>$1,000,000</td>
<td>16.4%</td>
</tr>
<tr>
<td>$5,000,000 - plus</td>
<td>16.9%</td>
</tr>
</tbody>
</table>

*Assumes a married couple with two children under seventeen-years-old claiming the generous exemption of $13,200 for each adult, $4,100 for each child, and the $1,000 child tax credit for each child.
of many deductions. (See chapter three.) Whichever tax liability is highest is the one you owe. They call it the Alternative Minimum Tax, but, as you’ve seen, the maximum is what you pay.

Under the flat tax, there is no AMT. No bait and switch system of holding out the prospect of deductions only to hit you with an astronomically higher rate. There’s one rate, and one rate only.

The flat tax wouldn’t be mandatory—you could stick with the old system. For people accustomed to today’s tax tyranny, freedom can be a scary prospect. As a result, they focus on the deductions they’ll lose—instead of the bottom line—that the flat tax is, above all, a tax cut.

So we give people a choice. They can opt for the new flat tax or they can file under the old system. This type of dual system is being used successfully in Hong Kong. (See chapter six.)

People would be able to see for themselves which is better—the flat tax or the old system. It wouldn’t take long for most folks to realize that the new was infinitely better, simpler than the old. They wouldn’t have to take my word for it.

This dual system is, essentially, the opposite of today’s Alternative Minimum Tax system: whichever tax liability is lowest is the one you’d pay.

THE CORPORATE FLAT TAX PLAN

On the corporate side, the flat tax simplifies life even more dramatically than it does on the personal side.

All profits would be taxed at the rate of 17 percent. Profits are derived by taking a company’s total revenue and subtracting 1) wages and salaries, 2) purchases of materials and other inputs necessary to run the business and producing the business’s goods and/or services, and 3) purchases of plant and equipment.

The flat tax would dramatically slash the current business tax rate. And it would junk all the rigmarole involving depreciable assets and also close today’s loopholes.

Companies could expense all investments—no more depreciation schedules. Currently small businesses can expense only up to
$100,000 a year immediately. Why shouldn’t they—and all companies—be allowed to expense all investments?

Under a flat tax, depreciation schedules and credits would go into the dumpster. Businesses would be allowed to expense immediately the purchase of long-lived physical assets. If a company bought a piece of machinery, the cost would be written off entirely in the year in which the purchase was made. No more depreciating an asset over a number of years. No more trying to figure out if a particular asset qualifies for some credit or for accelerated depreciation.

If a company made large investments and therefore had negative income during a year, the loss could be carried forward to use against future profits for as many years as necessary to use it up.

This is so good, it bears repeating: Money spent for plant and equipment would offset taxable income and could be carried forward indefinitely to be applied against future years if the cost of the investments more than offsets a company’s tax liability.

Allowing entrepreneurs to invest more easily in their businesses will encourage greater investment and help drive economic growth. Companies will base their decisions on what makes good business sense instead of tax implications.

Some flat tax opponents say immediate expensing of business investments will only produce a replay of the 1980s real estate debacle that occurred after the liberalization of depreciation schedules and other changes. The market subsequently overheated, with real estate tax shelters and overbuilding resulting in a sensational bust. The debacle was a major factor in the Savings and Loan industry collapse that ended up costing taxpayers almost $100 billion.

But critics miss two critical points: First, real estate became “overinvested” because it received far more special breaks than did other industries. Under the flat tax, it would not be a favored industry, in terms of taxes. If all sectors received immediate expensing, there’d be no tax code-related incentive to invest in one sector over another, as happened with real estate.
Corporate loopholes, all of them, would be abolished under the flat tax. For example, there’d be no more of those “manufacturing” tax credits for Starbucks or, for that matter, massive free-for-all tax giveaways like the 2004 American Jobs Creation Act detailed in our first chapter.

Interest payment deductions would also be eliminated under the flat tax. In effect, the flat tax, by removing the deadweight of taxation from both borrowers and lenders, would make the credit market more efficient. The cost of lending would decrease, resulting in an advantageous drop in interest rates. (See chapter seven for more details.)

Both limited liability companies (LLCs) and S Corps are compatible with the flat tax. The “purity” of LLCs and S Corporations would be preserved. The flat tax would not levy a double tax on these sorts of businesses and their owners/employees. Instead of passing profits through to shareholders/owners, the flat tax would levy the 17 percent tax on those profits at the business level. Any profits paid to shareholders would be free of tax. Thus there would continue to be no double taxation of profits.

The flat tax will let companies increase dividends and benefit shareholders. The tax cut of May 2003 showed the positive effects of lowering the dividend tax on individuals. The maximum personal rate on dividends is now 15 percent; it had previously been 38 percent. As a result, hundreds of companies raised their dividends, and scores of others have instituted them, delighting—and enriching—their stockholders. The decrease in the dividend tax prompted Microsoft in late 2004 to reward its stockholders special windfall of some $30 billion.

If just a reduction in the dividend tax could do this much, imagine the benefits to be unleashed if the tax was eliminated, as would occur under the flat tax.

The flat tax would encourage greater transparency. Every year corporations avoid more than $18 billion in taxes because the current code is so fraught with complex rules governing all sorts of write-offs.
With its straightforward rules about what constitutes profits and what can be deducted, the flat tax leaves no room for creative accounting. Immediate business investment write-offs and low tax rates provide little opportunity for the elaborate tax avoidance schemes.

Killing the dividend tax would also help corporate governance. The tax on dividends has traditionally encouraged corporations to hold on to profits instead of paying most of them out to shareholders. Why give dividends when most of the money is going to end up in the hands of the IRS?

Under a flat tax, companies would have to make a case for keeping profits and not paying them out to shareholders. Management would become more accountable, and there would be far less opportunity for management to fritter away retained earnings that should otherwise go to stockholders.

**The flat tax will only tax companies on the income they make in the United States.** Today multinational corporations are subject to U.S. taxes on income that they earn overseas. They pay taxes to the country in which they operate and then they're liable for any difference between the rate they paid abroad and the 35 percent U.S. rate. Such tax policy ensures that no matter where a U.S. company makes a profit, it will pay the 35 percent tax when all is said and done. Unless of course, the company leaves the money overseas—then the tax is usually deferred. Which is why, as I discuss later, Congress in 2004 gave companies a temporary tax break if they brought those profits to the U.S. They might even pay more if the foreign government has a higher corporate tax rate than we have in America. Unfortunately, the United States has one of the world’s highest corporate tax rates, so this is mostly a theoretical problem.

Consequently, U.S. business faces an unfair disadvantage: competing against companies from nations such as France and the Netherlands that are only taxed within their borders and keep a larger percentage of earnings because they don't face two tax bills.
By taxing U.S. companies only on what they make in the United States, the flat tax removes a key hurdle for American international business, allowing more effective competition abroad.

The flat tax would create a more receptive environment to free-market benefit plans. As things now stand, many companies are already cutting back on fringe benefits, especially those regarding health care. They are either dropping company plans altogether or are forcing employees to increase the share they pay for health insurance premiums (so-called co-pays) and raising their deductibles.

As daily headlines make clear, traditional corporate pension plans are anything but secure. Look at the travails of many of our airlines’ personnel. Countless steel workers have also seen promised pensions either reduced or vaporized altogether. The Pension Benefit Guarantee Corporation, the federal agency that insures corporate pension plans, is now in the red and may itself collapse if it is not bailed out by Congress.

Consequently, companies are moving away from so-called defined benefit pension plans—those in which pensioners receive a fixed amount each month depending their years of service and salary history. They’re increasingly offering defined contribution plans such as 401(k)s. In defined contribution plans, money is put into a worker’s account, and it grows tax-free. The payout depends on how much the account actually grows during the person’s working years and the age at which the worker decides to make withdrawals.

The Bush administration has proposed several reforms here, including a tough provision to force companies over seven years to pay off the unfunded liabilities of their defined-benefit pension plans.

There would be no deductions for fringe benefits under the Flat Tax. Since the corporate profits tax would drop from 35 percent to 17 percent, the actual loss to businesses would be minimal. In fact, to retain employees, many companies would still offer fringe benefits—or raise workers’ pay.

Under the Flat Tax, 401(k)-type and HSA-type plans would flourish as never before. The nice thing about such plans is that you own
them—not the employer, the Washington politicians, the union, or some set of employer- or union-appointed trustees.

**The Numbers Show: The Flat Tax Will Create Wealth and Government Revenue**

Think of it this way: How many home runs could a Babe Ruth, a Hank Aaron, or a Barry Bonds have hit if their bats had fifty-pound weights attached to them? How many touchdown passes could great quarterbacks, such as John Elway or Joe Montana, have thrown if the footballs had weighed one hundred pounds? Reduce the tax burden on people, and they will produce more. Simplistic analogies? Sure, but absolutely truthful.

Tax-cutter John F. Kennedy was right: A rising tide does indeed lift all boats.

From 2005 to 2015 the flat tax would generate $56 billion more in net government income tax revenue than the current tax code, according to Fiscal Associates, whose forecasts are based on the method, in increasing use today, of dynamic analysis.

Dynamic analysis more effectively measures the effects of tax cutting; how increased incentives for more productive work and additional risk-taking lead to the creation of greater wealth. Because it is based on a real-world understanding of the economy and human behavior, the technique is gaining favor over so-called “static analysis” used by the government to assess the impact of tax law changes. (The differences between dynamic and static analysis will be explored later.)

According to Fiscal Associates, wealth producing effects of the flat tax would begin immediately: higher returns on investment will trigger more investing, increasing the value of equities and other assets, such as housing. After an initial four-year transition period, during which tax receipts would be lower than under our current system, this activity will translate into soaring government revenues.

An estimated $6 trillion in additional assets would be created as a result of the flat tax—an immense boost to our nation’s balance sheet.
As you can see in the chart below, a flat tax enacted in 2005 would, four years from now, produce $11 billion more for the government than the current system.

Economic theory? No way. Tax reduction bolsters government tax collections by stimulating the creation of wealth. It’s similar to investing principles: five percent interest on $10,000 will yield $500 a year; whereas the same interest rate on $20,000 yields $1,000 each year.

More wealth creates more revenue. The same is true for the economy as a whole.

Fiscal Associates finds that the flat tax invigorates the United States economy, particularly in the earlier stages of its enactment. As you can see from the previous table, forecasts of growth under the flat tax dramatically outpace growth we’d get under the current code. These larger initial increases in are the result of capital and investment growth. By

<table>
<thead>
<tr>
<th>Comparison of Projected Flat Tax Revenue vs. Current Tax Code Revenue</th>
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<tbody>
<tr>
<td>Flat tax revenue</td>
</tr>
<tr>
<td>CBO target tax revenue</td>
</tr>
<tr>
<td>Net Revenue Effect of Plan</td>
</tr>
</tbody>
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<table>
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<tr>
<th>Comparison of Projected Economic Growth Under the Flat Tax vs. Current Tax Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current tax code growth forecast</td>
</tr>
<tr>
<td>Flat tax growth forecast</td>
</tr>
</tbody>
</table>
2015, our Gross Domestic Product will be $2.4 trillion more than it would have been under the current system.

The independent analysis of the flat tax also predicts that the flat tax will lead to nearly 3.5 million new jobs by 2011 that otherwise would not exist. Creating $6 trillion of assets means creating the new jobs that always accompany the entrepreneurial activity of wealth creation. As the economy expands, new jobs are the result.

As we’ve seen, higher taxes throughout history, and throughout the world, have discouraged investment and productive work and have hampered economic growth. Conversely, cuts in tax rates reduce the price and burden of productive work, of success, of risk taking.

These tables demonstrate that big cuts in tax rates in the past have stimulated the economy and produced more tax revenue.

<table>
<thead>
<tr>
<th>The Steve Forbes Flat Tax Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Wages &amp; Salary</td>
</tr>
<tr>
<td>2. Number of adults in family</td>
</tr>
<tr>
<td>3. Number of children in family</td>
</tr>
<tr>
<td>4. a) Deductions for adults (multiply line 2 by $13,200) or b) Deductions for head of household ($17,160)</td>
</tr>
<tr>
<td>5. Deductions for dependants (multiply line 3 by $4,000)</td>
</tr>
<tr>
<td>6. Total deductions (line 4 plus line 5)</td>
</tr>
<tr>
<td>7. Taxable income (line 1 minus line 7)</td>
</tr>
<tr>
<td>8. Pre-credit tax (multiply line 7 by 17%)</td>
</tr>
<tr>
<td>9. Child tax credit ($1,000 per child under 16)</td>
</tr>
<tr>
<td>10. Earned income tax credit (see EITC rules)</td>
</tr>
<tr>
<td>11. Total tax credits (line 9 plus line 10)</td>
</tr>
<tr>
<td>12. Total tax (line 8 minus line 11)</td>
</tr>
</tbody>
</table>
In much the same way, the tax cut from a flat tax will stimulate economic activity, the growth and wealth creation that lead to more people making higher incomes that will produce more and not less tax revenue.

Despite all of this evidence, flat tax opponents underestimate the impact that the tax cut resulting from the flat tax will have. Why? One reason is that the connection between risk-taking and economic growth taking is woefully underappreciated by too many economists.

Consider this: Tax receipts from capital gains realizations come to around 4 percent of the federal budget. Capital for startups is but a small percentage of our pool of capital. As a result, conventional economic models miss how vital risk taking is for future prosperity.

They fail to take into account the concept that the Microsofts of tomorrow start as small companies. By definition, startups are small. Microsoft's sales in 1985 were $140 million vs. almost $37 billion in 2004.

Thus, experts tend to underplay the impact the flat tax would have by eliminating the capital gains tax.
Kennedy Tax Cuts Boosted Revenue

Billions of Dollars of Tax Revenue
Top Income Tax Rate


Tax Revenue
Top Tax Rate

Tax Revenues Nearly Doubled During 1980s

Billions of Dollars


There’s another blind spot as well: the way many people are taught economics. Economics is the study of people creating products and services for themselves and other people. Contrary to what most people are taught, it is not about abstractions, such as “allocating scarce resources” or “determining aggregate demand.”

Rather, economics is truly about the creation of resources, the fantastic process of turning scarcity into abundance. It is about inventors and entrepreneurs coming up with products and services that create demand: How risk-taker Henry Ford’s assembly lines turned the automobile, once a toy for the rich, into a necessity every working person could afford. Or how Steve Jobs’s wonderful innovation—the iPod—grew into a whole new industry.

Too many people have been taught—and now believe—that economics is simply about the “allocation of scarce resources.” They don’t understand that wealth begets wealth: Ever more powerful, versatile chips gave rise to the iPod, for example; the automobile increased mobility, enabling people to do more business and innovate more easily.

That’s why a flat tax would be such a powerful tonic to the economy. It would free up capital and energy. We could devote our brainpower and time to more productive pursuits than trying to cope with a time-consuming, bewildering tax code.

Reducing and simplifying tax rates reduces the burden on the Thomas Edisons, Henry Fords, Steve Jobses, Bill Gateses, Jeff Bezoses (Amazon.com), and Larry Pages and Sergey Brins (Google.com) of the world. Flowers bloom in a benign environment, as do risk-takers and entrepreneurs.

Unfortunately some within the economics and political communities are blind to the likely impact of the flat tax because they’re influenced by Washington mindset with its bureaucratic perspective. A good bureaucracy tends to advocate policies that encourage its self-preservation and, better still, its expansion. So there’s the tendency to favor policies that encourage more government control over our lives—and that usually translates into higher taxes.
Because of this mindset, Congress is usually wrong when trying to gauge the impact of tax legislation on the economy. Legislators—and our Treasury Department—incorrectly analyze the likely impact of taxes. They rely all-too-readily on so-called “static” analysis that erroneously assumes changes in tax laws have little or no effect on people’s behavior.

Can we afford a flat tax system? As this chapter has demonstrated, we can. Indeed, we can’t afford not to adopt one. The flat tax would, among other virtues, substantially increase the return on investments and savings. By doing so, it would go hand-in-hand with the creation of personal savings accounts as a way of saving the Social Security system, which has unfunded liabilities in excess of $10 trillion, for younger people.

Even tax lawyers, accountants, and tax-collecting agents would benefit from a more thriving, more opportunity-rich economy. In the ensuing boom, they would find they could apply their talents to more productive pursuits. Heck, even though I’m a conservative, I’d gladly support the creation of one more federal program: job re-training for ex-IRS agents and ex-tax lobbyists.

And how do we prevent the Washington politicians from cluttering up and corrupting the code again? One line of defense is the flat tax’s

A movement is afoot that will allow workers to own directly more of their fringe benefits—primarily health care and pensions. With a 401[k], for instance, the employee owns the plan. If she leaves the company, it goes with her. She can easily roll her money over into a new IRA or, if she wishes in many cases, just leave in the existing 401[k]. Either way, her plan is separate from the company. Her payout is not dependent on the company’s financial health. We see the beginnings of a similar situation with healthcare. Health Savings Accounts (HSAs) are similar to 401[k]s and IRAs in that the worker owns the account and can take it with her if she changes jobs.
very simplicity. All of us can see if the politicians try to change it—no 9 million-word jungle and underbrush to hide new amendments.

Another: require a super-majority vote in Congress—60 percent or two-thirds—to change the flat tax. Most of the big tax increases enacted by Congress over the past 20 years passed with majorities well under 60 percent.

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