

A Modest Proposal for Simplifying the Tax Code

In my last two months' columns, I described various ideas for gutting our nation's thoroughly dysfunctional tax code. Part of what could be achieved includes totally exempting from tax all sorts of long term investment gains and doing away with many deductions that promote lavish consumer lifestyles. Our current tax code has resulted in volumes of nonsensical details that only experts can understand and it promotes non-productive actions on the part of businesses and individuals. If you missed the articles and would like to see them, let me know via email.

To continue this discussion, which some have called ridiculous, and to conclude with ideas that could be labeled absurd, I would propose implementing broad consumption taxes that would pay for making our country a better place to live, work and play.

Under the tax reform I described last month, which is a "progressive" flat tax, many working people would pay less than they do under the current tax code and it is possible that even wealthy Americans, if they invested in increasing the productive capacity of America, might also pay less tax. Where then, would our budgetary shortfalls be made up? It is my belief that certain consumer taxes could make up the difference.

Consumption taxes are much like the gross receipts tax we have here in New Mexico. They are collected when a consumer buys something from a business. There is a way to impose consumption taxes in a "progressive" fashion. For example, if there was no sales tax on items under \$1,000, many people would not pay any consumption taxes at all, thereby stretching low wage earner's dollars. If items retailing between \$1,000 and \$5,000 had a 5% tax levied on them, and products selling from \$5,000 to \$10,000 had a 10% tax, and so on, our government's coffers might be replenished even as we promote saving and investment.

To continue the illustration above, if items selling from \$10,000 to \$30,000 had a 15% tax, and goods from \$30,000 to \$100,000 had a 20% tax, most of this tax revenue would come out of the pockets of wealthy consumers. A 30% tax could be levied on consumer purchases over \$100,000 (excluding real estate). People saving for the future would be rewarded by making all long term investment gains, those held for ten years or more, totally free of tax. These numbers are presented to stimulate discussion and are not suggestions to set taxes at certain rates. Consumer tax proceeds could be used instead of the higher income and payroll taxes that are on their way if Social Security and Medicare are to survive for the next generation.

Real estate taxes are the funding source in many communities for public works, most notably, education. Many communities, especially those considered to have a high quality of life, have seen an influx of outsiders who have bid up the price of local properties (more on this phenomenon next month). This has resulted in some low income residents being forced into selling their homes because of increases in real estate taxes. People who speculate in land or houses generally have weak ties to the local community. It seems appropriate to tax their speculative efforts more heavily.

Real estate speculation often results in unwelcome demographic effects due to the financial expulsion of traditional residents. I propose that revaluations for real estate taxation purposes only be done at the time of a sale and that large increases in real estate taxes only take place after a sale, as a kind of ongoing transaction fee. This would mean that stable families and individuals could enjoy the taxation level they are used to. This would promote stability in neighborhoods.

As funds have moved from the stock and bond markets into real estate, wildly escalating prices have increased pressure on local people to leave their communities. Under my proposal, there would be no tax increases on persons who live in and hold onto their real estate property for the long term. To make up any lost ground due to the fundamental changes in our income and real estate taxation system, we could also agree as a society that meaningful "sin" taxes on gambling, alcohol and cigarettes are needed to help fund public education, health, transportation and the environment. How about consumption taxes on luxury TVs, expensive furniture, vacations, jewelry, precious metals, art work, wine and cigars?

Another suggestion is to have new kinds of pooled resource taxes on service providers. In Minnesota, there is a tax on all medical receipts by doctors which funds a pool of money to pay for medical care for the poor. A similar kind of tax could be levied on legal and investment services. I am only half joking. The important concept is that these funds not be used for specific programs, but rather the money should go into the general tax revenue accounts to make up for any reduction in tax receipts that might come about as a result of the progressive flat tax and revised real estate tax systems described above.

There is one possible action that we, as taxpayers could take, to bring attention to our deep felt dissatisfaction with the complexity and insaneness of the present tax system. Since the government is required to check over our tax returns once we file, to see if we made any mistakes, what if many of us sent in our tax payment dollars without filling in the forms? As law abiding citizens, we could provide all the required information but, as a sign of frustration, just not fill in the confusing forms.

In effect, we would be asking the government, since they created the forms and instructions, to figure out our tax returns for us. They kind of do this now anyway, as anyone who has received a notice of tax underpayment knows. It would give the government a dose of its own medicine and if enough people took this course of action which is simple, legal and a potentially effective way of promoting change, it might force the IRS themselves to become advocates for real reform just to get rid of their headache!

We need a system that is understandable, easy to comply with, and progressive. It should encourage long term thinking and saving and discourage unnecessary consumption. While many of my suggestions may be poorly conceived, the basic premise is that our government be accountable to our citizenry. Whatever the format, we need to implement reform.

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