



Ideas in Action

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The Flat Tax: Restoring Freedom and Fairness to Federal Taxation

By: Rep. Dick Armey

Sadly enough, the typical American family today pays more in taxes than it spends on food, clothing and shelter combined. Not only is government taking a larger share of family income, but it is doing so through a complex, unfair and often an incomprehensible maze of tax laws that allow politicians to micromanage the U.S. economy and award loopholes to special interest groups. Worse yet, the current tax code discourages saving and investment, which has stifled economic opportunity and has led to stagnant family wages.

That's why I introduced the Freedom and Fairness Restoration Act, legislation that would scrap the current tax code and replace it with a flat 17 percent tax rate on all income.

Under a flat tax, no matter how much you earn, what kind of business you're in, or how many lobbyists you have roaming the halls of Congress, you would be taxed at the same rate as every other American.

Under a flat income tax system, every dollar of income in the economy would be taxed through either an individual wage tax or a business income tax. Individuals would calculate their income (defined as the sum total of wages and pensions), subtract a generous personal allowance (\$33,000 for a family of four), and pay a flat 17 percent tax on the rest. That's it. Business income would be handled with equal simplicity. Businesses, from the family farmer to the Fortune 500 company, would subtract revenues from expenses and pay 17 percent on the remainder.

Since I introduced my legislation just 16 months ago, I have received thousands of letters supporting the flat tax for three reasons: it's fair; it's simple; and it's pro-growth.

"I'm a Democrat," wrote Lewis of West Palm Beach, "but I take off my hat and congratulate you for trying to get this act through Congress." "Yippee, Hallelujah, and Amen," wrote Peter from Orlando.

The flat tax is fair. Under a flat tax, no matter how much you earn, what kind of business you're in, or how many lobbyists you have roaming the halls of Congress, you would be taxed at the same rate as every other American. No tax breaks or special loopholes. No schedules. No special deductions or credits. No social engineering or tinkering. Everyone would pay the same flat 17 percent rate.

The flat tax is simple. After seven decades of amendments, revisions, exceptions, loopholes, extenders, and the occasional overhaul, today's tax code is a wasteful, complicated mess. Americans currently spend 5.4

billion man-hours a year calculating their taxes -- more man hours than it takes to build every car, van and truck in the United States. These compliance costs amount to \$232 billion per year.

The flat tax would slash compliance costs, freeing up resources that are wasted today on record keeping, filing forms, learning the code, litigation, tax avoidance, etc. It would replace 480 tax forms with two postcard-sized forms; one for individual wages and one for business income. According to the Tax Foundation, the flat tax would reduce compliance costs by 94 percent.

The flat tax is pro-growth. Because the flat tax would reduce unnecessary compliance costs, promote greater economic efficiency, and cut tax rates on working and investing, it would lead to an economic boom and higher wages. If Congress were to pass the flat tax today, the average American family's annual income would be approximately \$4,300 higher in 2002 than if we retained the current system.

A critical feature of the flat tax is its treatment of saving and investment. Under our present tax code, income that is saved and invested faces multiple layers of taxation, which leads to lower levels of investment, lower productivity and lower take-home pay. America's farmers intuitively understand the link between investment, higher productivity and higher pay. The reason today's farmers are better off than their predecessors who settled the plains is that today's farmers use advanced equipment which makes them far more productive. The same economic principle holds true for all workers. The flat tax would end the bias against saving and tax all income once and only once.

I should also mention another source of double taxation the flat tax would end, and that's the estate tax. I think it's just plain wrong that the tax collector shows up at the grave of a parent who cared enough to leave something for his or her children.

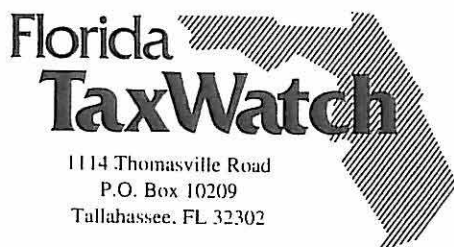
The flat tax is more than a plan that's so simple Americans could file their taxes on a postcard. It's a vision of what America can be again -- a formula for rejuvenating our economy, freeing our entrepreneurial talents, and reviving stagnant family wages. It's a common-sense plan for returning to a government that is simple, honest and fair. And who knows? It might just restore people's trust in their government.

ABOUT THE AUTHOR:

Rep. Dick Armey (R-TX) is the majority leader of the U.S. House of Representatives and represents the Texas 26th Congressional District.

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