## **Taxing Ourselves**

A Citizen's Guide to the Great Debate over Tax Reform

second edition

Joel Slemrod and Jon Bakija

The MIT Press Cambridge, Massachusetts London, England

## Contents

Complaints about the Current Income Tax System Haven't We Heard This Before? 6 Promises about Consumption Tax Systems 7 Objections to Radical Reform 10 Fixing the Existing Income Tax 13 The Need for "Objective" Analysis 14 What's Ahead 15	1
2 An Overview of the U.S. Tax System 17  How Governments in the United States Get Their M International Comparisons 19  Historical Perspectives on the U.S. Tax System 21 Basic Features of the U.S. Personal Income Tax 3: Basic Features of the U.S. Corporate Income Tax Conclusion 48	1
3 Fairness 49 Vertical Equity 51 Horizontal Equity—Equal Treatment of Equals 7: Transitional Equity 84 Conclusion 86	5
4 Taxes <b>and Economic Prosperity</b> 87 Separate but Important Issues 89 How Taxes Affect Long-Run Economic Prosperity: A First Cut at the Evidence 96	

Preface xi

1 Introduction 1

viii Contents

	How Taxes Affect Economic Prosperity—The Specifics 103 Disputed Issues at the Heart of the Public Debate 127 Conclusion 132
5	Simplicity and Enforceability 133 How Complicated Is Our Tax System? 133 What Makes a Tax System Complicated? 139 Evasion and Enforcement 149 What Facilitates Enforcement? 160 Conclusion 164
6	Elements of Fundamental Reform 165 A Single Rate 166 A Consumption Base 171 A Clean Tax Base 184 Conclusion 197
7	What Are the Alternatives? 199 How the Consumption Tax Plans Work 200 At What Rate? 209 Simplicity and Enforceability of the Consumption Tax Plans 212 Distributional Effects of the Consumption Tax Alternatives 222 Economic Effects of Consumption Tax Plans 231 Conclusion 236
8	Building a Better Income Tax 237  Base Cleaning 239  Integration: Eliminating the Double Taxation of Corporate Income 239  Inflation Indexing 241  "Corporate Welfare" 242  Capital Gains 243  Savings Incentives in the Income Tax 247  Eliminating Complex Provisions Aimed at the Perception of Fairness 249  Process Improvements 250  A Single-Rate Income Tax 251  The Gephardt "10% Tax" 251

Contents ix

A Hybrid Approach: Combining a VAT with Income Taxation 253
Conclusion 255

## **9 A Voter's Guide to the Tax Policy Debate** 257

Appendix 263 Notes 297 References 323 Index 337