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A tax is a compulsory contribution from an individual to the government. This payment to the government does not usually result to supply of goods and services to an individual. However, tax is important to any country in that it enables the government run its daily activities and in addition, the government is able to provide goods and services that the private sectors are not willing to supply due to the fact that these goods and services are unprofitable or it is not possible to exclude people from consuming the goods (Forbes, 47). The type of tax levied by government depends on its effects to the citizen, intended purpose of the government and the ability of the type of tax to raise enough funds are required by the government. Flat tax is one of the taxes that some governments have adopted as income tax. It has various effects in the economy. This research paper will evaluate the applicability of this type of tax in the United States.

A flat tax is a type of tax whereby there is only one tax rate for all the income earners. This type of tax can be applied in various forms. It can allow refunds depending on family size and at the same time avoid taxing other types of income such as capital gains and interest collected on capital. Through the tax system, tax is only collected once on some sources of incomes whereby, tax is currently collected twice (Hale, 77). Generally, the flat tax is simple as opposed to the current complex tax rate system in United States. Flat tax can be progressive in nature when some capital deductions are allowed.

There are several limitations in the use of this tax rate system. The first problem that results from the tax system is unfairness. When this tax system is implemented, the poor are said to be treated unfairly. It is recognized that

the marginal utility of income decreases with increase in income. This is why it is necessary to have a progressive tax. However, flat rate tax ensures that both poor and rich pay the same proportion of income (Edwards, 78). This would be unfair because the marginal utility of tax of the rich would be low when the actual utility of the poor is low. A tax that is progressive in nature would increase the actual utility of the poor without significantly affecting the actual utility of the rich.

One of the aims of government taxation is to facilitate equality among people. This is usually through income redistribution. A tax that takes more from the rich and less from the poor is desirable. It redistributes income since the income from the rich is used to provide services that benefit the poor in the society. An appropriate tax is the one that reduces the income gap between the poor and the rich. Flat tax rate system does not achieve this objective in that it takes away the same proportion of income from both the poor and the rich (Forbes, 63). This is likely to lead to an increased difference between the income of the poor and the rich. This arises because the rich are left with a larger income to invest hence increasing their income further. On the other hand, the poor are left with no income to invest and this makes them poorer.

Flat tax rate system is likely to lead to lower taxes that are collected from the economy. This is because less tax will be collected through the tax system. Considering that the rich does not contribute much in the payment of taxes in this system as compared to their contribution in tax rate systems that are progressive, the government is likely to collect less amount of tax.

The reason is because if the majority of the people in the country are poor, less tax will be collected from them. For a county to collect more taxes in such a country there would be a requirement that the rich are taxed more, since this is not the case in a flat tax rate system, this would lead to a reduction in the total amount of tax collected.

Application of this tax rate system would limit any increase in the government expenditure when there is a need to do so. This is because; an increase in tax rate with a aim of increasing the government expenditure would lead to resistance from all the people who pay tax. This is because all the tax payers bear the burden of such tax increase (Edwards, 167). On the other hand, it would be very easy for the government to increase its expenditure when need be because an increase in tax rate on particular group of individuals would be supported by the taxpayers not affected by the increase. This would enable the government to increase its government expenditure when need be.

On the other hand, there are various benefits associated with flat tax rate system. Some people argue that it would be fair since all the people would contribute equally to the government. The advantage of this is that people will be encouraged to work more so that they can be richer. The current tax system imposes a greater burden on the rich who work more. This proportional tax rate system that is currently being applied leads to a situation whereby some people fail to work more since they are aware that even if they work harder, a greater proportion of their earned income will not benefit them since it will go to the government in form of tax. This in a way

limits the development of the economy (Sexton, 76). A flat tax rate encourages people to work harder to be rich and as a result, the economic output increases hence leading to an increase in the total amount of tax collected by the government.

The flat tax rate system will also encourage foreign investment in the country. The tax charged on corporations will be low as compared to the current tax rate. This will act as an incentive for the investment in the country creating more employment and output.

Another advantage of a flat tax rate system is that it is simple. It avoids a complex tax system that leads to complexity of tax system. A complex tax system has various negative consequences. It is costly and can encourage evasion and avoidance of tax payment (Edwards, 201). This means that flat tax rate system will discourage tax evasion and avoidance among the citizens. In addition, the government will incur less costs of collecting the tax.

Generally, the advantages and disadvantages of flat tax rate system can be summarized as shown below.

Prons

1. Reduces tax collection costs.
2. Encourages economic development.
3. Reduces tax evasion and avoidance
4. Can lead to more collection of taxes.
5. Reduces complexity of tax collection system
6. encourage investment

Cons

1. Prevents redistribution of income
2. Shifts tax burden from the rich to the poor.
3. Increasing government expenditure when need be can be very difficult
4. Fewer amounts of taxes would be collected.

Generally, it can be argued that there are both advantages and disadvantages of applying flat tax rate in an economy. However, the effects on an economy will largely depend on the objectives of the country. The other factor that influences the effects of a tax policy is the level of economic growth of a country. Considering the case of America, flat tax rate is applicable in the country because the country is already a developed country.

First, there is no large difference between the high income earners and low income earners in the economy. The country therefore has no objectives of redistributing income. This fact means that it is not necessary for the country to apply progressive tax system intended to redistribute income towards the poor (Sexton, 86). Generally, the fact that the income of people on average is close; the flat tax rate will not exert an excess burden to the poor. The people will be able to contribute equally to the government. In addition, the flat tax system can be made progressive by capital deductions to ensure that the rich pay more.

America currently collects a lot of tax from the people through the progressive taxation system that is currently being applied in the country.

This means that applying the flat rate system will not significantly affect the amount of tax collected by the country (Edwards, 198). In addition, income tax is not the only source of revenue to the country since there are many tax bases. As a result, the application of flat tax rate system in the country will not in any way affect the amount of tax collected in the economy.

Flat tax rate system will facilitate proper allocation of resources in the country. In the current tax rate system, the government is able to spend the revenue from the tax payers in a wasteful way since when the tax rate is levied on a certain group of people; the unaffected group readily supports the recommendation. This is why the government is able to spend revenue on wasteful activities such as war (Beate, 91). If a flat rate is imposed on the people, everybody will not be willing to allow wasteful expenditure by the government. Wasteful expenditure by the government financed by increase in tax rates will be opposed by everybody since everybody will be the burden of taxation in this case. The government will be encouraged to spend revenue in a more advantageous way.

Introduction of flat rate tax system will reduce the complexity of the current American tax system. The complex system that is currently available is costly to the economy. This is because it involves a lot of costs to determine what is to be taxed and what is not to be taxed. In addition, it involves costs and time to determine who is taxed at what rate (Sexton, 134). These costs generally can be avoided by introduction of the flat rate tax system.

Reduced costs will lead to an increase in the total revenue that is collected from the tax payers.

Flat rate system will reduce the tax burden among the high income earners. They will feel that they are treated equally. This motivation will therefore reduce the incentives to evade or avoid tax. As a result, more tax will be paid to the government. Therefore the costs of trying to find out those who evade or avoid tax will be reduced. Generally, if people disclose more income for taxation due to reduced complexity of the tax system, more revenue will be collected and this can be used for the development of the country.

Flat tax rate system will encourage investment in the country. The current tax system leads to double taxation of income hence discouraging investment. Tax is levied on the profits that are made by a company and in addition to this; the dividends distributed to the investors are taxed. This double taxation of earnings discourages many investors (Beate, 77).

However, the introduction of a flat tax rate system will eliminate double taxation hence facilitating investment. This will encourage development of the country since the output of the country will increase due to increased investment. In addition, increase in the investment will lead to increased employment in the economy; this will lead to a general development in the economy.

Flat tax rate system will encourage the workers to work more. Currently, many workers with a high income level reduce the amount of time they commit to work because working for long hours does not benefit the workers a lot since most of the income go to the government in form of tax. However, a flat tax rate system will encourage workers to work for more hours since the percentage that goes to the government in form of tax will be less in this

system. This will increase the output of the economy due to increased work (Sexton, 167). In addition, the more the people earn, the more the government collects taxes. Therefore this tax rate system will benefit both the workers and the government.

In conclusion, it can be seen that the effects of a certain tax policy will vary from one country to another. There are various negative effects of a flat tax rate system. However, there are also advantages associated with the use of the policy. Generally, flat tax rate system will be effective if used in the United States since the current economic development of the country favors this tax rate system (Beate, 98). The economic development of the country will be achieved through the tax rate system. In addition, the general welfare of the citizens will be realized since there will be creation of more employment opportunities through increased investment. The citizens will be motivated to pay tax since the new tax rate system is not complex and does not involve many costs to remit the taxes. The incentives to evade and avoid tax will be no more. The government will be motivated to spend the revenue collected in a more beneficial way. Generally, the flat tax rate system will be beneficial to both the government and the citizens of America. It can therefore be concluded that the tax rate system is applicable in America.

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