TAX REFORM: LOOK AT IT PIECE BY PAINFUL PIECE!

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Everyone seems to want tax reform, and there are almost as many versions of reform as there are taxpayers. Here are some ideas that help me react objectively as I face the implications of the proposed changes:

General principles

- If you want less of something, tax it more, and if you want more of something, tax it less.
- Most reactions to tax reforms reflect personal self-interest.
- Taxes negatively impact people's incentive to work and invest.
- We must decide if we want our tax system to do an inefficient job of social engineering, or whether it should just raise revenue.
- We must decide if we want our tax system to be a political tool for granting "goodies."

Corporations react to incentives

- Investment capital is transportable and corporations will naturally seek out the lowest taxed countries. International corporate relocation is a capital preservation strategy.
- Lower corporate taxes would cause significant repatriation (bringing back to the U.S.) of foreign earned profits – perhaps trillions of dollars – a huge economic stimulus.

Tough to satisfy everybody

- Approximately 15% of U.S. taxpayers pay about 80% of the taxes.
- Almost 50% of taxpayers pay no federal income taxes. Those earners in the lower 50% pay less than 3% of federal taxes.
- We all want middle income tax breaks, but how is this accomplished when almost half of those taxpayers pay no federal taxes?

Federal tax deductions for state taxes

- Eliminating the federal deduction for state taxes is controversial
- Most republicans claim federal taxpayers are unfairly subsidizing high-tax states.
- Democrats, and some republicans from high-tax states, argue the state isn't being subsidized as long as it otherwise pays more taxes than received back in federal programs.
- If one doesn't want the federal government to subsidize high-tax states the deduction should be eliminated. Any other fairness concerns should be dealt with in other ways.

Dynamic vs. static "scoring"

- Democrats and republicans express profoundly contradictory predictions for any legislation.
- One of the obvious contradictions happens when measuring the cost of tax reforms. "Scoring" is the legislative term for measuring economic impact. Confusion arises because democrats are using the CBO's traditional "static" scoring process while the republicans are using a "dynamic" scoring method.
- Dynamic scoring takes into account the impact of a policy on different parts of the economy – e.g. the expansionary impact of repatriating foreign earnings or cutting taxes. Republicans are attempting to reflect those in their projections.
- Democrats get the wrong result by ignoring very real economic impacts, while republican predictions are subject to error because of the difficulty identifying proper assumptions.
- Keep those two methods in mind when evaluating the very different and contradictory assurances.

Eliminating estate taxes

- Keep in mind that the revenue raised from estate taxes isn't significant.
- Proponents of the tax cynically refer to it as "the silver spoon tax," clearly demonstrating its confiscatory nature.
- I don't think taxes should be paid unless assets are sold in the open market. Transfer of estate assets is no such transaction.

- At a minimum, we should eliminate taxes on previously taxed gains or assets, and capital gains rates should apply when heirs ultimately sell capital assets.

Eliminating the Obamacare individual mandate

- The mandate was ill-conceived. Obamacare left tens of millions without insurance and millions chose to pay a penalty rather than buy insurance.
- Healthcare should be available to everyone, but there are better ways to get many more people insured with the coverage they desire.
- Even the CBO agrees that over the next ten eliminating the mandate will increase revenue by over $300 billion.

Keep these things in mind when deciding “yea or nay” on tax reform proposals.