

ROLL CALL

Our Tax Code Is Broken: Time for Simplification

By U.S. Rep. Phil English (R-Pa.)
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Promoting the goals of increased personal savings and an enhanced competitive position for American employers has become an increasingly common priority for policymakers. Less common is a recognition of one of the most direct and effective ways to expand economic opportunities for most Americans: reforming our tax system.

Our current tax system is ill-conceived and counterproductive. A Rube Goldberg device of dubious parentage. Yet, unchallenged, it continues to survive, staving off the revolt that should be happening as America loses its competitive position in the world. The current code anesthetizes the taxpayer with a maze of preferences, deductions and credits that mask the enlarging bite of the apple that our tax system is taking out of the economy.

The time has come for Congress and the next president to accept the challenge of tax reform and look beyond short-term vested interests to the long-term health and prosperity of our economy and the increased opportunities that come along with it for every American. Taxes certainly are not the only factor stifling American competitiveness: Trade issues, regulatory burdens, rising health care and energy costs are among the others. But our system is something we control — and we have long neglected it.

Taxes intrinsically play a central role in determining the competitive position of American employers, both here at home and in markets abroad. The United States has the dubious honor of the second-highest corporate tax rate of any industrialized nation. In 1986, the corporate rate was reduced to a degree that businesses in other industrialized nations envied. We have since regressed through inaction to the point where our businesses now look enviously at lower rates elsewhere.

Our tax code discourages new capital investment, places American exports at a disadvantage while subsidizing imports, and encourages American companies competing internationally to leave foreign earnings outside the United States. The ancillary effects impact the value of the dollar, have a compounding negative effect on savings and increase the trade deficit.

How do we change course? First, we must accept the challenge of tax reform in earnest and provide real leadership in Congress and the White House. Without a concerted effort, any tax reform is doomed to fail, no matter how brilliant the plan or valiant its supporters. We must be prepared to put everything on the table and cannot box ourselves into a single approach or narrow paradigm. Established proposals already exist that can transcend political fault lines, despite the fact that they do not fit on a bumper sticker. However tax reform is approached, our guide should be established economic principles and simplicity, equity and pro-growth our yardstick.

Keeping that in mind, core components that must be included in tax reform include: Tax all income alike and only once at low rates, encourage savings and investment, remove the bias in favor of imports and reinvesting foreign earnings abroad, and exponentially reduce complexity.

With the right design, wage income and capital income could be taxed at the same low rate. Income from equity capital should no longer be taxed more heavily than income from debt. Incorporated businesses should no longer be taxed more heavily than unincorporated ones. Income that is saved should no longer be taxed more heavily than income that is consumed.

Ending the double taxation of savings and first-year expensing for business investment in capital equipment is the right tonic to end the negative personal savings rate. This dynamic duo will increase savings and achieve higher returns on investment through greater productivity.

We also must end the perverse practice, unique among all our trading partners, of taxing our own exports and remove barriers to bringing foreign source income back onshore. To do so, our tax structure must be redesigned in two important ways: embrace a territorial tax system that excludes foreign source income from taxation and implement border adjustments for exports and imports. We need an innovative approach to corporate taxation that will allow businesses to compete and win in the global market in a way that exports American-made products and services, not American jobs. Absent these changes, our international tax disadvantage is certain to continue.

As an example of just how large a barrier our current tax system truly is to bringing overseas earnings back to the United States, one must look no further than the success of the Homeland Investment Act. Enacted in 2004, this legislation created a temporary window of lower taxes for repatriated income stranded overseas. It opened a massive floodgate and brought over \$350 billion in earnings back onshore to be invested here at home.

A new tax system also must embrace a radically more simplified approach to raising revenue. Simplification is not only measured by a postcard-size 1040 form. We can achieve a simpler tax structure by purging the tax code of complex preferences while retaining familiar and simple deductions and credits for home ownership, education and charitable activities. Straightforward, progressive and low rates of tax should be applied to businesses and individuals alike, and the parallel tax monstrosities of the individual and corporate alternative minimum tax should be buried once and for all.

The nominees of the respective parties for president are now emerging. We should all demand that tax reform be a central issue in the campaign ahead and be the keystone of the domestic economic agenda after the election. The issue and urgency of reforming our tax code stands in bold relief, transformed from an intellectual pinball game to an issue of competitiveness and survival for the American economy. The world waits for no one, and our tax system will become more of a dead drag on our economy as other countries continue to make the difficult decisions to reform their own tax systems and reduce the tax burden in their own jurisdictions. The challenge before Congress and the next president is clear.

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