

SCOMM

99:21

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House of Representatives
House District 34

SPONSOR STATEMENT

HJR #31

4-12-95

The current federal Internal Revenue Code is characterized by loopholes, exceptions, exemptions, complicated schedules, and targeted tax breaks, which makes it difficult for the taxpayer to calculate the tax obligation due. Thus, there is a real need to replace the current system with one that is more fair and simple.

This resolution calls for the United States Congress to enact legislation replacing the current IRS tax code with a "flat" tax. This will create a tax system that is less difficult to comply with and tax all income once. A "flat" tax would also exclude from the definition of taxable income the earnings from personal and business savings, encouraging individual's and families to save and invest a portion of their incomes.

Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*



DUMBLY DERAILING THE DOLLAR

NOT SINCE the 1970s and, briefly, before the 1987 stock market crash, has Washington so thoroughly undermined the integrity of the dollar. The Clinton Administration still seeks more growth-killing taxes and regulations. More immediately destructive has been the Federal Reserve's simultaneously raising the price of money and continuing to pump more liquidity into the banking system. All this is a sure-fire formula for economic stagnation and inflation.

Our central bank should simply withdraw credit from

the economy by selling bonds in its open-market operations. Long-term interest rates would quickly fall back, and the assault on the dollar would cease. The White House should unequivocally and consistently forswear bashing the buck as a trade weapon. After all, Clinton hero John Kennedy recognized the importance of a strong dollar. As for strengthening the economy, when will the President embrace Kennedy-style, across-the-board income tax cuts?

HAPPY DAYS WILL BE HERE AGAIN

REPRESENTATIVE DICK ARMEY (R-Tex.) has introduced a flat-tax bill that will, when enacted, set off a seismic economic boom.

Arme's legislation would sweep away the entire income tax code, which has ballooned, over 80 years, into a multi-thousand-paged monstrosity. Personal income would be taxed at a flat 17% rate. Deductions for dependents would be sizable. A family of four wouldn't be liable for tax until its income exceeded \$36,800. (A married couple would have an exemption of \$26,200. Each dependent would add \$5,300.)

Arme's low rate is predicated on Congress' enacting significant spending cuts. But even without the reductions, the levy would go up only 3 points, to 20%.

Exactions on capital gains, estates, interest and dividends would be eliminated. Ten million people would be removed from income tax rolls. Most Americans' tax liabilities would decline despite the loss of deductions for mortgages, state income and property taxes, charitable contributions, etc. The corporate profits tax would also be 17%, even though companies could charge off capital investments immediately.

The impact of such a proposal would be resoundingly, enthusiastically positive. Stocks would rocket, thanks to the elimination of the capital gains tax. Savings would soar because of the abolition of double taxation on dividends and interest. New business would blossom both because of the increased pool of capital and because the capital gains

tax would no longer act as a barrier to money's moving from old investments to new investments. The economy would expand robustly for years to come.

The quality of life would improve, too: The current tax bias against families would end.

The flat tax's simplicity would redirect an immeasurable amount of American brainpower from the numbing exercise of coping with our incomprehensible tax code to more productive purposes. There would be an enormous increase in efficiency. Alvin Rabushka, coauthor with Robert Hall of the proposal on which Arme has based his bill, estimates that this reform would remove a \$200 billion burden on the economy—\$100 billion now spent filling out tax forms and other forms of compliance and

another \$100 billion wasted from investments being made for tax rather than economic purposes.

A flat tax would get rid of a profoundly corrupting influence on our political life: the countless millions of dollars now showered on politicians and bureaucrats to influence tax-related rules and legislation.

The Arme bill would be fairer than the current regime. No longer would there be striking disparities between tax liabilities on similar incomes. The more you made, the more you would pay. And

what could be fairer than relieving millions of individuals of any income tax payments?

Moreover, as the experiences with the Kennedy and Reagan tax cuts indicate, the so-called rich would end up



Representative Arme:
Prosperity-producing proposal.

The federal, state, and local tax systems are too complex to present.

Robert E. Hall
Alvin Rabushka

FLAT TAX



Published in 1985 and
being revised, it remains
the flat-tax bible.

aying a greater proportion of the levies collected.

Government revenues would mushroom, thanks to the boom. (A great, largely unnoted fact: Tax receipts grow faster in low-tax economies.)

Losers? Lobbyists, of course. Also liberals, whose control over our lives and purses would be dramatically curtailed. Careers of tax accountants and lawyers would also be disrupted, but only temporarily. Their skills would now be employed for more gratifying purposes than grappling with complex, economically useless tax laws.

Another problem: The resultant economic expansion would create labor shortages as unemployment virtually

disappeared. But this pressure would force employers to do more job training, and we would hear fewer calls for such programs of the government variety.

Republicans should embrace Arney's bill quickly. As Bill Clinton sees his troubles multiply, he will be desperately looking for ways to restore his popularity. (Changes in policy; more than in White House staff, are needed.)

Wise congressional and putative presidential candidates of either party would do well to hop on Arney's bandwagon early. Cynics will downplay the chances of something like the Arney bill's becoming law. They're badly misjudging the temper of our times.

THE REAL PEACE PROCESS

THE ISRAELI PARLIAMENT has just passed legislation that could turn that country into a Middle East Hong Kong. The law will establish genuine free-trade zones, starting in the economically depressed Negev desert region. Dubbed the Free Export Processing Zone (FEPZ), this about-to-be-economically-liberated area will be patterned after similar ones in China that have transformed empty backwaters into sizzling sectors of growth.

Few economies today are more overtaxed and overregulated than Israel's. The FEPZ will unleash that country's formidable entrepreneurial energies. Its success will create

pressures for similar treatment in the rest of Israel. It won't be too many years before the whole country will be a free-enterprise zone despite opposition from special interests.

This dawn of deregulation comes not a moment too soon. As the peace process proceeds, Israel badly needs robust economic expansion to ameliorate what will be growing social tensions among various parts of its population. Jerusalem must also be a free-enterprise model for neighboring Arabs, particularly the Palestinians. Statism has severely hobbled economic progress in that region and has, in turn, provided ready fodder for fundamentalism and terror.

THOSE "AMATEUR" DIPLOMATS

RECENTLY *People* magazine excoriated the Clinton Administration for naming a higher percentage of "influential friends" to overseas ambassadorships as "purely political payoffs" than did either Ronald Reagan or George Bush, amply criticized by then-Senator Gore and others for similar selections.

It's a bum rap. The sniping and whining emanate from foreign service officers who think these diplomatic plums should go only to members of their own priesthood.

The prime mission of most ambassadors is to generate "a positive spin" for the U.S. and to see that the embassies are ably managed. One doesn't need lifelong diplomatic training to handle these goodwill and administrative chores.

The distinction between "professional" and "amateur" diplomats is often artificial. One of our most formidable strategists and negotiators has been Henry

Kissinger, who never had foreign-officer training. Nor did other foreign policy heavyweights such as Zbig Brzezinski or George Shultz.

Other successful "amateurs" over the years include Walter Annenberg in Britain, John Kenneth Galbraith and Daniel Patrick Moynihan in India, Jeane Kirkpatrick at the U.N., Edward Ney in Canada, and Frank Shakespeare in Portugal and the Vatican.

Wise governments don't mind an alleged nonprofessional U.S. envoy if he or she is a friend of the President's. Such a person can often get a message through to the President more quickly, more forcefully than a foreign service officer. Thus, while the Swedish government would be too diplomatic to say it publicly, it would much prefer our current emissary, Thomas Siebert—a successful lawyer who is a close friend of Bill Clinton's from college days—to a State Department bureaucratic diplomat.

NOT ALL WARS ARE WRONG

Regeneration—by Pat Barker (Plume, \$10). Well-written antiwar novel with a dose of politically correct feminism. Centers on military hospital psychiatrist Dr. William Rivers, whose mission is to restore shell-shocked soldiers to "sanity" so that they may return to the insanity of World War I trench warfare. His most notable patient: poet Siegfried Sassoon, now a decorated officer, who has issued a pacifist declaration that he will no longer fight. For political reasons, the Army decides to send Sassoon to a mental hospital rather than to a court-martial. Rivers succeeds with Sassoon, who refuses to back down from his statement but decides to return to the trenches.

Rivers and Sassoon were real-life characters,

as were author Robert Graves and poet Wilfred Owen, who also make appearances in this novel.

Sassoon was mistaken to say, "I'm not protesting against the conduct of the war." It was precisely the way the military managed the conflict that brutalized Europe and set in train forces that nearly destroyed Western civilization. The Great War, as it was called then, quickly came to be seen by many after its close as a purposeless struggle that slaughtered countless millions and shattered the civilized fabric of prewar life. By contrast, while the American Civil War had its share of World War I-like horrors, combatants and future generations alike saw it as a struggle whose noble purposes justified the immense sacrifices. ■



FISCAL NOTE

REQUEST:

Revision Date: Original

Affected

Agency: _____

Title: Endorse Federal Flat
Income Tax

BRU: _____

Sponsor: Representative James

Components: _____

Requestor: _____

EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 2000	FY 2001
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants, Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL

REVENUE

FUNDING: (THOUSANDS OF DOLLARS)

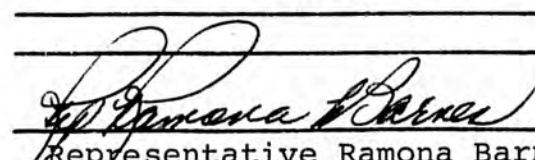
General Fund	0.0	0.0	0.0	0.0	0.0	0.0
Federal Fund	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

Full-Time	0	0	0	0	0	0
Part-Time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

Estimated FY 95 Impact: 0

ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY)

Prepared By: World Trade and State/Federal Relations Cmmtte. Date: 4/19/95
Division: _____ Phone: _____
Approved By: 
Agency: Representative Ramona Barnes, Chair Date: 4/19/95

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REQUESTOR
OFFICE OF MANAGEMENT AND BUDGET
AGENCY(IES)

Revision Date: _____ Dept. Affected: Revenue
Title: Endorse Federal Flat Income Tax BRU: Audit Operations
Sponsor: Rep. James, Kott Component: Income and Excise Audit
Requestor: (H) WTR COMPONENT SERIAL NO. 113

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL						
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REVENUE FUND SOURCE:	0.0	0.0	0.0	0.0	0.0	0.0
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FUNDING:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current (FY95) impact \$ 0.0

ANALYSIS: (Attach a separate page if necessary)

This resolution urges the U. S. Congress to replace the current Internal Revenue Code (IRC) with the levy of a fixed or "flat" tax. This fiscal note is based on the premise that enactment of a flat tax by Congress would pertain only to individual income taxation. Since the state of Alaska does not currently have an individual income tax, this resolution has no effect on revenue. If this resolution impacts corporation tax provisions under the IRC, there may be an impact on revenue from the state's corporation income tax program which is based on the IRC. It is not feasible for DOR to determine impacts on corporation tax revenue since details on the structure of the flat tax are not currently available.

Prepared by: Robert N. Bartholomew, Deputy Director *Robert N. Bartholomew* Phone: 465-2320
Division: Income and Excise Audit Date: 4/19/95
Approved by Commissioner: *[Signature]* Date: 4/19/95
Agency: Department of Revenue

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