

Comments on “100 Million Unnecessary Returns”

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Outline

- Advantages of plan
- Shortcoming of plan
- Disadvantages of plan
- The X-tax alternative

Advantages of plan

- Reduction in tax on saving
- Reduction in filing burden
- Elimination of AMT

Shortcoming: Saving still taxed

- Individual income tax kept for much of saving
- Corporate income tax retained

Disadvantages of plan

- One-time monetary-policy dilemma
- Reduced pressure to restrain spending
- Difficulty of taxing financial institutions
- VAT loophole for state and local govt.

Monetary-policy dilemma

- VAT is firm-level tax on labor
- Fed must let consumer prices rise or nominal wages fall
- Price rise disruptive for nominal contracts

Reduced pressure to restrain spending

- Extra revenue source
- VAT may be easy to raise

Loophole for state and local govt.

- State and local production currently taxed
 - Employees pay income tax
- Plan exempts such production from VAT
- Potential for tax avoidance
- Problem can easily be fixed

X-tax alternative

- Firms taxed on value added minus wage payments (business cash flow)
- Workers taxed on wages at graduated rates, top rate = firm rate

Sole difference from VAT

- Firms deduct wages, workers taxed on them
- Comparison of the two taxes *must* rest, directly or indirectly, on this difference
- Under arbitrary trade rules, this difference may require origin basis for X-tax

Advantages (relative to VAT)

- Progressive
- Can replace income tax
- Avoids monetary-policy dilemma
- Origin basis has some advantages

Progressive consumption tax

- Business cash flow taxed at high rate
- High-wage workers taxed at high rate
- Other workers taxed at lower rates

Replace, not supplement, income tax

- VAT too regressive to be replacement
- Eliminates tax on saving
- No extra tax to fuel spending growth

Other advantages

- Avoids monetary-policy dilemma
 - No firm-level tax on labor
- Advantages of origin basis
 - No import smuggling, export fraud
 - Transitional burden shifted to foreigners
- No state and local loophole

Disadvantages (relative to VAT)

- Wages, business cash flow must be distinguished
- Negative tax base for many firms
- Disadvantages of origin basis
 - Transfer pricing problem (as in status quo)
 - Can't exploit border-adjustment delusion

Conclusion

- Plan has significant advantages, some disadvantages
- Improvement, relative to status quo
- X-tax would be much better