

# Tax system

Business



The present U. S tax structure has many challenges and over years, the United States economic issues have affected the economic status.

The tax system is both prejudiced and anti-growth. Some of the challenges that have crippled the U. S tax system include complexity of the tax system, compound taxation, high tax rates, and obstruction in the lives of the citizens of America. Because of the challenges posed by the tax system in the lives of many citizens, the tax reform in the governmental department and the public is gaining momentum. Legislators from the main two parties and radical political stakeholders are proposing initiating changes in the income tax system, but they have lined numerous avenues to allow them significantly achieve these anticipated reforms.

The question, which is being asked by the reformers, is whether tax system is more economic friendly? In order to get an answer for this question, it is necessary to study the flaws in the current tax system, which will provide a basis to address the problem of the tax system. The four main most proposals are the Valued Added Tax, the Flat Tax, the National Retail Sales Tax, and the U. S Tax (Mitchell 47). PROPOSED TAX SYSTEMS Hall /Rabushka Flat Tax The was sponsored by the House Majority Leader Armev Richard and Senator Shelby Richard which would replace the present personal and corporate income tax system. This proposed tax system would enable individuals to calculate their wage and pension income, less a personal allowance, and then remit a flat 19% tax on the rest. Business is also taxed at the same rate of 19%.

All forms of businesses would less their expenses and pay 19% on the remainder. The flat tax system ensures that every dollar earned will be remitted as tax. The flat tax system eliminates all the deductions in the current tax system. In this kind, of tax system, depreciation is not considered, and any capital investment under this proposal realized in the business can be expensed immediately (Boskin 155). National Retail Sales Tax The National Retail Tax is a form of proposed tax system, which in its functionality is the same as the consumption tax. The tax plan was proposed by the Indiana Senator Richard Lugar.

The proposed tax works to allow the state to administer 17% consumption tax on the retail tax on goods and services. The tax proposal aims to replace the present tax system and corporate income tax, as well as capital gains taxes and the gift taxes. The proposed tax system has many unclear issues especially what will the tax system tax and which kind of goods and services (Hall 123). Value-Added Tax (VAT) This is another type of consumption tax. This tax system ensures that instead of implementing single tax of the percentage at the moment of the retail sale, in the proposed plan, there is minimal tax, which is remitted at 5%, added every time the product is resold or when the value has been added.

For instance, tax is added when the product is passes from the producer or manufacturer to the retailer (Hall 123). Nunn/Domenici USA Tax This tax system combines a revised personal income tax with the new business tax in place of corporate income tax. The main change in personal tax is the introduction of unlimited savings allowances. These will enable the subtraction from the tax calculations of all the personal income saved during <https://assignbuster.com/tax-system/>

the year, which include bonds, deposits, and the start-up capital in the small businesses. This system will retain the home mortgages, charitable contributions, and maintenance. The families would be in a position to deduct up to additional \$2,000 per household member for university and college tuition (Mitchell 47).

**EVALUATING THE TAX PLANS** **Simplicity** The flat tax system will simplify the present system's overabundance of documents in the tax system. The Flat Tax structure uses two postcard-sized forms one for business and the other for individual thus reducing paperwork in record keeping. The National Sales Tax would eliminate the compliance costs, but the retailer would experience overburden, as they will be required to collect the tax and regularly report on tax compliance. In addition, the sales tax and the VAT will eliminate the personal compliance costs as well as the complexity of the corporate tax. The corporate income tax is more burdensome under both the individual and business level making it to be less simple of all the proposals. In comparison, the VAT and the Retail Tax are less clear in relation to the Flat Tax (Boskin 155).

**Savings and Investment** The current tax system hinders the capital formation due to its complexity in the double and triple-taxing system and to some extent, quadruple-taxing. This reduces the quality and the quantity of the technology and machinery in the economy thus lowering the wages by reducing the productivity of the workers. The Flat Tax system taxes all the income, but the taxation is only subject to one level of tax. The system eliminates multiple taxation of the capital income. This will in turn enhance

the savings and investment to create a neutral tax code. The National Retail Sale Tax removes the bias in the system against investment and savings.

The VAT addresses the capital formation in the process (Mitchell 47).

Problem with Intrusion The IRS activity in the collection of tax is regarded as abusive due to its complexity especially in the legislative directives. The Flat Tax is known to reduce the complexities related to the present taxation system and these possess less fears to the taxpayers. The National Retail Sales Tax and the VAT system of taxation provide convenience to the taxpayers, but not as in the Flat Tax system, which offer maximum protection against intrusion. In addition, the small do not benefit from tax collection by the government in the VAT system, which makes it less desirable compared to the Flat Tax in this respect (Boskin 154).

Fairness Fairness in the taxation system is the equal opportunities offered by the systems of collecting taxes. Flat Tax system has been proved to be the most fair taxation plan. Under this plan, the taxpayers pay their taxes at the same rate, and all the revenues are taxed once. The National Retail Sales Tax and VAT plans also minimize prejudice on the taxpayers. The taxpayers under these two methods pay equal tax in all reputable and services, but the only problems with the two plans are the manner in which they handle those citizens with low income. Several issues surround the payment of taxes by the rich in America today.

The most fundamental question however is “ does the wealthy half of the population of the US spend too much of their salary to taxes?” although, it is evident that the wealthy people in America contribute to the development of

the economy in a great way, to some extent they avoid the contribution of tax to the central government. I want to mention to you the reasons why I feel the wealthy spend too much of their salaries on payment of tax and I will also mention to you the reasons which I also feel they pay less. The Flat Tax taxation reduces the burdens by providing solutions of common threshold on allowances. The method involved with the VAT/Sales Tax is complicated (Boskin 154). Lower Rates In most taxation procedures, lower rates of taxation will enable the taxpayers to avoid hiding, or shelter some income. The Flat Tax will be implemented in 19% rate, and speculation is that in 3-5 years to come the rate will be as low as 17%, which is much lower as compared to the current taxation system.

This low rate will be expected to foster the economic growth. The National Retail Sales Tax and VAT play a crucial role in the reducing their rates thus will impact on working, investment and saving. The Nunn/Domenici system fails in this category since it has highest rates of about 40%, which is applicable, to low income earners (Boskin 155). Tax Evasion For any tax system to be viable and receive support from the taxpayers, it must provide adequate laws to govern it to avoid the problem of tax evasion. Because of the low rates, which feature the Flat Tax, there are little chances for tax evasion.

Reliable sources state that the National Retail Sales Tax is known to perpetuate tax evasion, but not like the current system. The VAT involves several steps in the collection of taxes thus making it porous for easy tax evasion (Boskin 154). The present taxation system, due to its numerous flaws, requires comprehensive reforms to bring a more effective and reliable <https://assignbuster.com/tax-system/>

taxation system. From the discussions, Flat Tax system is the best of the four proposals. The Flat Tax system successfully replaces the present five-tiered castigatory rate system with a simple, fair 19% rate.

The system reduces paperwork and encourages savings and investment. In addition, it reduces instances of tax evasion; uphold progressivity with least state intrusion (Mitchell 47).