Dhafer Alyami
Helen Duclos
COMP II
5 November 2019Tax Policy

It is difficult to do new changes with the end goal of a consistent advancement of the economy without the formation of an effective tax system. Tax reform is a procedure which changes administration tax policies. It is realized that there are various objectives of thisprocedure, for example, a decrease of the tax level of a considerable number of individuals, tax systems for increasingly dynamic impact, disentanglement of expense framework. Decent tax reform can improve the lives of numerous individuals. Due to the increasing complexity of our society it’s imperative for individuals to be well informed on how tax policies are established, and people need to be provided the opportunity to contribute to the establishment of these laws.Taxes are a mandatory commitment to state income exacted by the government on workersincome and business profits or added to the cost of some goods, services, and transactions. The Issue of tax reform is not a new topic. It has been battered since the establishment of the absolute first modern government. At the core of the discussion is how involved the government should be permitted in its citizen's lives.

In the United States, the discussion over taxes has been focal since the country's established in 1776. To break down the issue of tax reform one should initially study taxes and what they represent to the United States. As indicated by the Encyclopedia Britannica, practically the majority of the United States government's income originates from taxes. The most significant of all the demanded taxes is the individual personal income tax, which acquires by a wide margin the most income for the legislature.

Most tax payers understand the importance of tax money and how it sustains the society we live in. Government workers depend on it, such as government officials, firefighters, police officers and many more. Everybody gets taxed as long as they have an income. The tax rate depends on one’s earnings.The tax system is comprised of tax brackets that charge a rate based on one’s earnings. What’s implied is that the more you earn the more tax you pay, although, the benefits system is voluntary which means one can take advantages of the different tax options that can help reduce the amount of tax owed. You can pay more than you owe to get a tax refund or if you have a balance on your taxes it has to be paid by April fifteenth. There are retirement account options such as the 401(k) or IRA plan that can help reduce taxes owed. According to most [political philosophies](https://en.wikipedia.org/wiki/Political_philosophy), taxes are justified as they fund activities that are necessary and beneficial to [society](https://en.wikipedia.org/wiki/Society). Additionally, [progressive taxation](https://en.wikipedia.org/wiki/Progressive_tax) can be used to reduce [economic inequality](https://en.wikipedia.org/wiki/Economic_inequality) in a society.

According to this view, taxation in modern nation-states benefit the majority of the population and [social development](https://en.wikipedia.org/wiki/Social_development). A common presentation of this view, paraphrasing various statements by [Oliver Wendell Holmes, Jr.](https://en.wikipedia.org/wiki/Oliver_Wendell_Holmes%2C_Jr.) is "Taxes are the price of civilization It can also be argued that in a [democracy](https://en.wikipedia.org/wiki/Democracy), because the government is the party performing the act of imposing taxes, society as a whole decides how the tax system should be organized.The [American Revolution](https://en.wikipedia.org/wiki/American_Revolution)'s "[No taxation without representation](https://en.wikipedia.org/wiki/No_taxation_without_representation)" slogan implied this view. For traditional [conservatives](https://en.wikipedia.org/wiki/Conservatives), the payment of taxation is justified as part of the general obligations of citizens to obey the law and support established institutions. The conservative position is encapsulated in perhaps the most famous [adage](https://en.wikipedia.org/wiki/Adage) of [public finance](https://en.wikipedia.org/wiki/Public_finance), "An old tax is a good tax". Conservatives advocate the "fundamental conservative premise that no one should be excused from paying for government, lest they come to believe that government is costless to them with the certain consequence that they will demand more government 'services'. [Social democrats](https://en.wikipedia.org/wiki/Social_democrats) generally favor higher levels of taxation to fund public provision of a wide range of services such as universal [health care](https://en.wikipedia.org/wiki/Health_care) and education, as well as the provision of a range of [welfare benefits](https://en.wikipedia.org/wiki/Welfare_state). As argued by [Tony Crosland](https://en.wikipedia.org/wiki/Tony_Crosland) and others, the capacity to tax income from capital is a central element of the social democratic case fora [mixedeconomy](https://en.wikipedia.org/wiki/Mixed_economy) as against [Marxist](https://en.wikipedia.org/wiki/Marxist) arguments for comprehensive public ownership of capital.

 Many [libertarians](https://en.wikipedia.org/wiki/Libertarianism) recommend a minimal level of taxation in order to maximize the protection of [liberty](https://en.wikipedia.org/wiki/Liberty)compulsory taxation of individuals, such as [income tax](https://en.wikipedia.org/wiki/Income_tax), is often justified on grounds including territorial [sovereignty](https://en.wikipedia.org/wiki/Sovereignty), and the [social contract](https://en.wikipedia.org/wiki/Social_contract). Defenders of business taxation argue that it is an efficient method of taxing income that ultimately flows to individuals, or that separate taxation of [business](https://en.wikipedia.org/wiki/Business) is justified on the grounds that commercial activity necessarily involves use of publicly established and maintained economic infrastructure, and that businesses are in effect charged for this use.[Georgist](https://en.wikipedia.org/wiki/Georgist) economists argue that all of the [economic rent](https://en.wikipedia.org/wiki/Economic_rent) collected from natural resources (land, mineral extraction, fishing quotas, etc.) is unearned income, and belongs to the community rather than any individual. They advocate a high tax (the "Single Tax") on land and other natural resources to return this unearned income to the state, but no other taxes.The biggest debate about taxes regards the fairness in how people get taxed. That’s why some politicians have argued to adopt a flat tax rate system that taxes everyone the same despite the difference in earnings. Some lower income tax payers don’t want to be taxed the same as their high earning counterparts, so tax brackets were created in the attempt to create a middle ground for both sides of the argument. The country’s infrastructure is dependent on taxes such as roads, bridges, buildings, government protected reservoirs and parks. The economic costs of maintaining these government funded structures should be discussed to determine how much individuals should really be taxed.

Some tax payers argue that not all infrastructure benefits them, and they prefer to be taxed based on what they consume. It’s hard to create a system that can cater for every bodies specific needs because of the complexity of our society but we can always focus on basic and common needs that we all should have access to such as schools, hospitals, national security, clean water and so on. Therefore, we know there is an undeniable need to tax money but how much is fair? The problem with the current tax system is that it has created loop holes and gray areas that give people a chance to avoid paying taxes simply because they don’t want to, and the high tax rate based on middle class income encourages some businesses to smuggle goods back and forth leaving no trace of transactions and possible underlying operations. Paying taxes also takes away from the commercial economy leaving people with less spending power. The idea that taxes affect economic growth has become politically contentious and the subject of much debate in the press and among advocacy groups.

That is in part because there are competing theories about what drives economic growth. Some subscribe to Keynesian, demand-side factors, others Neo-classical, supply-side factors, while yet others subscribe to some mixture of the two or something entirely unique. The facts, historical and geographical variation in key parameters for example, should shed light on the debate. However, the economy is sufficiently complex that virtually any theory can find some support in the data. For instance, the Congressional Research Service (CRS) has found support for the theory that taxes have no effect on economic growth by looking at the U.S. experience since World War II and the dramatic variation in the statutory top marginal rate on individual income. They find the fastest economic growth occurred in the 1950s when the top rate was more than ninety percent However, their study ignores the most basic problems with this sort of statistical analysis, including: the variation in the tax base to which the individual income tax applies the variation in other taxes, particularly the corporate taxthe short-term versus long-term effects of tax policy and reverse causality, whereby economic growth affects tax rates. These problems are all well known in the academic literature and have been dealt with in various ways, making the CRS study unpublishable in any peerreviewed academic journal.

So, what does the academic literature say about the empirical relationship between taxes and economic growth? While there are a variety of methods and data sources, the results consistently point to significant negative effects of taxes on economic growth even after controlling for various other factors such as government spending, business cycle conditions, and monetary policy. In this review of the literature, I find twenty-six such studies going back to 1983, and all but three of those studies, and every study in the last fifteen years, find a negative effect of taxes on growth. Of those studies that distinguish between types of taxes, corporate income taxes are found to be most harmful, followed by personal income taxes, consumption taxes and property taxes. These results support the Neo-classical view that income and wealth must first be produced and then consumed, meaning that taxes on the factors of production, capital and labor, are particularly disruptive of wealth creation. Corporate and shareholder taxes reduce the incentive to invest and to build capital. Less investment means fewer productive workers and correspondingly lower wages. Taxes on income and wages reduce the incentive to work. Progressive income taxes, where higher income is taxed at higher rates, reduce the returns to education, since high incomes are associated with high levels of education, and so reduce the incentive to build human capital. Progressive taxation also reduces investment, risk taking, and entrepreneurial activity since a disproportionately large share of these activities is done by high income earners.

Some of these items are long-term mechanisms, particularly human and physical capital formation. Most of these empirical studies focus on the long-term effects, over a period of five years or more, but many investigate short-term dynamics as well. The evidence for short-term, demand-side effects of tax policy is less robust and less compelling, perhaps owing to the difficulty of disentangling short-term factors and matching events. However, there is some evidence that longer-term, supply-side effects occur sooner than previously thought, such as within the first few years of a policy change. In any case, the lesson from the studies conducted is that long-term economic growth is to a significant degree a function of tax policy. Our current economic doldrums are the result of many factors but having the highest corporate rate in the industrialized world does not help. Nor does the prospect of higher taxes on shareholders and workers. If we intend to spur investment, we should lower taxes on the earnings of capital. If we intend to increase employment, we should lower taxes on workers and the businesses that hire them.

A recent report from the inside small business reported a record number of businesses for tax evasion. The report was conducted between 1st July 28, 2018 to 31st May 2019. The results received showed that over sixty thousand business were suspected of tax evasion. The total revenue lost from tax evasion since 2001 stands at $3.44 trillion. Statistic prove that the most common tax evader is a male under the age of 50 with a complicated return and heavily involved with charitable organizations. This is evidence that not only business attempt to avoid paying taxes but even middle-class individuals. Which should bring about concerns on the effectiveness of the tax system in terms of receptibility. A lot of businesses that yield high turnovers tend to seek tax havens to save up on the cost of paying taxes because countries in the Caribbean’s, Latin America, and Europe have significantly lower corporate tax rates. The migration of headquarters for big businesses that have moved to Panama, the Bahamas, and Luxembourg are a clear sign of an unwelcoming tax system in America. Over $2.1 trillion dollars has been stored in overseas accounts by companies such as Apple, Pfizer, Walmart, Microsoft, and General electric who leads the pack at $119 billion dollars. Despite being one of the biggest American companies if not the biggest they still want to pay as little tax as possible.

I think there has been multiple instances where taxes have proven to be beneficial to society and other instances where it has taken away more than it has provided for individuals. The truth is nobody likes to pay taxes and this has been evident since the biblical times. I run a property company and most of the decisions I make are based on the tax I’ll have to pay. I wouldn’t think about taxes so much if the rates were reasonable and I knew how and where it would be used because that would benefit me from pure gratification or satisfaction from services, I have access to in direct correlation to the taxes I pay. Effective tax enforcement is central to a government’s ability to fund infrastructure and public service delivery. Ineffectual tax policies contribute to higher levels of corruption, evasion, and ineffective political structures. Barriers to effective tax collection, enforcement, morale and administration all constrain the fiscal capacity of developing country governments to finance the expenditures on services and infrastructure needed to spur growth. Public finance reform is, however, only one piece of a larger growth puzzle. For increased tax revenues to translate into meaningful and transformative growth, broader reforms to procurement and public sector practices are needed alongside improvements in accountability and transparency. Characterized by higher informality and self-reported income, developing countries often lack the enforcement capacity needed to effectively wield modern tax instruments.

Modern tax systems require third-party verifiable information trails generated through widespread monitoring and reporting of financial flows. Without this, evasion increases, and revenues decrease. Historically recommended reforms centered on second-best approaches, champion production efficiency above all else. These ignore the enforcement challenges experienced by most developing countries. A new wave of third-best policies, prioritizing revenue efficiency, illustrate that higher revenues, generated by tax policies accounting for capacity constraints, may outweigh lost production efficiency. I think it’s important for the government to have a closer relationship with taxpayers. Technology has enabled communities to communicate effectively and share ideas and better understand each other. I believe the government has the ability to foster stronger relationships with citizens to understand what they want and expect from paying taxes. It’s important for both sides to be understood and contribute to decisions that we’re all subject to.In order to develop a new progressive tax system a common ground between the government and tax payers will have to be acknowledged. I think tax payers can put together ideas that can solve the tax rate issue that so many have been let down by. To insure a more transparent, and easily adoptable tax system those that are concerned should contribute and work together. I would suggest a tax system with decreased tax rates that represent a direct correlation that’s needed for common needs such as education, medical health, and national security. Any services outside these main needs should be up to the discretion of the tax payer to contribute to their community.

Work Cited

Dharmapala, Dhammika 1 Australian Tax Forum. 2018, Vol. 33 Issue 1, p79 - 100. 22p.

 “Economists Offer Opposing Views On GOP Tax Plans.” *NPR*, NPR, 15 Nov. 2017,

King, Elizabeth. Yale Law & Policy Review. Spring2019, Vol. 37 Issue 2, p527 - 588. 62p.

Mills, Rich, et al. “Will You Set the Divestment Pace, or Try to Keep up with It?” EY, EY,12 Feb. 2019,

“Overview.” Tax Policy Center, https://www.taxpolicycenter.org/statistics/overview.

Tax Reform, Mixed – Entity Markets, and Hospitals: How the 2017 TaxCuts and Jobs Act

“Tax Policy Center.” Wikipedia, Wikimedia Foundation, 6 Apr. 2019

What Really Is the Evidence on Taxes and Growth?” Center on Budget and Policy Priorities, 11 Oct. 2017