

A plan to revise federal tax structure

By Keith Libbey and Evan Thomas, Newsweek

Most Americans spend dozens, if not hundreds, of hours attempting, not always successfully, to do their tax returns. We spend almost \$30 billion paying accountants to fill out the complicated forms, and by some estimates we devote \$110 billion of our own labor just keeping track of all the necessary records and paperwork. Americans pay about 85 percent of the taxes they owe, better than in most countries, but the shortfall is still a drain on the Treasury (and the rich seem to find a way to avoid taxes legally). Is this costly, demoralizing struggle between the IRS and the rest of us really necessary?

The short answer is no. There is a way to relieve almost all Americans of the annual April 15 nightmare. What's more, it's a necessary first step toward a plan to cut the looming federal deficit. The time is right for thoroughgoing tax reform—a true clean slate—that will bring in more revenue while giving the public a greater sense of fairness. The reforms we propose will even allow most people to take home more pay than they do now.

The place to start is to cut almost everyone's payroll and income taxes by half. Yes, you read that right. Cut most tax rates, which now run from 10 to 39 percent, by half. All individual taxes would be collected through company withholding taxes on compensation (salary, bonus, deferred payments, etc.) and investment income (dividends, interest, capital gains, rents) to individuals. The very rich—those making more than \$2 million a year—would still pay a top tax rate of 30 percent on earned income. The rate on investment income would be 15 percent. The result: individuals would not

have to file tax returns, most Americans would take home more pay than they do now, the tax base would be broadened, and the AMT—the alternative minimum tax, which sweeps up more taxpayers every year—would be eliminated.

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