Cut 55,000 Pages of Tax Rules and Watch the Economy Soar

By George Will

WASHINGTON - The power to tax involves, as Chief Justice John Marshall said, the power to destroy. So does the power of tax reform, which is one reason why Rep. John Linder, a Georgia Republican, has a 133-page bill to replace 55,000 pages of tax rules.

His bill would abolish the IRS and the many billions of tax forms it sends out and receives. He would erase the federal income-tax system -- personal and corporate income taxes, the regressive payroll tax and self-employment tax, capital gains, gift and estate taxes, the alternative minimum tax and the earned-income tax credit -- and replace all that with a 23 percent national sales tax on personal consumption. That would not only sensitize consumers to the cost of government with every purchase, it would destroy K Street.

"K Street" is shorthand for Washington's lawyer-lobbyist complex. It exists to continually complicate and defend the tax code, which is a cornucopia from which the political class pours benefits on constituencies. By replacing the income tax -- Linder had better repeal the 16th Amendment, to make sure the income tax stays gone -- everyone and all businesses would pay their taxes through economic choices, and K Street's intellectual capital, which consists of knowing how to game the tax code, would be radically depreciated.

Under his bill, he says, all goods, imported and domestic, would be treated equally at the checkout counter, and all taxpayers -- including upward of 50 million foreign visitors annually -- would pay "as much as they choose, when they choose, by how they choose to spend." And his bill untaxes the poor by including an advance monthly rebate, for every household, equal to the sales tax on consumption of essential goods and services, as calculated by the government, up to the annually adjusted poverty level.

Today the percentage of taxpayers who rely on professional tax preparers is at an all-time high. The 67 percent of tax filers who do not itemize may think they avoid compliance costs, which include nagging uncertainty about whether one has properly complied with a tax code about the meaning of which experts differ. But *everyone* pays the cost of the tax system's vast drag on the economy.

Linder says Americans spend 7 billion hours a year filling out IRS forms and at least that much calculating the tax implications of business decisions. Economic growth suffers because corporate boards waste huge amounts of time on such calculations rather than making economically rational allocations of resources. Money saved on compliance costs would fund job creation.

Corporations do not pay payroll and income taxes and compliance costs, they collect them from consumers through prices. So the 23 percent consumption tax would allow taxpayers to stop paying the huge embedded cost of corporate taxation. Linder says the director of the Congressional Budget Office told him it costs individuals and businesses about $500 billion to remit $2 trillion to Washington. And studies show that it costs the average small business $724 to collect and remit $100.

In 1945, corporations paid more than one-third of the government's revenues. Now they pay only 11 percent because corporations, especially multinationals, are voluntary taxpayers. In a world increasingly without borders that block capital movements, corporations pay where the burden is lowest. Linder says $6 trillion in offshore accounts would have an incentive to come home under his plan.

Furthermore, by ending payroll and corporate taxes, America would become the only nation selling goods with no tax component -- such as Europe's value-added tax -- in their prices. With no taxes on capital and labor, multinationals would, Linder thinks, stampede to locate here, which would be an incentive for other nations to emulate America. "This," Linder says, "would unleash freedom around the globe."

Critics argue that ending the income tax, with its deductibility of charitable contributions, would depress giving. Linder says: Piffle. In 1980, when the top personal income-tax rate was 70 percent, a huge incentive for giving, individual charitable contributions were $40.7 billion. In 1986, the top rate was reduced to 28 percent, and by 1988 charitable giving was $86.7 billion. The lesson, says Linder, is that we give more money when we have more money.

When Speaker Dennis Hastert published a book last year, he was startled that interviewers were most interested in talking about Linder's bill, which then had 54 co-sponsors. This year, Hastert added Linder to the Ways and Means Committee. Linder cheerfully says his bill would reduce Ways and Means to “a B committee” by ending the political fun of making the tax code ever more baroque for the benefit of K Street's clients. Bliss.

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