

Should the tax laws
be reformed to
encourage saving (pro
and con)



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SHOULD THE TAX LAWS BE REFORMED TO ENCOURAGE SAVING?

INTRODUCTION: The tax laws need to be reformed to encourage saving. Tax policy changes should be focused on some crucial principles: 1) Reduce economic inequality. 2) Provide adequate revenue to fund vital public services. 3) Encourage ownership fairly across economic classes. 4) Assure that wealthy individuals and large corporations pay their fair share of taxes. All these factors would contribute to enhanced saving and economic stability even among poorer classes.

Greater economic equality with improved quality of life and equal opportunities for all the citizens, should be the primary aim of tax reforms. Concentrated wealth and power undermine the economy, corrupt democracy, deepen the racial divide, and tear communities apart¹.

EXPOSITION: High tax rates cause greater distortions, whether the base is income or consumption. When similar activities are subjected to different tax treatments, households and businesses respond to the tax code rather than the underlying economic fundamentals. Economic efficiency is increased by broadening of the tax base and lowering of the tax rates. The costs of distortions caused by high tax rates will be reduced. These are approximately proportional to the square of the tax rate. Also, a simpler tax code would reduce the considerable resources which are presently devoted to complying with current tax laws; and the freed-up resources could be used for more productive purposes. Another important principle is that some predictability in the tax code would facilitate better forward-looking economic decision-making by households and businesses. (Greenspan, Allan: <https://assignbuster.com/should-the-tax-laws-be-reformed-to-encourage-savingpro-and-con/>)

Chairman 2005)

The tax code includes many incentives intended to increase savings to finance retirement, health care, higher education, and so on. These savings incentives, which exempt some income from tax, have moved the current tax system in the direction of a consumption base. Researchers have raised questions about how much if any, net new savings they stimulate. (21st Century Challenges...p. 73). If designing a tax system from scratch, one based on consumption rather than income, would be better for promoting economic growth. A consumption tax is likely to encourage saving and capital formation. The retail sales tax, value added taxes, the personal consumption tax and the flat tax are all types of consumption taxes. They vary in their collection points and structure. In future it will become increasingly important for the nation to boost resources available, through greater national saving and enhanced incentives for participation in the labor force. The tax system has the potential to contribute importantly to those goals, and so at the very least tax reform should not hinder the achievement of those objectives. Importantly, fundamental, thorough tax reform include difficult choices which require trade-offs among competing objectives and will create both winners and losers. Bipartisan cooperation among the federal leadership has traditionally facilitated these difficult choices. (Greenspan, Allan 2005).

The myriad of tax deductions, credits, special rates, etc. cause taxpayers to doubt the fairness of the tax system: whether those of similar ability to pay actually do pay the same taxes. Also, tax expenditures can lead to higher taxes over time. If taxpayers do not believe in the fairness and credibility of the tax system, then voluntary compliance to pay taxes is likely to decline.

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This noncompliance can create difficulties in implementing the tax system, as the nation depends heavily on voluntary compliance. Simplicity, credibility, and transparency should be key issues to be considered while formulating tax reforms. (Understanding the Tax Reform...p. 1).

If the federal government were to design a tax system with very low tax rates, the government may have to borrow money from external sources to meet the deficits in its funds required for functioning. The federal borrowing will absorb scarce savings available for private investment, and can exert increased interest rates. Under such circumstances over the long term, economic growth, and consequently standard of living of future workers and taxpayers may deteriorate. Hence tax reforms essentially require extensive thought and planning. (p. 17).

CONCLUSION: Tax laws' reforms are essential, towards savings. The need for retirement income is increasing over time: with increased life expectancy, and higher medical costs. (Leonard, Barry p. 10). Also, saving towards buying a house, children's higher education and other major requirements, are essential to promote quality of life and progress towards a better future.

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