

A Sound Tax Policy

Written by Jeff Windham
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Every four years, we citizens of Iowa must endure a bevy of presidential hopefuls presenting tax proposals. These proposals have a few things in common: (1) They're long, complex, and full of details; (2) Pundits attack the details; (3) Iowa voters don't read the details; and (4) They never become law as written.

Perhaps this cycle will be different. Perhaps, rather than long and complex proposals, the candidates will simply articulate their fundamental beliefs of what a tax policy should be. Then if elected, these principles can be the foundation on which the tax code is written.

Will this happen? It's doubtful, but in a triumph of hope over experience, let me offer the following five tax-policy principles as a guide.

(1) Everyone should pay something.

We all are citizens of the United States and benefit from what it has to offer. We all have a stake in its well-being and should feel part of contributing to its success. Therefore, when it comes to our primary source of revenue, the income tax, everyone should pay something. Even if it is only \$25 a year charged to those below the poverty line. How heartless, you might say, to ask someone with nothing to contribute to the tax base. I would counter that there is dignity in being part of the solution far more valuable than \$25. We all have a stake in the outcome; let everyone be part of the solution.

(2) The tax code should not be a disincentive to earn.

A robust and growing economy is an absolute necessity for the U.S. to meet our obligations and ensure our standard of living. The economy is at its best when the most people are the most productive for the longest amount of time possible. How many of us have known a co-worker, family member, or friend who, when faced with an opportunity to earn more – be it through working overtime, changing jobs, taking a promotion, or forgoing retirement – responded that with the additional taxes, the extra income was simply not worth it? This attitude is understandable but ultimately harmful to the individuals, the businesses with which they are associated, and society as a whole. Therefore, ensuring the tax system is not a disincentive to earn is paramount. This means that marginal tax rates must be low enough so as not to be a disincentive to earn.

(3) All income should be treated the same, regardless of source.

Whether money is received from earned income, capital gains, interest, dividends, inheritance, or found on the street, it should be treated (and taxed) the same. You might say: “Why should inherited income be taxed? It’s already been taxed once when it was earned.” This is true, but it’s also true that *all* money was taxed before. When you earn money at your job, it gets taxed; when you use that money to pay your mechanic, the mechanic gets taxed again; when the mechanic buys a hamburger at the local diner, the waitress pays tax on the tip. The underlying principle should be that money gets taxed when it becomes income to another person, period. The same is true of capital gains. Many conservatives advocate for low tax rates on capital gains, but why should this be so? While low rates on capital gains are beneficial in that they grow the economy, why should money received as a result of capital gains be different from earned income? Earned income also grows the economy. The push for low taxes on capital gains is only logical in a tax system with high marginal rates on all income. Keep marginal rates low across the board, and the need for lower rates on certain types of income disappears.

(4) Taxes on business should be zero.

Businesses have never, and will never, pay a cent in taxes. If you question this logic, walk up to your local Walmart and throw a fistful of dollar bills at the side of the building and see what happens. Buildings don’t earn money, spend money, or pay taxes. Business and corporations

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don't earn money, spend money, or pay taxes; only people who own them and work in them do. The concept of a tax on businesses is just a way to hide more taxes. Make the tax on business zero, and charge tax when the business distributes its income to its owners at the same low marginal rate as all other income.

(5) Use the tax code to raise revenue, not control behavior.

The tax code is the single biggest tool politicians have to control behavior, and don't kid yourself: All politicians love to control behavior. But in a free society, freedom has to mean something. It means the option to choose things others wouldn't chose for us, or for themselves. So when I choose to donate to this or that charity, buy a hybrid or SUV, or invest in this or that technology, of what business is it to the government? So I choose to rent rather than own a home, have children or not. Why should one be treated favorably in the tax code over another? Because a politician decided one was better than the other? What gave them the authority to make that decision for the rest of us? To a statist, *what* gets decided is the important thing, but to one person devoted to freedom, *who* decides is more important than *what* gets decided. Use the tax code to raise revenue; otherwise leave us alone.