



Written by [Bob Adelman](#) on May 31, 2011

## Fair Tax? Flat Tax? The Case for No Tax

He adds together the current 35 percent top income tax bracket to the three percent surtax, along with the expected repeal of the Bush “tax cuts” in 2012, payroll taxes, Social Security and Medicare taxes, the 0.9 percent Medicare surtax, the hidden 3.8 percent sales tax in ObamaCare which begins in 2014, and state income taxes, and he comes out, inevitably, to 62 percent on the highest income earners.



What’s particularly distressing to Moore is the massive change this represents over just the past 20 years. In 1990, the highest individual income tax rate in the United States was 33 percent while the average of the country’s trading partners was 51 percent. He says, “No wonder that during the 1980’s and 90’s the U.S. created *more than twice as many new jobs as Japan and Western Europe combined.*” (Emphasis added.) He adds,

What all this means is that in the late 1980’s, the U.S. was nearly the lowest taxed nation in the world, and a quarter century later we’re nearly the highest.

Moore’s solution? “If there were ever a right time to trade in the junk heap of our federal tax code for a pro-growth Steve Forbes-style flat tax, now’s the time.”

A flat tax, on the surface, looks attractive. It is estimated that the Internal Revenue Code contains some nine million words, and is full of loopholes, deductions, and exemptions which make calculating and collecting taxes a costly labyrinthine nightmare. Some estimates put the cost of compliance at \$350 billion a year; others are even higher. The code also has long been used to implement “social policy,” which is a nice way of saying government sanctions to control people’s behavior. A good example is the mortgage interest deduction to provide an incentive to encourage home ownership. And those loopholes, as Thomas DiLorenzo [notes](#), come at a price: special interest lobbyists descending on Congress like locusts, seeking special dispensation for their specific industry or company.

A flat tax then, of perhaps 17 percent on income, wherever derived, would certainly appear to simplify the process. Proponents suggest that taxes could be calculated on a postcard in just a few minutes. The number of tax returns to be filed would drop precipitously, reducing the size and cost of the Internal Revenue Service significantly. And raising the tax rate in the future would be resisted because Congress would have great difficulty gaining the support of a significant majority of the populace, as each of them would feel the pain.

Opponents of a flat tax point out that even a small bite out of a low-income taxpayer would be disproportionately painful when compared to a higher-income taxpayer, and so some sort of



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“adjustments” to the flat tax — i.e., deductions or exemptions — would have to be made to make a flat tax “fair.” And the moment that happens, of course, the flat tax is no longer flat, but progressive, with higher-income taxpayers bearing more of the burden, just as they do now. Others would remind proponents that a flat tax would leave in place Social Security and Medicare taxes.

As an alternative, the fair tax has been proposed, which would replace all federal taxes on income with a national sales tax. The tax rate suggested by Rep. John Linder (R-Ga., - retired) in 1999 and every year until his retirement in 2010 is 23 percent and [would apply only once](#), at the point of purchase, on “all new goods and services for personal consumption.”

Proponents claim many of the same benefits as a flat tax, including greatly reducing collection costs, broadening the tax base, and drawing in from the underground economy wealth that currently isn’t being taxed (estimated by some to exceed \$1 trillion annually). Built into the fair tax legislation is repeal of the 16th Amendment in order to prevent Congress from re-establishing another income tax in the future. The fair tax legislation would terminate the Internal Revenue Service after three years, and it would replace not only all federal income taxes (including corporate income taxes and the Alternative Minimum Tax), but also all payroll taxes, Social Security and Medicare taxes, gift taxes, and estate taxes.

Opponents of the fair tax doubt that the IRS would be abolished, and believe that getting the 16th Amendment abolished would require a Herculean effort, taking years to accomplish. They also point out that the legislation provides for a “pre-bate” from the government to offset the tax impact on basic necessities, thus putting every American on the dole.

Support in the Congress for Linder’s fair tax bill has waxed and waned over the years, with just 56 cosponsors of the bill in 1999 and only 67 in the 112th Congress.

Regardless of the proposed plans to simplify and equalize the impact of the tax code, each suffers from the most grievous disadvantage: They are both “revenue neutral,” which means simply that revenues to the federal government would remain the same as under the current system. In other words, all the discussion about how to collect taxes never includes any discussion about *the amount government is spending*. Discussions always assume that the federal government has a “[right to confiscate a percentage](#)” of every individual’s wealth, either through a sales (or consumption) tax or an income tax. As Professor Murray Rothbard wrote, both of these taxes

can only be regarded as a payment for permission-to-live. [They] imply that a man will not be allowed to advance or even sustain his life unless he pays, off the top, a fee to the State for permission to do so....

[These movements are] part of a process by which the government and its allies have been able to split and deflect the tax protest movement from trying to lower the taxes of everyone, into trying to force everyone into paying [their] “fair share.”

In fact, all the discussion about a flat tax or a fair tax is just a waste of time and energy, and deflects the conversation away from the only serious discussion that’s worth having: reducing the size, reach, power, influence, impact, *and cost* of government itself. As Laurence Vance angrily noted in his talk to the Gulf Coast Economics Club in Pensacola, Florida, two weeks ago,

All the proposals put forth by the Democratic and Republican parties to rein in government spending are nothing but band aids and window dressing: baseline budgeting, a Balanced Budget Amendment, automatic across-the-board spending cuts, sunset provisions, spending increases



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limited to the rate of inflation, spending caps based on GDP, deficit reduction targets, elimination of earmarks, deficit commissions, temporary freezes on certain categories of spending, rollbacks to some previous level, non-binding public voting on spending cuts, and, of course, cutting waste, fraud, abuse, and unnecessary spending.

What Republicans want is a slight reduction in the welfare state with an increase in the warfare state. Democrats regularly call for just the opposite: a slight reduction in the warfare state with an increase in the welfare state.

A careful reading of Article 1, Section 8 of the Constitution reveals that only the Departments of State, Treasury, Justice, and Defense are provided for. Following the Constitution, then, would lead one to conclude that the following are not constitutional and should be abolished: the Federal Reserve, the Departments of Agriculture, Commerce, Education, Energy, Health and Human Services, Housing and Urban Development, Interior, Labor, and Transportation, along with a whole host of alphabet soup agencies including the DEA, the BATFE, the NEA, the SBA, the NLRB, FEMA, and OSHA.

By forcing the conversation toward these issues, attempts to deflect and distract (such as a flat tax or a fair tax) would be seen for what they are, and the real job of forcing government back into its constitutional bounds can begin. As Vance noted,

Limiting government to its proper role will automatically cause the spending problem to disappear. The government needs to be gotten completely out of the places it doesn't belong....

The income tax code doesn't need to be simplified, shortened, fairer, or less intrusive. And neither do the income tax rates need to be made lower, flatter, equal, or less progressive.

It should be remembered that the Republic operated for its first 125 years without an income tax. Instead of a flat tax or a fair tax, how does no tax sound?



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