

Usas tax reform research paper example

[Technology](#), [Development](#)



Issue: For the economic development and well-being of the Americans, should tax reform that focuses on tax cut be introduced by the Obama administration?

Thesis: Understanding tax reforms in the USA is of great benefit as it helps re-organize the country's economic reform policy. This can however only be achieved via the accomplishment of sound tax reforms. Comprehensive understanding of a country's tax reform strategies determines the prosperity of country's economy. The USA government should thus undertake rigorous tax reform as it is essential for tax policy making and the general economic development.

Tax reform has been of interest for Americans. The tax reform has been taking place since 18th century. Besides, there are numerous movements in US whose sole agendum is to lobby for reform and collection of taxes. Tax reform goals revolve around making the taxation system more progressive, more understandable, simpler and more accountable. Tax reformers also aim at the overall reduction in the rate of taxation of the Americans by the government. American Tax Reformers proposes that tax on income needs to be taxed based on one time, at a common smaller rate and at a flat rate. The tax cut by the Obama administration as one of the tax reforms is perceived to be fruitful, since it is now hoped that new jobs will be created at the end of every year. Tax reform however should cover three aspects of tax code; simplicity, equity and efficiency. These can either be accomplished by lowering the standard tax rates, escalating the standard deduction or by ending different tax expenses that vary resource allocation.

Fundamental tax reform aims at shifting the American tax base from household's income to consumption. In essence, reformers lobby for broad based taxation that focuses on consumption. The reform besides encompass investor taxes, VAT and the tax gap. Since taxation level determines a USA economic development, there is dire need for the American government to undertake an appropriate measure as per tax reform is concerned. Some agree and some disagree about the need for reform (Goldsmith and Horiuchi). This paper therefore intends to establish the benefits of employing a tax reform and how tax reforms will enhance economic prosperity.

The government of the United States should undertake certain fundamental principles that will serve as tax reforms. These will guarantee growth of the country's economy. It should be noted that if the tax reform states that the levels of taxes paid by the Americans be increased, then the economy will slow down. This is because escape the high costs; consumers will avoid making purchases. This will in turn lead to reduction in production, forcing businesses to lay off employees so as to keep the business running, or otherwise, will end up closing down.

Another reason why tax reform should be simple, allow for equity, and be efficient is that high increases in tax levels slow the growth of earnings. As explained earlier, employers will lay off some employees or reduce the working hours since they cannot afford to pay all dues to their employees. Reduced earnings will negatively affect the economy as a whole (Bagozzi).

Increased tax rates will affect the productivity of workers. This is because the employees will not be motivated by the fact that most of their earnings will

go to paying taxes. The government should therefore have the welfare of the Americans in mind as they set the reforms. Reforms should be made to bring positive changes, not to oppress the people. For quite some time now, several measures have been taken to help set tax levels that are simple, efficient, and allow for equity. However, not much has been achieved. Tax rates are even higher than they were years back. Most of the increases have been accounted for, leading to a reduction in top marginal rates, but still not much has been achieved (Ponnuru).

Calls for reduction in tax rates began as early as 1972 when the then Governor of the U. S; Ronald Reagan, called for a meeting with some officials (Schenk and Oldman). The Governor expressed his concerns on the fact that there were no restrictions on how the government spent its revenue. He therefore recommended that a constitutional amendment be made to control the spending and taxing authority of the state government. Proposals that were made were defeated consecutively in 1973, 1976, and also in 1977 (Criscuolo and Martin).

This series of defeat was broken in 1978 when an amendment on the government's spending was approved. More proposals were approved in various states. Still in 1978, a federal fiscal policy proposing cuts on taxes was approved by the Congress as well as the Senate. This policy was endorsed by the Joint Economic Committee. A consensus for tax reduction that had been proposed by Reagan, who by now was the president, was formed (Criscuolo and Martin).

Further efforts to reduce the taxes led to the formation of Economic

Recovery Tax Act in 1981. The new legislation effected reduction of taxes from the range of 14 to 70% to 11 to 50%. The legislation included clauses to exempt some persons, brackets for inflations, and some investment incentives.

Following this breakthrough, several amendments were made in regard to tax reduction, till the year 1990 when President Bush signed a bill that proposed an increase in tax rates from 28% to 31%. This rate further increased to 39.6 in 1993. Since then, no much change has been experienced in tax rates (Roemer). The only thing that has happened is that the bracket rates of tax have changed. However, for the low earners, these rates have been stable and constant for quite some time. Efforts to reduce the rates have been unfruitful, with the only positive result being that the tax rates have now stabilized.

In 1970, Jack Kemp and Senator Bill Roth, who were representatives of the committees set to look into the tax probe, with the backup of Wall Street Journal and leading neo-conservative intellectuals, proposed tax cuts to the Republican Party. Ronald Reagan owed his successful campaigns in 1980 to the policy of reducing the budget by implementing a tax cut of 33%. However, tax cuts have not been implemented since then. It is even more disappointing to note that there were hikes in 1982, 1983, and 1984. Further disappointments followed on in 1990 when Bush did not fulfil a pledge to reduce taxes, and nothing being done to stop the Clinton tax increase in 1993.

Efforts to revive the tax revolt are underway. The Congress and members of the Republic are about to pass a tax reduction policy that a president from the Democrats' side has promised to sign into law. Decisions by the Republican leadership have put the tax issue front and centre as a campaigning caption for future elections(Tyagi).

The Republican Party has shown its commitment to abolish high taxes tax as well as capital gains from tax on savings and investment. Previously, Republicans had only called for small reductions on tax. They now have made radical their demand on grounds that it is wrong to tax twice or even thrice savings and investments of the tax payer. Republicans and taxpayer activists have now established committees in each congressional district. The main role of the committees is to abolish the extra taxes.

An announcement by officials of the committees set to deal with the abolition of excess taxes, that the Republican leaders were committed to introducing tax-cut bills every year served as a source of hope to Americans. The officials went on to say that even if the then president, Clinton, would turn down proposals to reduce taxes, they would still reduce one way or another.

It also was a positive sign for tax payers when the Congress decided to hold an annual vote following a constitutional amendment; with a requirement of a 2/3 vote of both chambers to increase any taxes or to introduce any new ones (Thomas, Oliver and Hand). This amendment, already in most states, would protect tax reduction from being opposed and stop the introduction of new taxes.

The fourth idea was to have a flat tax rate and do away with the tax brackets. The Republicans have shown interest in this idea and are getting ready to hold debates on the benefits of adopting a flat-rate of income tax or simply a national retail rate of taxing. It is a good sign that Republicans now support the proposal of single-rate taxes, where only the income is taxed, and taxed once (Niskanen, and Norquis).

The above initiatives will soon be applied at the national level where Republican governors will deem for the elimination of estate taxes, support annual tax cuts, as well as propose reforms such as abolition of the state income tax. Both the Congress men and the Republicans are now showing their support by signing the Taxpayer Protection Pledge against increments (McNulty). This pledge now has 203 supporters in the House of Representatives and 40 in the Senate. State taxpayers from the 50 states have challenged all state legislators and governors to sign pledges and policies that are against tax increments (Wujek, Wright and Menapace).

The National Commission on Economic Growth and Tax Reform proposed certain principles that would be used to reform the tax system. The principles were founded on the motion that the existing system be scraped off completely and replaced with a much simpler one. The commission recommended a single low rate where the income would be taxed only once. The commission did not however, recommend a rate of taxation. The proposed principles are as follows:

Growth and Development of the Economy: To ensure prosperity in the country, a tax code that would encourage people to work hard and to save a

portion of their earnings should be introduced. The tax code should also make it possible to address social issues such as poverty, crime, and racism (Wujek, Wright and Menapace). A developing economy can only exist in a society where there is opportunity for growth, and where people have the freedom to develop themselves without having to worry about certain limitations such as heavy taxes. This would in turn help the economy to grow and develop (Gordon and Wilson).

Fairness and Equity: All citizens should be treated equally, regardless of their race, colour, or even level of income. A good taxing code should have terms that fit and work for everybody (Kiser). Urgent reforms need to be implemented since the current system tends to overwhelm many American taxpayers, and especially those that have low incomes.

Simplicity. The new taxing system should be simple enough for everyone to easily comprehend and work through the payment procedures. The system should be as that when filing the tax returns, one will find it easy. This is because filing tax returns is known to be a very gruesome activity, not mentioning how discouraging and de-motivating it is. After all, of what use will a complex system be if the people will not understand its terms. A simple system is most useful since it enables the people to own it and hold their government (Pachepsky, Nisbet and Murdoch).

Neutrality and Unbiasness: A tax system should allow people to make free decisions on how much to save and spend, depending on their personal needs and wishes. The system should also not seem to favour some people, and in most cases, the rich since they tend to save more. It is also not the

responsibility of the taxing system to penalise people who may earn their incomes through illegal ways; all it should do is tax the individual as per the set rates (Newbury).

Accountability: The system should have provisions where the government can account for all its spending on revenue collected from taxes. It would only be fair for the tax payers to know exactly what their money is being used for. This would also serve as a control measure to the government's spending (Rousmaniere). The current system does not account for how the state government spends revenues, something which has led to frauds or misappropriation of government funds.

Constancy: Terms of the new policy of taxation should be constant to allow people to make firm decisions. It would be difficult for anyone to make a decision or plans if something is expected to change somewhere along the line. Uncertainty has adverse effects on the economy of the US, making it difficult for the Americans to plan for the future, since they do not know what to expect or what will probably happen (Tyagi; Water). A tax code should be constant in a way that will give people the confidence to invest in whatever business they may chose, and do any other activity related with finances without having any fears (Oropesa). In other ways, a tax code should make it easy to make predictions of what will probably happen after some time.

In conclusion, reforms on the existing taxing system should be implemented immediately. This is because the heavy inflation already is a burden to the tax payer, not mentioning the double and even triple taxes imposed on the taxpayers. It would only be fair for the tax rates to be checked and reduced

(Weneck).

The above guidelines would go a long way to ensuring successful reforms on the taxing system. However, they would work best if flexible, so as to allow for possible changes and accommodate issues that may arise in the due course. The government should therefore work hand in hand with this commission to ensure that tax reforms are implemented into policies of administration (Roemer).

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