Tax Reform (Tax Rationalization and Federal Tax Reduction)

"The only things certain in life are death and taxes." – Benjamin Franklin

Keep in mind that Benjamin Franklin made this observation back in the 1700's (well before the US government implemented the Federal Income Tax in 1913 via the 16th Amendment).

It is probably safe to say that no one "enjoys" paying taxes, especially when the daily press continues to report on various "inequities" and "special tax breaks" and how the federal government's tax system needs to be simplified and "reformed". However, before we can move forward with tax reform, we need to have a conceptual framework to address the various issues. Our Editorial Board uses the term "Tax Rationalization" as the main underpinning for this framework.

When you consider Federal Income taxes, Social Security and Medicare taxes, State Income Taxes, Federal and State estate taxes, Real Estate Taxes, Sales Tax on Purchases, etc. you begin to see that the conceptual framework needs to be fairly comprehensive. Having said that…. our Editorial Board believes that while our country's current framework for collecting tax dollars at the federal, state and local level can be (and should be) improved, it is generally OK. That's because, with each level of government that We The People have instituted, we create a governmental entity that needs its own "lifeblood" (ie, tax revenues) to fulfill the charter that we give to that institution to fulfill.

However, our Editorial Board also has specific thoughts and recommendations regarding the proper role(s) of government at the federal, state and local levels. So the first "tax rationalization" question becomes – Do we need a "government program" for a particular issue, or is this something that I (as an individual) should take personal responsibility to handle? Also - can the issue (service) be handled by a Not For Profit organization, instead of a government program?

When we do conclude that the issue is something that needs to be handled by a governmental entity (ie, fire protection, libraries, streets, national defense, etc) then we need to determine "by whom". Our belief is that issues are best handled locally, and then, if necessary, at the state level, and then (lastly) at the federal government level. In the conversation piece entitled *What the Government Should (and Should Not) Do* we talk about what we believe the proper (and very limited) role of the federal government should be.

The final piece of tax rationalization (once you have decided that an issue requires a federal government program) then becomes - what is the "best" (fairest) means of raising the necessary tax revenue. Unfortunately, this is a difficult part of the political process, because there will never be 100% agreement on the answer to the "fairness" question.

So let's step back, and first put forth some general points of agreement for any tax framework. The first basic principle is that everyone is a citizen and therefore everyone has a stake in (and an obligation to contribute towards) the government programs that We The People have voted to implement. The second basic principle is that we recognize each person's contribution should take into consideration their ability to pay. A key aspect of this principle is that those individuals in society who have benefited the most from our country's freedoms, economic system, and system of government, generally have an enhanced ability to pay, and therefore should pay a relatively higher portion of the taxes that are needed to fund the US government programs that We The People have decided are necessary.

Let's pause here and set the remainder of the stage for the tax rationalization discussion. As we noted above, our Editorial Board has a very narrow definition of the proper role of the US government. Accordingly (by definition) federal taxes will go down as programs and responsibilities are pushed down from the federal level, to the state level (if appropriate) or to the local level (if appropriate), or to the personal responsibility level.

Our Editorial Board also supports the concept of graduated income tax rates, whereby those citizens who have the most "*current year funds available*" (i.e, taxable income) contribute a relatively higher portion of the total tax revenues needed to operate the US government. Our Foundation's primary focus is the US government's Annual Deficit and Cumulative Debt, so the funding of state and local programs is somewhat beyond the scope of what our Editorial Board would like to address. However, we support the concepts of "fairness", along with an all inclusive personal responsibility of each citizen to contribute towards their state and local government programs as well.

… which brings us back to one last key tax issue - the concept of Other People's Money (OPM). Let's first talk about Social Security and Medicare taxes. We have separate Conversation Pieces on the roles of these two federal government programs. In those Conversation Pieces, we discuss the fact that one of the end results of any government tax program is the redistribution of wealth. The primary end result of these two federal government programs is a transfer of wealth (which happens every year) between different generations of tax payers. However, in regards to the "tax rationalization" of Social Security and Medicare, we feel that this intergenerational transfer of wealth is generally accepted to be OK, as long as people are not mislead to believe that Social Security is a pension plan, and Medicare is a health insurance policy. Instead, these programs merely represent an ongoing long term "social contract" between generations of citizens, and the associated wealth transfer is handled each year within the cash flows of the US government.

However, one of the most significant problems that our Editorial Board has with our elected officials (at both the federal level and the state level) is that they have a tendency to extend this "intergenerational" concept to the remainder of all other federal and state government programs. Our Editorial Board feels that it is an immoral act of our elected officials to push the cost of today's programs onto future generations via the use of government debt. We The People need to re-engage in the political process, to ensure that our governmental units are "living within their means", in the same way that each of us attempts to take personal responsibility for our own personal lives and personal finances.