

Flat Tax: A Step in Right Direction

By Professor James Hite

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The father of modern economics, Adam Smith, said 200 years ago that if there is any such thing as a "good" tax, it will have these attributes:

- Certainty (the amount, time and place of payment is certain);
- Collection that is convenient and cheap,;
- And the burden of providing funds for support of government is distributed in rough proportion to the benefits taxpayers receive from government.
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On each of these points, I suspect Smith would favor a flat income tax over the United States' current code which does not qualify in any respect as a "good" tax.

There are several proposals for a flat tax, each different in some respects, some allowing for deductions and some not. The differences are important, and I am not willing to endorse any specific proposal. But the simplest flat tax would require that everyone pay the same proportion of their take-home income to the government. The fewer the deductions, the simpler the tax and the lower the overall rate.

A simple flat tax would give us the convenience of filing our tax returns on a postcard rather than being buried every year beneath the present avalanche of ever-changing Internal Revenue Service forms. The elimination of reams of paperwork would also make the flat tax cheaper to collect.

Some opponents of the flat tax will concede all of the above, but argue the flat tax is suspect on Smith's fourth criteria, distributional equity, the fairness test. The dollars in taxes that a family with \$10,000 a year in income must pay represent a greater sacrifice than the dollars the millionaire pays. Moreover, some add, because the millionaire owns more property, he or she receives more protection from the government and should shoulder a greater proportion of the tax burden than families living from paycheck to paycheck.

I am not inclined to argue over such things. They seem almost irrelevant in the face of the perception that our present tax system is not fair, that it does not equitably distribute the burden because of loopholes enjoyed by influential fat cats.

Even if sincere and thoughtful critics of the flat tax are right on the equity issue, there is no objective, scientific measure for fairness. Equity depends upon values that transcend objective analysis. What is fair is what people perceive to be fair, given their knowledge and value systems, and the current federal income tax system is not perceived to be fair. It is considered by some brutal and tyrannical. The simplicity of one single tax rate paid by all regardless of the level or source of their incomes appeals to the simple sense of fairness of ordinary citizens. At least, it seems fairer to many of us than what we have now.

There are a couple of other strong reasons to support a flat tax. It would be neutral; it would treat every dollar of net income the same whether it was wage income, capital gains, dividends, interest or rental income. It would also help focus political disputes over the size of the federal budget upon the critical issue -- what percentage of our take-home pay we, as a people, think advisable to budget for the services the federal government provides us.

The flat tax would not be a perfect tax. Any student of public finance will tell you there are no perfect taxes. But we do not live in a perfect world. A lot depends on how the legislation is written. A flat federal income tax would certainly be preferable to what we have now in the United States. As the 1996 election year noise fills our ears, we ought not to be deaf to those candidates suggesting we take a good look at the flat tax.

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