

UNRIG THE ECONOMY: One Tax Code for Everyone

Background:

From the moment it was introduced, the income tax has violated the central premise of taxation - “that all persons should contribute to the expenses of the government in proportion to their several abilities¹,” or, as Justice Oliver Wendell Holmes would say, “taxes are the price we pay to live in a civilized society.”

The 1861 income tax of 3% on all incomes, the nation’s first federal income tax, had a deduction that excluded all taxpayers who made under \$800 annually² - which while it may not seem like much today, still excluded the majority of taxpayers. This tax was repealed in 1872.

The first permanent national income tax, enacted in 1913 after the ratification of the Sixteenth Amendment³, not only excluded a wide swath of taxpayers, with generous deductions excluding nearly 96% of the country from paying income taxes, but introduced progressive tax brackets as well, further separating the tax code from the principle that federal taxation, if it is applied at all, should be applied equally.

Today, the U.S. Tax Code is perhaps the most fundamental distortion of the economy, and burden on those trying to make it in the economy, that exists in U.S. law. Over 70,000 pages of statutes, regulations, and IRS counsel rulings cost taxpayers approximately 6.5 billion hours and nearly \$300 billion in compliance costs alone⁴.

Industry lobbyists often spend the majority of their lobbying efforts, not on changing or amending existing law, but by inserting a new tax deduction or loophole into the tax code. One report from the Peterson Foundation found that loopholes in the tax code gave out over \$130 billion in corporate welfare in 2023⁵, and while the average taxpayer pays approximately 13% of their income in federal taxes, profitable public corporations pay between 0% and 9%^{6,7}.

Add this to IRS enforcement of a complex tax code and byzantine tax law, or even the threat of it, and the tax code ensures that while massive corporations and government-connected industries with armies of lawyers and accountants can thrive, the average American household struggles to achieve the American dream.

Key Impacts and Statistics:

- From 5 to 70,000 - The federal income tax code in 1913 was a mere 5 pages. However, today’s income tax code spans 70,000 pages of statutes, regulations, and IRS rulings.
- Big Cash Gets Big Deductions - Big corporations win the most, with top companies with armies of accountants and lawyers such as Amazon paying zero taxes or even, in Amazon’s case, getting a tax refund⁸.

¹ <https://www.jstor.org/stable/1884929?seq=3>

² https://www.archives.gov/milestone-documents/16th-amendment#:~:text=The%20financial%20requirements%20of%20the,the%20concept%20did%20not%20disappear_

³ Ibid.

⁴ <https://www.ntu.org/foundation/detail/65-billion-hours-260-billion-what-tax-complexity-costs-for-americans>

⁵ <https://www.pgpf.org/blog/2023/04/six-charts-that-show-how-low-corporate-tax-revenues-are-in-the-united-states-right-now>

⁶ <https://www.cnn.com/2019/02/15/amazon-will-pay-0-in-federal-taxes-this-year.html>

⁷ <https://www.gao.gov/products/gao-23-105384#:~:text=For%20example%2C%20profitable%20corporations%20may,2014%20to%209%25%20in%202018>

⁸ <https://itep.org/amazon-in-its-prime-doubles-profits-pays-0-in-federal-income-taxes/>

- It Pays to Be Connected - Well-connected industries can get tax deductions and credits even in the face of public opinion. For example, while an average investor can get hit with a hefty tax bill if they make over \$262,000, if they make enough to buy a private jet they can just write any gains beyond that amount off - an incredibly unpopular loophole.
- Complexity Costs Money - The average cost of a tax lawyer is between \$200-400/hr, so if you want to take advantage of all the deductions available to you, better be ready to pay up. Tax complexity costs taxpayers an estimated \$260 billion and 6.5 billion man hours each year.
- Less Taxpayers Trust the IRS Than Ever - Taxpayer trust in the IRS to fairly enforce the tax laws is now at 66% - the lowest since 2014⁹.
- The Federal Reserve paid member banks approximately \$55 billion in interest last year¹¹, providing a giant subsidy for the American financial system.

✓ **Our Policies:** Taking on the federal tax code is no easy task. Each of the 70,000 pages benefit a small group of special interests far more than they individually harm the general public, leading to a problem where each loophole will be fiercely defended but reformers will have little support from the public to eliminate them. Prior to the most storied tax reform in history, the 1984 tax reforms led by President Ronald Reagan, the tax code was 16,000 pages. Today, it is over 4x that number.

Our approach is to start with a clean slate. Instead of amending the income tax in the hopes that now, despite evidence to the contrary in the 150 years prior, the income tax could be simplified, we propose a single national consumption tax and to automate tax collection and eliminate the IRS.

Replace the Income Tax - The income tax, taxed at point of earning instead of point of sale, has proven to be nothing more than a tool for well-connected industries to benefit themselves at the expense of the taxpayer. We will work with Congress to eliminate the entire income tax code and replace it with a single, national consumption tax similar to the FAIRTax.

Abolish the IRS - When a national sales tax has been implemented, we will work with Congress to abolish the Internal Revenue Service and largely automate tax collection processes, leaving the enforcement of federal laws to the Department of Justice and not to number-crunching bureaucrats.

⁹ <https://www.irs.gov/pub/irs-pdf/p5296.pdf>