THE FLAT TAX
by
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Introduction

The subject of my talk is to explain a comprehensive tax reform plan—a flat tax[1]—that is designed to replace any country's current corporate income tax (CIT) and its typically graduated, usually quite complicated personal income tax (PIT).[2] In brief, a flat tax is a tax system with only one rate that applies to all taxpayers, business firms and individuals alike, regardless of the source and amount of their incomes. A flat tax is known by such other names as a uniform tax, a single-rate tax, or a proportional tax. The flat tax contrasts with a system of graduated rates under which individual and corporate taxpayers pay increasingly higher rates of tax as their taxable income rises.[3]

In principle, the flat tax can be designed to generate any specific level of revenue. The tax base (the base of income on which the tax is levied) and the tax rate can be chosen to collect the same amount of revenue (revenue neutral), more revenue (a tax increase), or less revenue (a tax cut) than is generated by current personal and corporate taxes. Relative to most countries in Western Europe, Switzerland is regarded as a low-tax country.

The flat tax that I am discussing this evening does not involve replacing any revenues derived from the operations or potential sale of state-owned enterprises, value-added taxes (VAT), social insurance taxes, nuisance taxes, and non-tax sources of revenue.

The flat tax is intended to increase individual freedom by letting people keep more of what they earn. Compared with graduated tax rates, the flat tax is based on the principles of supply-side economics. The central tenet of supply-side economics is that individual incentives matter. Tax

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[1]Alvin Rabushka is co-author, with Robert E. Hall, of three books on the flat tax. These include *Low Tax, Simple Tax, Flat Tax* (New York: McGraw-Hill, 1983); *The Flat Tax* (Stanford: Hoover Press, 1985); and *The Flat Tax, 2d. Edition* (Stanford: Hoover Press, 1995). The Hall-Rabushka plan drew part of its inspiration from Hong Kong, which has an effective flat-rate income tax of 15 percent for upper-income households. It should be noted that the newly-independent country of Estonia enacted a flat-rate income tax, which has thus far proven successful. In addition, the Hannover Chamber of Industry and Commerce has proposed a 20 percent flat tax for Germany. See Wilfried Prewo, Martin Rudolph, and Dirke Franke, *Globalisierung und Handlungsverantwortung: Politics für das Informationszeitalter*, pp. 24-31.

[2]This proposal does not address the value-added tax or social insurance taxes, which are two other sources of revenue. It is possible to combine these with a flat-rate income tax, but that is a subject for another time. In particular, social insurance taxes should be treated as a separate issue in order to consider privatizing social benefits by letting individuals determine their own mix of social insurance benefits by allocating the funds currently taken from them in social insurance taxes.

[3]Individuals pay federal income tax at progressive rates from 0 percent on taxable income up to SFr 14,899 of taxable income up to 11.5 percent on taxable income over SFr 603,100. In Geneva, for example, marginal tax rates can reach as high as 49.5 percent on an income level over $1 million when Cantonal and City taxes are included. These figures are obtained from Deloitte Touche Tohmatsu, "Quick Guide to Taxation in Switzerland." Corporate tax rates in Switzerland are also progressive.

rates are perhaps the single most important incentive in any economy. High tax rates discourage work, saving, and investment because the government takes an increasing share of our earnings. In contrast, low tax rates encourage work, saving and investment, because we get to keep most of what we earn.

Principles of Sound Taxation

Economists generally agree that sound tax policy should aim at certain goals. First, taxes should distort as little as possible the prices resulting from the interaction of supply and demand in the market. Tax policy should strive for neutrality between investment and consumption and among products and industries. Government should not use its power to alter prices to favor any one industry or producer. Low tax rates minimize price distortions, at the same time that they maximize individual incentives.

(1) An efficient system of taxation collects money without seriously influencing individual decisions on how much to work and to save and where to invest. An efficient system is not riddled with exemptions, deductions, and credits that direct money to investments with lower tax liabilities instead of to investments that increase real output at the highest rates of return. The best way to minimize distortions is to impose low rates of taxation on a broad base of taxable activity, rather than narrow the tax base through exemptions, deductions, credits, and other loopholes, and then tax the resultant narrow base at steeply-graduated rates. The broadest possible base of taxation is a country's entire gross domestic product.

(2) Another important standard against which to evaluate systems of taxation is equity or fairness. Historically, equity has always meant equal treatment of equals, which conforms to historical common law notions of equal treatment before the law. So in general, if two taxpayers earn identical incomes, this doctrine of equity would imply that each should contribute identical shares in taxation.

(3) Simplicity is a third standard by which we can evaluate tax systems. The notion of simplicity encompasses the comprehensibility of the system, the ease with which taxpayers can figure out how much they owe with absolute certainty, and how much time and effort they have to put into complying with the tax system. It reflects the extent to which taxpayers have to consult expert counsel from their lawyers or accountants either to compute their taxes or to take advantage of tax-saving devices. A truly simple tax system would require no more than a half-sheet of paper that all literate persons could easily complete, whether as a large multi-national corporation headquartered in Zurich, a small business, a self-employed professional, an owner of rental property, a farmer, or a salaried employee.

Terminology of Taxation

We are now armed with several standards for the evaluation of tax systems. It may be useful hereto complete a conceptual checklist of concepts and definitions that render tax jargon into ordinary language.

Begin with the tax rate. There are two notions of tax rate: **average**, or effective, tax rate and **marginal** tax rate. A taxpayer's average tax rate, which is sometimes called the tax burden or tax level, is simply the fraction of income paid in taxes. Divide taxes paid by income to calculate the average tax rate. For example, SFr 10,000 paid in taxes on income of SFr 100,000 yields a 10 percent average tax rate.

The marginal tax rate, in contrast, applies only to the last franc earned. If the person receiving SFr 100,000 gets SFr 110,000 instead, and has to pay SFr 12,000 in taxes, the tax on the extra SFr 10,000 is SFr 2,000, and the marginal rate is 20 percent. In most tax systems, the marginal rate exceeds the average rate.

The marginal rate determines whether the taxpayer decides to work overtime, go hiking, or cheat.

Inflation has very severe effects on incentives in a graduated-rate income tax system. Why? Unless tax brackets are indexed for inflation, an increase in consumer prices pushes taxpayers into tax brackets with higher marginal rates, a phenomenon that is termed **fiscal drag**, or **tax-bracket creep**, or **bracket creep** for short. Assume that any given individual receives an increase in salary that exactly matches inflation. He will, in fact, experience no change in real disposable income (that is, the real purchasing power that remains after inflation is removed). However, inflation may push him into a higher tax bracket because he now earns more. Higher tax rates both reduce his incentive and his after-tax income, which means that he will actually suffer a decline in real disposable income.

Bracket creep can be easily avoided if the tax authorities adjust the tax brackets each year by the full amount of inflation. Some countries make this inflation adjustment, such as the United States, while others do not. Those that do not adjust tax brackets for inflation are able to raise additional revenue without having to legislate tax increases.

Even without inflation, the disincentive effects of higher tax rates are the result of a **graduated tax-rate structure**. As an individual's real income rises, he has to share an increasing fraction of each increment with the tax collector. A graduated tax-rate structure has the effect of cutting the government in on the growth of the economy, thereby transferring more and more of the national income into public hands, unless the government enacts tax-reduction legislation to offset the trend.

Some definition of income constitutes the basis on which a tax system is constructed. Take gross domestic product (GDP), for example, which is a comprehensive measure of the annual value of goods and services produced by a nation. The **tax base** against which any structure of rates is applied is that portion of GDP that remains after all allowable deductions and exemptions have been

removed, and any credits applied.[4] Those items that have been removed may take the form of **exemptions**, (in most countries, this is an allowance for each member of a taxpaying household, the taxpayer, spouse, and dependents, which is subtracted from gross income), **deductions** (special provisions in the tax law for such items as charitable deductions or large medical expenses), **exclusions** (in the United States, contributions to individual retirement plans and moving expenses to accept a new job are deductible from gross income), and **credits**.

Taken together, the four categories are often known as **loopholes**, devices that allow taxpayers to reduce their taxes. They are also called **tax-preference items** or **tax expenditures**, because if the government declines to tax part of someone's income to encourage him to engage in some specific social or economic act, it is the same thing as if the government were spending money to pay the person to do the same thing. The effect of loopholes is to **narrow the tax base**.

Special interest groups seek, and often obtain, specific tax loopholes that favor their members. Tax-free or tax-preferred fringe benefits are often received by some groups of employees. Such benefits may include free or subsidized meals, the use of company cars (not for private use), interest-free employer loans, employee participation in their employer's business in the form of stock, and other benefits. These tax benefits or loopholes become **tax shelters** for the group that receives its benefits. The object of a shelter is to generate deductions from total income to reduce taxable income and lower tax payments.

In this regard, **the underground economy**, in which people exchange goods and services for other goods and services with no cash changing hands, or pay unreported cash for goods and services, is a form of **tax evasion**. Evasion, unlike loopholes that give rise to **tax avoidance,** is illegal. Higher marginal tax rates encourage both avoidance and evasion. A low flat rate minimizes both.

Finally, the concept of **revenue neutrality**, which means that a new tax system raises the same amount of money as the old system it replaced. A neutral reform leaves revenue unchanged.

To summarize at this point, the important characteristics of a well-designed tax system are that it is:

(1) efficient, both in the broader economic sense of promoting growth and in the narrower sense of efficient administration of tax collection,
(2) equitable, and
(3) simple.

The flat tax best meets these three criteria. Any system of graduated tax rates distorts prices and markets, thereby reducing efficiency. A graduated-rate system is complicated to understand and

[4]The tax base, as discussed here, refers to the share of GDP that remains when all deductions are removed. From the standpoint of the individual or corporate taxpayer, the tax base is more precisely defined.

costly to enforce, thereby violating the simplicity criterion. No one individual knows how much another individual should pay. As a result, the system takes on the appearance of favoring one person or group over another and is widely perceived to be unfair. The flat tax solves this problem because every person has to pay at the exact same marginal rate of tax over the specified level of personal allowances.

Principles of Tax Design and Administration

Taking the principles of sound taxation and the terminology of taxation as our starting points, let us design a sensible tax system.

1. All income should be taxed only once, as close as possible to its source.
2. All types of income should be taxed at the same low rate.
3. The poorest families should pay no tax, until their incomes reach a specified minimum level.
4. Tax returns for both families and businesses should be simple enough to fit on a half-page form or a postcard. The tax system should be easy and cheap to enforce.

The first principle seems obvious enough. Any economic activity that is taxed more than once will be discouraged, while those that are not taxed at all will be favored. This is both unfair and inefficient. Double taxation distorts costs and prices, interferes with production decisions, and can seriously harm savings by imposing very high rates on savings. The tax systems of many countries violate this first important principle. Some kinds of income—like fringe benefits—are never taxed at all, while other forms of income, such as corporate income, are double taxed.

Taxing all income at the same rate, the second principle, is the crux of the flat-rate tax. Its logic is much more profound than just the simplicity of the tax calculation with a single tax rate. Whenever different forms of income face different tax rates, or different taxpayers face different tax rates, the taxpayer takes full advantage of opportunities to receive income in ways involving low rates and takes deductions against the income that pays the highest tax. Rich people have the greatest opportunity to exploit deductions. The second principle also states that *the flat rate should be as low as possible* consistent with raising sufficient revenue to finance the legitimate essential tasks of government. Low tax rates inject the smallest possible distortion into the production of goods and services.

The third principle of tax reform is limiting the burden of taxes on the poor. The tax authorities should not chase after families living in poverty. This can be accomplished by applying the flat rate above some specified minimum poverty-level income. This level must not be set too high, however, for it would narrow the tax base, and require all remaining taxpayers to pay at higher rates.

The fourth principle of tax reform is simplicity of the system. Complicated taxes require expensive advisers for taxpayers and can subject taxpayers to fearsome audits by the tax authorities.

Honest misunderstanding can result in fines, litigation, and "fiscal terrorism." A complicated tax also invites the taxpayer to search for special features that can be twisted to escape the taxation of some income or give an advantageous deduction to some expense, and rich persons are better able to use these deductions than low- or middle-income persons. Complicated taxes diminish confidence in government, inviting a breakdown in cooperation with the tax authorities and widespread outright evasion. Each of these problems gets worse as tax rates and the tax burden rise.

It is possible to design a comprehensive income tax system for any modern economy, which meets the broad objectives of neutrality, efficiency, equity or fairness, simplicity, and administrative workability. These objectives are met when a tax system conforms to the four general principles of sound taxation mentioned above. A unified flat tax on individual and corporate income best meets these principles and objectives.

Explaining the Flat Tax

The best approach to the taxation of all forms of corporate and personal income takes the form of a *completely integrated flat tax*. To administer a flat tax, it is desirable to have two separate tax forms—one for business income (which includes corporate income and income from the ownership of unincorporated businesses) and the other for wages and salaries—but it is important to think of the two forms as a single integrated system. An integrated system provides for equal taxation of all types of income, even though reporting of income is separated into two parts. It is important to think of the flat tax as a *single tax* on the cash flow of the economy, not as two or more different taxes arising from different sources of income.

In a fully integrated flat tax, all income is classified either as business income or as wages and salaries. The tax rates on both types of income are equal. The tax on wages and salaries would only apply above a specified poverty level of income. The forms for both taxes will fit on a half-sheet of paper or a postcard-sized form.

All business enterprises, not just corporations, would file a business tax form. The largest corporation and smallest self-employed operation would use the identical simple business tax form. An integrated flat tax would apply a uniform low tax rate on all types of income.

An integrated flat tax provides a single uniform incentive for capital formation by permitting 100 percent first-year write-off of all investment outlays in the year they are made. Expensing of investment would replace multi-year depreciation. Expensing, which both improves the tax treatment of capital and aids simplification, would minimize reporting requirements and reduce expensive accounting and legal fees for compliance.

The Individual Wage Tax. The individual wage tax is designed to tax total income paid as cash by employers to workers. The base of the tax is stated precisely and narrowly as actual payments of wages, salaries, and public or private pensions.

The tax form for the wage tax is almost self-explanatory. It can be filed on an individual or a household basis. For illustrative purposes, Form 1 would be used for individuals. It requires the taxpayer to report total wages, salaries and pensions at the top, count the number of dependents (e.g., children, dependent parents) eligible for an allowance, compute total allowances, subtract allowances from income, and multiply the balance by some fixed percentage.[5] For the great majority of salaried employees, filling out this brief form once a year would be the only effort imposed on them by the national income tax system.

Form 1 Individual Tax 2000

Name: Social Security Number

Address:

City, State, Zip: Occupation

1 Wages and salary.. 1 ....
2 Pension and retirement benefits .... 2 ....
3 Total (line 1 plus line 2) .... 3 ....
4. Personal allowance ....
[a] SWf xxxx for adult ....
[b] Swf xxxx for dependent ....
5. Number of adults .... 5 ....
6. Allowances for adults (line 5 multiplied by SFr xxxx) .... 6 ....
7. Number of dependents .... 7 ....
8. Allowances for dependents (line 7 multiplied by SFr xxxx)...... 8 ....
9. Total personal allowances (line 6 plus line 8) .... 9 ....
10. Taxable income (line 3 less line 9) .... 10 ....
11. Tax (15% of line 10, if positive) .... 11 ....
12. Tax withheld by employer .... 12 ....
13. Tax due (line 11 less line 12, if positive) .... 13 ....
14. Refund due (line 12 less line 13, if positive) .... 14 ....

[5]For illustrative purposes, the tax rate has been set at 15 percent. The final choice of the tax rate depends on the size of the tax base (e.g., whether to retain some current deductions and tax credits) and the amount of revenue that is sought from direct taxes.

It is possible to exempt individuals whose income derives solely from wage employment from having to complete this tax form by having the employer correctly withhold and remit the tax to the government on behalf of the employee.

It may be administratively convenient to minimize individual reporting of income taxes for those whose income derives solely from wage employment. However, it is politically desirable, in my view, for each employed individual to complete an annual accounting of his income-tax liabilities and sign a completed tax return in order to see, first hand, how much income tax he paid and to judge whether the services he receives from the government are worth those payments.[6] It is important that taxes be made as visible and painful as possible in order to encourage the public to resist the government's endless grab for more money. Money withheld and never received by the individual is often not seen as a cost of government. This creates what is known as a "fiscal illusion" and leads citizens into thinking they receive government benefits free of charge or at the expense of others.

Choosing a level of personal allowances for exemption from income tax is no easy task. Most countries grant a personal exemption for a head of household, his or her spouse, and a smaller amount for each dependent child or aging parent and grandparent. The underlying notion is that each household requires a minimum amount of income to purchase necessities of life, and that income taxes should not be imposed until income surpasses the level required to subsist at a socially-accepted minimum standard.

For the majority of the population whose income derives solely from wages and salaries, the individual wage tax will be the only tax to worry about. A broad-based integrated flat tax contains no provisions for charitable deductions, mortgage or other interest payments, and other deductions. Eliminating deductions is important to achieve a broad tax base. However, the flat tax does not require any payment on capital gains, dividends, on interest receipts, which explains the omission of these items in Form 1.

The Business Tax. In the first place, the purpose of the business tax is not to tax businesses. *Fundamentally, people pay taxes, not businesses. The idea of the business tax is to collect the tax that the owners of a business owe on the income produced by the business.* The belief that businesses as such pay taxes is among the most misleading myths in how people think about taxes, and why politicians often clamor to raise taxes on business.

The business tax is a giant, comprehensive withholding tax on all types of income other than wages, salaries, and pensions. The business tax is designed to tax all income outside of wages and salaries only once, as close as possible to its source. The business tax does not have deductions for

[6]Suppose that withholding was abolished and individuals were required to write a check to the government every month to pay income tax. Under these conditions, taxpayers would probably take a more critical look at what they are getting for their income tax payments from the government in terms of the quantity and quality of public services. So long as individuals have income tax and social insurance tax withheld from their paychecks, and pay VAT inclusive in retail prices, it is difficult for ordinary people to realize how much they pay of their total income in taxes.

interest payments, dividends, or any other type of payment to the owners of the business. As a result, all income that individuals receive from business activity has been taxed. Because it has extracted its tax, the tax system need not worry about what happens to interest or dividends after they leave the firm.

The business tax would be assessed on all the income originating in the business, but it will not tax any income that originates in other businesses, nor will it tax the wages, salaries, and pensions paid to employees. The types of income taxed by the business tax would include profits from the operations of factories, royalties from books and patents, earnings of self-employed professionals such as doctors, lawyers and accountants, rental income from ownership of apartments and offices, and fringe benefits provided to workers. In short, all profits originating from the conduct of any non-salaried business activity would be subject to the business flat tax. Many of these types of income are reported on individual returns in many countries. This would change under the flat tax.

The business tax works in the following way: all income derives fundamentally from the sale of the products and services produced by the business. On the top line of the business tax form goes the gross sales of the business—its proceeds from the sale of all its products and services. But some of the proceeds come from the resale of things the firm purchased; tax has already been paid on these items because the seller also has to pay the business tax. So the firm can deduct the cost of all the goods, materials, and services it purchases for the purpose of making the product it sells. In addition, it can deduct its wages, salaries, and pensions, for the taxes on these will be paid by the people receiving them under the wage tax. Finally, the business can deduct each year all its outlays for plant, equipment, and land.

Everything left from this calculation is the income originating in the firm, and is taxed at a flat rate, the same rate imposed on wages, salaries and pensions (which eliminates any tax-advantaged decision regarding incorporation). Deductions are eliminated for interest payments and fringe benefits; note that interest receipts, dividends, and capital gains of individuals are correspondingly not taxed since they represent after-tax income. (The business tax form, Form 2, appears below.)

The flat tax sweeps away the whole complicated system of depreciation deductions, but replaces it with something more favorable for capital formation, an immediate 100 percent first-year tax write-off of all investment spending, also called expensing of investment. Expensing enhances depreciation deductions. Replacing depreciation with expensing is a crucial element in the reform plan, in order to enhance the return on capital and to simplify tax reporting.

Under the integrated flat tax, each business would file a simple form. Every line on the form is a straightforward, well-defined number obtained directly from the business's accounting records (see business tax form below). Line 1, gross revenue from sales, is the actual amount of money received from the sale of all the products and services of the business, plus the proceeds from the sale of plant, equipment and land. Line 2a is the actual amount paid for all the inputs necessary for

the operation of the business. The firm could report essentially anything it purchased provided it was actually needed for its products and was not being given to the employees or owners. Line 2b is the actual cash put in the hands of workers and former workers (which is taxed via Form 1). Line 2c reports purchases of new and used capital equipment, buildings, and land. Line 3 sums all deductible business expenses. Line 4 computes taxable income (gross income less expenses). Line 5 levies the 15 percent tax on taxable income. The remaining lines deal with carryforward provisions.

Because the business tax will treat investment in plant, equipment, and land as an expense, companies in the start-up period will have negative taxable income. This negative tax will be carried forward to future years, when the business should have positive taxable income. Balances carried forward should earn the market rate of interest to prevent them from being eroded by inflation.

Expensing of investment simplifies tax reporting. It also encourages saving and investment. In general, all investment originates in saving. When all new investment in any given tax year is subtracted from the income tax base, it means, one step removed, that all saving that year was exempt from income tax. A tax on income with an exemption for saving converts an income tax into a consumption tax (because when investment is subtracted from GDP, only consumption remains). Expensing of investment thus converts a tax on income into a tax on consumption, which embodies the principle that people should be taxed on what they take out of the economy, not on what they put in. There is a general consensus among economists that a consumption-based tax is more conducive to growth than an income tax, which taxes the formation of new capital.[7]

Form 2 Business Tax 2000

Business Name: Employer Identification Number

Address:

City, State, Zip: Principal Product

1. Gross Revenue from sales.. 1 ....
2. Allowable Costs...
   (a) Purchases of goods, services and materials...................... 2(a) ....
   (b) Wages, salaries and pensions.. 2(b) ....
   (c) Purchases of capital equipment, structures and land......... 2(c) ....

[7]There is a near universal consensus in American economic circles that replacing the current U.S. federal income tax with some form of low, flat-rate, consumption-based tax (by exempting new investment from the tax base) would substantially increase economic efficiency and growth. Estimates of additional annual growth, as reported in a survey of studies published by the U.S. Congressional Joint Committee on Taxation, range from 0.3 percent to 1.1 percent. The average increase in annual real growth was about 0.7 percent. This has a very large effect, over time, on real personal income and government revenues.

3. Total allowable costs [sum of lines 2(a), 2(b), 2(c)]............. 3 ....
4. Taxable income (line 1 less line 3)...................................... 4 ....
5. Tax (15% of line 4).. 5 ....
6. Carry-forward from 1997.. 6 ....
7. Interest on carry-forward (% of line 6)................................ 7 ....
8. Carry-forward into 1998 (line 6 plus line 7)......................... 8 ....
9. Tax due (line 5 less line 8, if positive)................................. 9 ....
10. Carry-forward to 1999 (line 8 less line 5, if positive).......... 10 ....

Expensing investment eliminates the double taxation of saving. Under an income tax, people pay tax once when they earn and save, and again when the savings earn a return. With expensing, the first tax is abolished. Saving is, in effect, deducted in computing the tax.

It is important to distinguish profits from the sale of rental property, plant and equipment, which would be taxed under the business tax, and capital gains from the sales of financial assets, which would not be taxed. With respect to the sale of real assets, the purchase price would be deducted at the time of purchase, and the sales price would be taxed at the time of the sale.

The treatment of capital gains is different for the following reason. Rising earnings of an expanding firm are taxed. To tax the immediate capital gains of a stock, which reflects the capitalization of a firm's future earnings, along with its higher earnings constitutes double taxation because the two taxes would be levied on the same single stream of earnings. Thus with comprehensive taxation of business income at the source, capital gains should be excluded from taxation at the household level.

The business tax (reported on Form 2) completely solves the incentive problems facing the entrepreneur. No further tax applies to the value created by the entrepreneur, once he has paid his flat tax on profits. If the firm pays dividends, those dividends are distributed from after-tax income and incur no further tax. If the entrepreneur sells appreciated shares, the appreciation is the capitalization of after-tax income, and no tax is imposed on the capital gains.

The business tax also solves the problem of low taxation of debt-financed business because there is no preferential treatment of interest over dividends. All interest and dividend payments are paid out of income already taxed on Form 2, which has no deduction for interest. Placing all interest payments on an after-tax basis would result in lower interest rates compared with current law, which allows a deduction for interest payments but which also taxes interest income.

Economists generally agree that a low flat tax will improve the performance of the economy. Improved incentives to work through increased take-home wages will stimulate work effort and raise total output. Rational investment incentives will raise the overall level of investment and channel it into the most productive areas. And sharply lower taxation of entrepreneurial effort will enhance this most critical risk-taking input to the economy.

Summary

Here are the key aspects of the flat tax:

1. The flat tax, in effect, removes the tax code from the economy. No individual, household, or firm needs to take into account any tax complications that arise from their economic decisions and activities. The tax system is designed for the sole purpose of collecting revenue, not for social manipulation of individuals or firms.

2. The flat tax is pro-investment because it permits 100 percent, first-year writeoff of all investment.
3. The flat tax is non-discriminatory, in that it treats every individual, household, and firm exactly the same. It is fair in this regard. This is an important point of principle, namely, that of enhancing individual economic freedom. The flat tax does not punish success.

4. The flat tax is the essence of tax simplification. It is completely transparent. Everything you need to know to understand the system is contained on the two proposed forms for reporting individual and business tax liabilities.

5. The flat tax promotes economic growth. The consensus of scholarly studies is that a low flat tax would result in higher growth in those countries which now have graduated income tax systems.

6. The flat tax is easy to administer. Revenue from business cash flow is collected at source, except for wages, which is withheld at source and directly transmitted to the government.

7. The flat tax increases individual incentives to work, save, invest, and take entrepreneurial risks. The rate of tax in a flat tax system is lower than the top rate in graduated tax systems.

8. The flat tax eliminates political lobbying on the part of special interest groups.