

The Liberty Tax

The Liberty Tax is a 10% consumption tax on all items: individual to business & business to business. Note individual to individual transactions would be excluded. This in turn repeals 4 tax regimes: the federal individual income tax, the corporate income tax, the investment tax, and the estate tax. This would bring in approximately \$1.7T in revenue as a measure of GDP¹. If the goal is to bring in revenue to the Federal Government, let's do it in the most simple and clean-cut way possible. This paper will analyze numerous cases as to why this should be instituted immediately.

The Moral Case:

Part I: According to the Tax Policy Center, 43.3% of Americans paid NO federal income tax in 2013².

A system where one half of the population funds the other half ends badly - where producers and entrepreneurs will leave the country, rebel, or merely give up and stop producing.

Part II: The current code incentivizes good people to lie on their tax returns in their own economic interest. A Pew Research Center poll in 2006 found that 21 percent of people think it is either morally OK or it's not a moral issue to under-report all income for tax purposes. Furthermore, polls reveal what people think, but not how they act. The end result is that tax evasion will cost the U.S. government \$305 billion in 2010 and has cost \$3 trillion over the past decade.³ The Liberty Tax eliminates the incentives to lie and cheat because it is fair, equitable, and nearly impossible to evade.

The Equality Case:

With the knowledge that half the country is not paying federal income taxes, this should bother those on the left who fight for equality amongst American citizens. The Liberty Tax fixes this inequality which any staunch liberal can get behind.

The Unification Case:

Americans are more divided politically now than ever before. Consider how among politically engaged voters, the sorting of liberals and conservatives into the two parties is complete: 99 percent of politically engaged Republicans are more conservative than the median Democrat, while 98 percent of engaged Democrats are more liberal than the median Republican. That's up from 88 and 84 percent, respectively, in 2004.⁴

The Liberty Tax will unify the American people against the Federal Government who is always revenue starved. With each citizen paying the same consumption tax, it will be hard to imagine Americans voting in politicians who run on a platform of rate increases.

¹ www.usdebtclock.org

² <http://www.taxpolicycenter.org/taxtopics/federal-taxes-households.cfm>

³ <http://www.cheatingculture.com/tax-evasion/>

⁴ <http://www.nytimes.com/2014/06/12/upshot/polarization-is-dividing-american-society-not-just-politics.html?abt=0002&abg=0>

The Liberty Case:

This tax code gives people the freedom to decide how much they want to fund the government. If someone wants to be a miser and not spend their money, they should enjoy that personal freedom. We should let individuals decide where their money is best served: by investing, consuming, or just saving for a rainy day.

The Progressive Case:

For my left leaning liberal friends, this code is extremely progressive - perhaps even more progressive than the current code. When a “rich” person buy a yacht for \$1M - he pays \$100k in tax. When a poor person buys a \$2 beverage - they pay \$0.20. Therefore, the vast majority of of tax revenue will come from those consuming more on lavish items aka: the rich. The people can also vote to eliminate the tax on certain items such as food & shelter that take a larger share of the income for those on the lower rungs on the economic ladder. Finally, the barter system mentioned elsewhere in this paper is another mechanism for the poor to avoid the tax completely.

The Simplicity / Tax Compliance Costs Case:

Some facts:

- The U.S. tax code spans 73,954 pages and growing at an average exponential rate of 1.8% per year since 2008.⁵
- Americans spent more than 6 billion hours in 2011 complying with the tax code. This represents an annual workforce of 3.4 million people.⁶ This equates to a workforce of the 4 largest US companies - Walmart, IBM, McDonald’s and Target - combined.
- Americans spend an estimated between \$67 billion and \$378 billion annually in accounting costs related to filing taxes.⁷
- The compliance burden results in estimates of foregone economic growth from \$148 billion to \$609 billion annually.⁸
- The United States has a tax-reporting compliance rate of 85.5 percent—leaving a 2012 revenue gap of \$452 billion in unreported taxes, some of which is can be attributed to complexities in the tax code.⁹

⁵ <http://finance.townhall.com/columnists/politicalcalculations/2014/04/13/2014-how-many-pages-in-the-us-tax-code-n1823832>

⁶ Ibid

⁷ Ibid

⁸ Ibid

⁹ Ibid

- If not convinced, consider how for the 2014 tax year, swamped customer service representatives are currently ignoring more than 60 percent of calls to the agency, said IRS Commissioner John Koskinen.¹⁰

The Liberty Tax is extremely simple: you pay for what you consume without any deductions, loopholes, giveaways, credits, & special tax treatment for certain items.

The Judeo/Christian Case:

Who better than G-d knows what is a fair system. The Judeo-Christian value system says everyone should tithe 10% of their produce, flocks, or cattle. The natural extension of that today would be to give that magic 10% figure of what you purchase in the marketplace - not an arbitrary income figure.

The Behavior Modification Case:

A consumption is superior to an income tax because it achieves what tax economists call “temporal neutrality.” A tax is neutral (or “efficient”) if it does not alter spending habits or behavior patterns from what they would be in a tax-free world, and thus does not distort the allocation of resources. No tax is completely neutral, because taxing any activity will cause people to do less of it and more of other things. As a consequence, people work less—and choose more leisure—than they would in a world with no taxes.¹¹

Once you penalize saving/investing via a tax, you get less of it and more current consumption. This distortion finds itself in lower interest rates lenders get on their savings. The end result is horrible domino effect of: less investing → less innovation → slower GDP growth → and lower future living standards.¹² The numerical damage estimates of this foregone investment and consumption range from \$148 billion to \$609 billion per year.¹³

The Black Market of Cash Case:

The "underground economy" consists of income earned under the table and off the books (legally or illegally). This is common in occupations such as construction, domestic work, and small food establishments. It is estimated that the worldwide underground economy amounts to \$2 trillion per year. The IRS says that the United States lost \$500 billion in taxes in 2012 because of unreported income. The current code incentivizes business owners to pay employees in cash and collect cash from customers to avoid a myriad of tax regimes including, payroll taxes, unemployment insurance, workers

¹⁰ <http://www.cnbc.com/id/102550199>

¹¹ <http://www.econlib.org/library/Enc/ConsumptionTax.html>

¹² <http://www.econlib.org/library/Enc/ConsumptionTax.html>

¹³ Ibid.

compensation premiums, sales tax, and income taxes. it has been estimated that owners of small businesses with substantial cash revenue fail to pay about half their taxes. The results are business owners get tons of unreported cash that never gets invested back into the economy. and everyone loses.

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While The Liberty Tax is still subject to this risk, it is greatly minimized because there is no incentive for the business to help you cheat. Today, there is an incentive for both parties to collude together. With no IRS focusing on 319 million Americans and solely on businesses, it will be easier to crack down. They are either collecting the tax or they are not.

The Tax Evasion Case:

Tax evasion cost the U.S. government \$305 billion in 2010 and has cost \$3 trillion over the past decade. It is a major contributor to budget deficits and the accumulation of national debt since 2001. Every tax filer will pay an extra \$2,200 in 2010 to make up for the funds lost to tax cheating.¹⁵ A consumption tax will dramatically improve the Federal Government's collection rate because fewer business owners will put their business at risk to help select clients avoid the consumption tax. There are over 28 million businesses operating in America today. It is much easier to monitor those businesses than 319 million Americans.¹⁶

The Charity Case:

When people receive their full paycheck, they will have more discretionary income to spend their money the way they choose. For those charitably inclined, individuals can choose where to give their money to - as opposed to now where the government takes your money before you receive it. The government then spends YOUR money on things that the government feels is a priority. This is backwards and The Liberty Tax fixes this. I've yet to meet someone on politically aligned with the left that would rather pay the U.S. Treasury as opposed to the charity of their choosing.

The Smaller Government Case:

For my tea party and friends on the right, this liberty tax would dramatically decrease the size and scope of our government over time. While not provable at this juncture, I highly doubt that everyone would vote for politicians who vow to increase the rate. The government would be forced to spend the revenue they bring in more wisely and efficiently.

¹⁴ <http://www.nolo.com/legal-encyclopedia/the-underground-economy-unreported-income.html>

¹⁵ <http://www.demos.org/data-byte/federal-revenue-lost-tax-evasion>

¹⁶ <http://www.census.gov/econ/smallbus.html>

The Abolish The IRS Case:

From 2010 - 2012, the IRS began singling out Tea Party and other conservative groups for extra scrutiny when they applied for tax exempt status.¹⁷ The IRS has been a political weapon from the beginning targeting the likes of Dr. Martin Luther King and many others.¹⁸ This policy will abolish the IRS as we know it and at the same time liberate 319 million Americans from their shackles.

The Privacy Case:

Since “income” is so vague - it requires the IRS to gain access to myriads of personal data. This broad IRS authority to obtain records without court supervision has been referred to by the Supreme Court as “a power of inquisition.”¹⁹ A consumption tax would fix this privacy violation.

The Help The Poor Case:

Before we tackle the benefits: let's state a few key points first:

- The Liberty Tax is very flexible in that elected officials can decide what items to exempt from the tax to help the poor.
- The Liberty Tax does not remove our safety net which consists of 126 separate programs for low income people.

Now the benefits:

- The Liberty Tax does not tax individual to individual transactions. The poor can design elaborate bartering systems to avoid the tax. This would be fantastic as this would free up more cash flow to be put to untaxed activities - mainly saving and investing. Saving and investing helps everyone climb the social mobility ladder.
- There is ample research that happier people give more charity and giving makes people happier, such that happiness and giving may operate in a positive feedback loop (with happier people giving more, getting happier, and giving even more).²⁰ If the poor in America start to contribute to society via The Liberty Tax (and that is all), this could very well bring more happiness to their lives.
- The Romer & Romer study suggests that if we decrease tax rates, government revenues may actually rise.²¹ If you are politically to the left, this should be good news to you.

¹⁷ http://www.huffingtonpost.com/2014/04/07/lois-lerner-irs_n_5107596.html

¹⁸ <http://swampland.time.com/2013/05/14/anger-over-irs-audits-of-conservatives-anchored-in-long-history-of-abuse/>

¹⁹ <http://object.cato.org/sites/cato.org/files/pubs/pdf/tbb-0204-4.pdf>

²⁰ <http://www.hbs.edu/faculty/Publication%20Files/10-012.pdf>

²¹ https://www.youtube.com/watch?v=FqLjyA0hL1s&index=11&list=PLIBtb_NuIJ1w_5qAEs5cSUJ5Bk0R8QLaY

- By eliminating the tax compliance costs mentioned above, America sees more economic growth which means rising salaries with more jobs - all huge benefits to the poor.
- Our current system creates disincentives against working, investing, and taking risks - activities that are central increasing prosperity and establishing security. These activities are the building blocks of economic growth. Those on the lowest rungs of the ladder get hurt the most.

The Welfare Fraud Fixer Case:

With welfare fraud costing Americans \$50.8 Billion in 2013,²² if someone is abusing the system at least The Liberty Tax puts some of that money back into the system. If someone of lesser means is purchasing new products, they SHOULD pay the tax. Furthermore, our current system encourages people to collect welfare benefits - while working off the books. The Liberty Tax gets those people on the books so welfare abuse will be greatly reduced.

The Voting Case:

Voting is an extremely important element of a democracy. One should only have the right to vote if they are funding the government. Since half the U.S. citizenry is net takers from the other half - they will continue to vote for politicians who will keep that trend going. The only solution, some could argue, is to remove their right to vote. The Liberty Tax ensures everyone is paying in - and everyone should have an equal right to the democratic vote.

The Constitutional Violations Case:

For my constitutionalist friends, the Cato Institute published a fantastic bulletin on the many civil liberty abuses the current tax code imposes on citizens.²³ To name a few:

- The Fifth Amendment right to due process is ignored in many respects by the federal income tax regime.
- For non-criminal tax cases—the vast majority of cases—the tax code reverses the centuries-old common law principle that the burden of proof rests with the accuser.
- Despite Sixth and Seventh Amendment guarantees of trial by jury, the federal tax system carefully sidesteps such protections.
- The requirement to file tax returns sworn to under penalty of perjury operates to invalidate the Fifth Amendment protection against self-incrimination

²² <http://federalsafetynet.com/welfare-fraud.html>

²³ <http://object.cato.org/sites/cato.org/files/pubs/pdf/tbb-0204-4.pdf>

- The IRS's summons authority under tax code section 7602 allows it to obtain records of every description from any person without showing probable cause and without a court order. This violates the 4th amendment.

The Investment Case:

Investors shouldn't be punished for doing the right thing - saving & investing for future years.

Investing is scary as is and should not have any more road blocks for people to jump in. When you tax an activity, you naturally less of it. Consider that stock ownership among Americans is at a record low where just 52% of adults say that they or their spouse own any stocks, either individually or through funds. That's according to Gallup, which began tracking this in 1998.²⁴

Consider the inequity here: if you grow wealth with your investments, the government is you partner and will take anywhere between 15% - 20% away from you. If you lose money, they are nowhere to be found to help you out with the exception of \$3,000 deduction against ordinary income.

As a financial planner, I benefit tremendously from the current system as I strategize with clients the best place to shelter their money from taxation. I have had middle income clients look at me with disgust as they feel punished when they see a piece of their investment growth taken away in the form in taxation. I have seen other clients stress out and get upset because they don't remember what they paid for a stock 20 years ago and now fear being audited. Furthermore, IRA's and qualified plans distort people's behavior. It may make sense in some cases to not save for retirement but rather some other shorter term goal. The tax incentives are almost a no brainer but can hurt clients should they need the money sooner. It also distorts our economy as small business owners use these plans where those dollars could be used to expand and hire new workers.

This Liberty Tax will eliminate all 31 tax compliance forms²⁵ - including 1099's, K1's, 5498's, & W2's, custodians are required to produce. This in turn lowers all the administrative overload that mutual fund, ETF, brokerage, and custodial firms have to deal with. This will most likely lower the costs of trading in an investment account - removing one more barrier to investing.

The Business / Economy / Jobs Case:

Let's start with some critical facts:

- Only 13% of federal tax revenues is expected to come from corporate taxes²⁶
- The United States has the highest corporate tax rate of the 34 developed, free-market nations that make up the OECD.
- U.S. corporations are taxed on income earned domestically but abroad as well which amounts to a double tax on foreign-earned income.
- The corporate tax code incentivizes business owners to spend revenues in the current year for write-offs - as opposed to saving and investing for the future.²⁷

²⁴ <http://money.cnn.com/2013/05/09/investing/american-stock-ownership/>

²⁵ <http://www.irs.gov/uac/Forms-Related-To-Form-1099>

²⁶ <https://www.nationalpriorities.org/budget-basics/federal-budget-101/revenues/>

²⁷ <http://www.investopedia.com/articles/investing/051614/do-us-high-corporate-tax-rates-hurt-americans.asp>

- 47 U.S. firms have performed tax inversions in the past 10 years which will cost the Treasury as much as \$20 billion over the next decade.²⁸
- Job losses from inversions are slight, especially at first. However, job losses could occur over time due to future corporate restructuring and as corporate & executive functions migrate abroad.²⁹
- American firms are believed to be holding more than \$2 trillion outside this country to avoid paying taxes here.³⁰
- Lobbying becomes a profitable natural outgrowth - where 25 Fortune 500 companies spent more on lobbying than they paid in federal taxes between 2008 and 2012, paying their lobbyists over half a billion (\$543 million), an average of nearly \$300,000 a day.³¹

The Liberty tax would alleviate all this lunacy and instead:

- Encourage companies to repatriate those dollars back to the U.S.
- Strengthen our economy and increase the number of jobs
- Develop cheaper and (or) better products brought faster to market - that may never be made at all..
- Businesses may write the government check but consumers pay it. So any reduction in the corporate tax is really a direct discount for consumers.

The Entitlements Case:

For those Americans that wish to fund Social Security and Medicare, they can fund it separately by writing checks to the Treasury. While this won't fix the broken entitlements - it is a first step to let younger generations decide if they want to bow out of these evil Ponzi scheme.

The Close The Deficit Case:

The Liberty tax does not tax investments income and growth including: dividends, interest, and capital gains. One proposal embedded in The Liberty Tax would be a one time 5% tax levied on all distributions from retirement accounts. The rationale would be to get money out of these unnecessary tax shelters and into regular investment accounts.

According to the Investment Company Institute, there is approximately \$23 Trillion in U.S. retirement assets.³² This would give the government an immediate 2.15 Trillion which could eliminate our \$476 Billion budget deficit³³ but can be used to fix the broken entitlements system as well.

The “No Double Taxation” Case:

²⁸ <http://www.cnbc.com/id/101864543>

²⁹ <http://www.heritage.org/research/reports/2014/09/business-inversions-tax-reform-is-the-only-way-to-curb-them>

³⁰ <http://www.azcentral.com/story/opinion/editorial/2014/07/31/corporate-headquarters-overseas-taxes/13439141/>

³¹ <http://publiccampaign.org/blog/2014/04/15/25-companies-spent-more-lobbyists-taxes>

³² http://www.401khelpcenter.com/faq/faq_25.html#.VRbO__nF9HU

³³ <http://www.usdebtclock.org/>

Corporate taxation, in its current form, is a form of double taxation.³⁴ This is immoral as the government should not be your partner twice. We have analyzed how the corporate tax does more harm than good to the American worker and needs to go. The Liberty Tax fixes this.

The “No Death Taxation” Case:

Estate taxation, some argue is a form of double taxation, but all agree is a form of death taxation. In a free society, the government should not be your partner twice. It most certainly should not go after people who died improving the world - by providing valuable products and services that people need and enjoy. This tax is extremely immoral.

If one disagrees with the moral premise, consider that the estate tax brought in only 0.42% of federal revenue in 2012. It also fails to raise significant revenue and reduce inequality. It causes serious damage to capital accumulation by reducing savings and also has high compliance costs.³⁵

Research shows that family money rarely survives - with 70% evaporated by the end of the second generation. It grows to 90% by the end of the third generation.³⁶ As the beneficiaries spend the money, the government will collect the revenue via The Liberty Tax.

The Taxed Enough Already:

For my Tea Party friends who feel like we are overtaxed - The Liberty Tax brings us to square one. With a flat 10% rate, we can see exactly how much revenue this will bring it and modify from there. It is imperative we start at 10% and nothing higher. The American people won't let it go higher - as they will finally see that all these government may not be as valuable as we once thought.

The Marriage Case:

Spouses who each have high income earners are subject to what is called the “marriage tax penalty.”³⁷ With so many benefits that marriage brings to both individuals, their children, and society,³⁸ the Liberty Tax is there to ensure the government stays out of this precious and vital institution.

The Flexibility Case:

If the tax does not bring in enough revenue to provide critical functions of the government, Congress can simply increase the rate. The Liberty Tax allows for such simple flexibility - and we don't have to worry about a new tax code being created that will morph into the monstrosity we have today.

The Why the Heck Note Case:

No solution is perfect. But The Liberty Tax is definitely worth a try. If it doesn't get the kind of results we want, we can always scrap it and bring back the dreaded IRS and 74,000 pages of abuse, cronyism, and tyranny. My gut says The Liberty Tax is here to stay.

³⁴ http://www.investopedia.com/terms/d/double_taxation.asp

³⁵ <http://taxfoundation.org/article/estate-tax-even-worse-republicans-say>

³⁶ <http://www.wsj.com/articles/SB10001424127887324662404578334663271139552>

³⁷ <http://money.usnews.com/money/blogs/my-money/2014/03/11/how-much-the-marriage-tax-penalty-will-cost-you>

³⁸ <http://www.foryourmarriage.org/what-are-the-social-benefits-of-marriage/>

The Detractors Case:

What can the other side say to argue against the Liberty Tax? Here are some arguments followed by a rebuttal.

- This proposal will be lobbied by many who profit from it including financial planners, accountants, tax attorneys, and crony corporations - all with their team of lobbyists

The rebuttal: Americans are hurting. The current code is a disaster. They will have to deal.

- The “rich” benefit from this as they get a greater “dollar benefit.” They also have more discretionary income to save and grow tax free capital.

The rebuttal: The Liberty Tax is moral and equal - something liberals should fight for. It is EXTREMELY progressive when you actually look at the dollars. What could be more important than people being unified against the government! But if that is not enough: those who pay the most in taxes inevitably will get the greatest dollar benefit from any tax reductions. Second, the economic benefits from greater savings - more innovation & greater GDP growth would be distributed to everyone in the form of a faster increase in real incomes, including wages.³⁹

- To be revenue neutral would require a much higher rate than 10%.

The rebuttal: Americans have been overtaxed for way too long. We are OWED a reprieve. No one knows exactly how much revenue this will bring in as it is IMPOSSIBLE to know when you factor how many distortions are in the system. We need to start somewhere and we might as well start low so people get comfortable with a lower rate - SO IT NEVER GETS HIGHER. Finally, the additional savings and investment would greatly outweigh any lower revenue as our economy improves, jobs come back here, people work, and our welfare numbers will greatly shrink as the pie keeps getting bigger.

In Conclusion:

Economists Alvin Rabushka and Robert Hall explain that taxing income - taxes what people contribute to the economy - while taxing consumption taxes what they take out.⁴⁰ Our system today is immoral, unfair, unequal, ripe with fraud, overly complex, and has wrought economic and political damage that

³⁹ <http://www.econlib.org/library/Enc/ConsumptionTax.html>

⁴⁰ <http://www.econlib.org/library/Enc/ConsumptionTax.html>

is immeasurable. It is time to say goodbye to those 48,000 pages - and say hello to the Liberty Tax.
Americans UNITE!