



# Michael Graetz, 100 Million Unnecessary Returns

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# Key ideas

- We are a low tax country but don't act like it.
- Permanent simplification only by taking lower, middle, and upper-middle class out of the income tax system.
- Shift toward consumption tax but retain income tax and estate tax at high end to maintain progressivity.
- Revenue, progressivity, competitiveness, simplification.
- Sub-themes
  - Political feasibility.
  - Retain payroll taxes until entitlement reform.

# Five issues

- How much of a shift to consumption taxation?
- What is not mentioned?
- Source of compliance cost reductions?
- Trade offs?
- Criticisms of the X-tax

# How much consumption tax?

- For  $< \$100,000$ , no change?
- For  $> \$100,000$  (probably most capital income)
  - Reduces tax rate on OI, increases rate on CG.
  - Reduces corporate tax (incidence?)
  - Replaces this with a 10-14% VAT.
- Still a significant wedge?
- How important? Benefits/costs?

# What is not mentioned?

- Corporate Integration
- International Taxation
- Financial instruments and other problems with measuring capital income
- How much can remaining income tax be simplified?  
\$150 B annual costs now.
  - Simplification possible because of lower rates at > \$100,000 and a corporate level?
  - Retention of capital gains differential, tax shelter rules, etc.
- Cold turkey transition to VAT.
- Fiscal pressures.

# Compliance burden

- Biggest selling point of plan is reduction in compliance. (The other is the shift toward consumption taxation.)
  - How much is from exemption of <\$100,000?
  - How much is from EITC simplification?
  - How much from income tax simplification?
- These are to some extent separate issues.

# Compliance burden, cont.

## ■ VAT burden

- <\$100,000 gross receipts test only helpful for retail businesses. Others may want to opt in.
- Better estimate of excluded businesses would include only retail businesses.

# Trade offs

- Ex. Estate tax
  - Claim is that it is needed to retain progressivity. Can't evaluate unless we know other options. Estate tax is not the *only* way.
- Ex. Other return-free systems
  - "Return-free" X-tax – no returns for exact same group of families.
- Ex. Eliminate marriage penalty
  - Well known issues.
- Academic tidiness or important for the public to evaluate the plan?

# Criticisms of the X-tax

- Full consumption tax while retaining progressivity. Graetz rejects. Why?
- Rejection by Tax Reform Panel
  - Shouldn't really make too much of this. Small minority position. Unanimity Rule.
  - Merits of their position?
- GATT/Treaties
  - GATT rules cannot be defended.
  - If otherwise the best proposal, how much weight?
- Ivory tower
  - So are most ideas. Ways to deal with this.

# Conclusions

- Book is great public service.
- Potentially enormous improvement.
- Once every 20-40 year opportunity.
- Where are the other serious plans?