

United States Government Should Implement A Flat Tax To Increase Revenue

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Introduction

Tax is one of the ways by which government earns revenue. Tax revenue is the amount of income that is gained by the government with the help of tax. Taxation is considered one of the primary sources of income for a state. Public enterprises, royalty on foreign aid and trade are some of the sources from which where government extracts revenue. Countries that are characterized by greater poverty and greater dependence on agriculture have an inefficient way of collecting taxes. A flat tax rate is a system that is constant in terms of marginal rate. It is usually applied to corporations and individuals. Implementation of such tax rates is often time-consuming and sometimes regressive, depending upon the exemption and deduction of a tax base. There are many countries that have applied flat tax rates that ultimately resulted in an increase in the growth of their respective economy. This paper is based on the question, "Does a flat tax rate increase revenue?"

Discussion

In 2004, a figure of ten European eastern nations used a flat tax rate. For instance, Ukraine taxed its residents at 13%, Lithuania implemented a tax rate of 33% on its residents, and Georgia taxed a 12% tax. The outcome of implementing a tax rate in these countries, all of these countries have experienced a growth in their economy by 8%, which is more than double what was witnessed in industrialized economies of the world ^[1].

The supporter of flat tax rates justifies this system as the system is amazingly easy. According to them, in most cases, it's not just individuals who enjoy the benefits of understanding this rate, though many nations have granted flat tax rates as a motivation to pull employers and corporations. Proponents say that having a flat tax rate shows fairness in terms that everyone is taxed at the same rate.

There are many issues that are related to the flat tax rate. The first and foremost issue is that the current system of the USA is not a pure income tax. Funds that are placed in pensions and IRAs are not taxed until they are withdrawn. Treatment for these funds will be used in case of the flat tax rate. This means that investments like these will earn full pre-tax on the return. However, the advocate says that a flat tax rate will reduce these pre-tax interest rates. A flat tax rate will decrease the return on pensions. Voluntary contribution to such plans will also reduce ^[2].

The second main issue related to the implementation of a flat tax rate is related to pensions. Pension coverage might fall with the implementation of a flat tax rate. The system of pension is triggered by its sizeable tax advantage. The question that arises is, then, why should employees and workers continue to have high expenses related to pensions when they can get the same treatment if a flat tax rate is implemented? If employers bawl their pension plans, then they have to have the same level of money in their account as savings. Savings will fall if they do not have that level of money.

If a mortgage interest deduction is retained under a flat tax rate, then households will be able to deduct interest payments. However, they will not pay taxes on interest income. Savings rate will reduce further if they don't have to pay and this would generate inducements for households to derive. Fourth, issues related to the implementation of the flat tax rate are related to the rules and regulations through which this rate will be implemented. People have purchased a house so that they can receive mortgage interest deductions. They have made investments and borrowed money so that they will have write-offs for interest payments. The value of existing homes will be reduced with the implementation of a flat tax rate.

After the 2008 recession, many countries adopted flat tax rates, but some of them suffered negatively. For instance, Latvia is one of those countries that has adopted the flat tax rate in the first place. The economy of the country fell down at the end of the year 2008, the unemployment rate increased to 9%. This unemployment rate would have been higher if the people of Latvia had not moved to other parts of Europe. Estonia and Lithuania have faced similar pitfalls after the implementation of a flat tax rate.

According to the news brief given by a member of the House Energy and Commerce Committee and the Committee on Rules (Burgess) in 2014, Russia is considered one of the best examples, has successfully implemented a flat tax rate and boosted its economy and revenues by 25% followed by 24% in the next year. In some of the states of America, the flat tax rate is already prevailing, like from Utah to Massachusetts, people of these states have realized high benefits associated with the switching of the flat tax rate that is applied on their incomes. According to Burgess, the revenues of these states have also increased. The main theory behind the implementation of a flat tax rate is that by lowering the tax rate, taxpayers will become more productive, which will ultimately result in the creation of more economic growth. This will help to provide more tax revenues mainly due to the fact that businesses will become more successful ^[3]. Critics of the implementation of a flat tax rate make arguments that lowering the tax rate and creating one flat rate for all will not increase the revenues that are needed to run the federal government. In history, the amount of revenue which was collected from an income tax was about 17%, which is the number proposed by the Flat Tax Act. However, there are benefits associated with the implementation of a flat tax rate as it would be simple, and tax returns would be done on one single page. This will cater for the days when Americans used to stay for long hours just to file their tax. A flat tax rate will estimate the alternatives like estate taxes, minimum tax, marriage penalties and capital gain taxes ^[4].

A flat tax rate will impose double taxation on old citizens. Seniors have paid taxes all their lives, and

now they have to spend a portion of their after-tax income on its new cost. From a senior citizens' perspective, they don't receive enough from the elimination of tax. A flat tax must acknowledge payroll taxes that support Medicare benefits and social security. If the tax rate vanishes, then federal income will be removed. In order to control the deficit, a flat rate must be increased. This would result in increasing the complexities in the preparation of tax returns^[5].

According to Worstall, in his article in Forbes the main problem associated with the implementation of the flat tax rate is that everybody should pay the same proportion of what they make. According to the author, it is a debate regarding the fairness of the system. The flat tax rate is progressive in nature rather than regressive. Regressive is the state where a small amount of income pays out higher percentages of a specific tax, while progressive is the state where a share of income going into taxes increases as income increases. A system is said to be progressive if it asks for 10% of poor people, 20% from middle incomes and 30% from high incomes^[6].

According to Lewis, flat tax fans should focus on where the income taxes are important and fair tax fans should focus where sales tax is important. A flat income tax does not address state-level taxes or payroll taxes. In order to implement a flat tax rate, government revenue needs would have to be less with respect to GDP. For instance, Hong Kong's flat tax rate system with the combination of property taxes produces 13% of GDP in revenue^[7]. According to Gleckman, Ted Cruz will collapse the current seven individual tax rates to a single 10% rate. He will be increasing the standard deduction from \$6,300 to \$10,000 for single and from \$12,600 to \$20,000 for couples. Cruz will remove all the credits except for the earned income tax credit and child tax credit. He will repeal Medicare and Social Security payroll taxes along with corporation tax^[8].

Conclusion

From the studies and discussions provided in the discussion part. It can be seen that although having a flat tax rate may have good benefits in the long run, a flat tax rate will not be helpful for the people of America. In order to earn revenue government will be proposing a tax rate that will help them to reduce their debt at the same time along with an increase in the revenue. A tax rate should be progressive rather than regressive.

End Notes

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