

# Real Money: Getting the tax code right will create growth

By Rob Rikoon | For The New Mexican

3/4/2013

Our current budgetary impasse involves two issues: taxation and spending. The inability of Congress to agree on a direction for the country is reflected in the Byzantine character of our current tax code. As a result, the United States is falling further behind other developed and even emerging market nations in attracting new business, creating jobs and being able to adequately gear up for a challenging future.

This article will address one side of the equation: taxation. Everyone realizes we need to pay taxes in order to raise money for common national and local goals such as public safety, schools, etc. For the last 40 years, however, this goal has been overwhelmed by an unwieldy mass of tax legislation generated to further whatever the politically dominant social policy is at the time. Since political views are so mercurial, it is ridiculous to try to legislate and implement long term national strategy through tax policy.

The debate about how much money should be spent on what programs is a wholly different matter than how we should raise the money needed to operate the country. Our overly complex tax code allows lobbyists to insert themselves in the process to get their way without the general public being made aware of what social and economic priorities are being promulgated by these narrowly focused special interest groups.

The amount of wasted time and effort expended to comply with a tax code that even experts have difficulty understanding is estimated to cost in the tens of billions of dollars annually. An even worse consequence is the perverse and unproductive business decisions that many people make in an effort to escape the tax code's reach. Some high-income individuals change their residential location for tax advantages and corporations avoid taxes by keeping their profits overseas. There is no reason why money that's kept offshore should be taxed differently than money earned or kept in the United States.

Some people decide what and when to make major purchases based on tax considerations and many new jobs are part time or outsourced because of the tax burden associated with having regular career employees. The misallocation of resources in our country that happens through people's understandable efforts to comply with or get around the tax code could be reversed by a drastic reduction in the number and scope of the tax rules along with an enormous simplification of how it is implemented. For example, a simple tax structure that doesn't provide for any deductions or credits would make people decide what to do with their money solely based on the merits of the proposition. Tax rates could still be progressive, in the sense that people and companies would still pay higher rates as their earning levels go up.

There are many entrenched beneficiaries of the current tax code who will howl at the suggestion that there be no further breaks for having a mortgage or giving money to charities. I believe that the markets, including the real estate, stock and job market, would all be greatly enhanced by the free flow of money when tax avoidance is no longer a prime motivating factor. Nonprofit organizations, who now market donations to their organizations as a means of avoiding taxes, would do as well or better when they are supported by individuals and companies who can make decisions about what to do with their money completely independent of tax formulas.

Other suggestions are to do away with deductions for contributions into retirement plans, for taxes paid, and that there be no tax credits given for spending money in any way. People who can afford to save for retirement should not have any special benefits over those who cannot as it only serves to widen that divide. Why should certain pieces of equipment or business activities be paid for by the general public? This is essentially the net effect of tax credits and deductions.

People should spend their money based on the direct benefits they receive and will do so if taxes are dropped from the deliberation process. There is a simple way to administer a fair tax system that promotes growth and that is to set a level of taxation on all business and personal income, being careful not to tax the same money twice, and then free people up so they can make economic decisions based on bettering their own futures. A tremendous amount of long-term thinking will come into play, unsullied by silly tax rules.

Tax rates should be at a level, for individuals and for companies, which produces the amount of revenue that we decide as a country to spend. Everyone, no matter whether they are young or old, single or married, should pay at the same rate. Capital gains, interest income, salaries, carried interest, rents, royalties; any kind of income at all should be taxed in the same fashion, no matter what its source.

Companies should be taxed the same no matter how or where they are organized, or what business they are in. Energy companies do not deserve special income tax breaks because we, the people, should not have to support oil drillers or, for that matter, alternative energy companies. If a company can't make it on its own, they should find something else to do or team up with another partner who has capital to invest for growth. The system proposed here is neither based on debt nor reliant on tweaking the law every two years.

If citizens want the government to raise additional revenue, without an ongoing national televised spectacle that wastes valuable time and effort on endless arcane debates, we can simply adjust the tax rates to whatever level are needed without redoing what should be a fair and simple system. Let's move the tax code out of the political arena and into that of sensible economics.

*Rob Rikoon, [rob.rikoon@rikoongroup.com](mailto:rob.rikoon@rikoongroup.com), is the chief economic theorist for The Rikoon Group LLC, a registered investment counseling firm in Santa Fe.*