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Blow Up the Tax Code and Start Over

Apply a 14.5% flat tax to personal income and to businesses. Cut deductions. Watch the economy roar.

By [Rand Paul](#)

June 17, 2015 7:09 pm ET



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Some of my fellow Republican candidates for the presidency have proposed plans to fix the tax system. These proposals are a step in the right direction, but the tax code has grown so corrupt, complicated, intrusive and antigrowth that I've concluded the system isn't fixable.

So on Thursday I am announcing an over \$2 trillion tax cut that would repeal the entire IRS tax code—more than 70,000 pages—and replace it with a low, broad-based tax of 14.5% on individuals and businesses. I would eliminate nearly every special-interest loophole. The plan also eliminates the payroll tax on workers and several federal taxes outright, including gift and estate taxes, telephone taxes, and all duties and tariffs. I call this “The Fair and Flat Tax.”

President Obama talks about “middle-class economics,” but his redistribution policies have led to rising income inequality and negative income gains for families. Here's what I propose for the middle class: The Fair and Flat Tax eliminates payroll taxes, which are

seized by the IRS from a worker's paychecks before a family ever sees the money. This will boost the incentive for employers to hire more workers, and raise after-tax income by at least 15% over 10 years.

Here's why we have to start over with the tax code. From 2001 until 2010, there were at least 4,430 changes to tax laws—an average of one “fix” a day—always promising more fairness, more simplicity or more growth stimulants. And every year the Internal Revenue Code grows absurdly more incomprehensible, as if it were designed as a jobs program for accountants, IRS agents and tax attorneys.

Polls show that “fairness” is a top goal for Americans in our tax system. I envision a traditionally All-American solution: Everyone plays by the same rules. This means no one of privilege, wealth or with an arsenal of lobbyists can game the system to pay a lower rate than working Americans.

Most important, a smart tax system must turbocharge the economy and pull America out of the slow-growth rut of the past decade. We are already at least \$2 trillion behind where we should be with a normal recovery; the growth gap widens every month. Even Mr. Obama's economic advisers tell him that the U.S. corporate tax code, which has the highest rates in the world (35%), is an economic drag. When an iconic American company like Burger King wants to renounce its citizenship for Canada because that country's tax rates are so much lower, there's a fundamental problem.

Another increasingly obvious danger of our current tax code is the empowerment of a rogue agency, the IRS, to examine the most private financial and lifestyle information of every American citizen. We now know that the IRS, through political hacks like former IRS official Lois Lerner, routinely abused its auditing power to build an enemies list and harass anyone who might be adversarial to President Obama's policies. A convoluted tax code enables these corrupt tactics.

My tax plan would blow up the tax code and start over. In consultation with some of the top tax experts in the country, including the Heritage Foundation's Stephen Moore, former presidential candidate Steve Forbes and Reagan economist Arthur Laffer, I devised a 21st-century tax code that would establish a 14.5% flat-rate tax applied equally to all personal income, including wages, salaries, dividends, capital gains, rents and interest. All deductions except for a mortgage and charities would be eliminated. The first \$50,000 of income for a family of four would not be taxed. For low-income working families, the plan would retain the earned-income tax credit.

I would also apply this uniform 14.5% business-activity tax on all companies—down from as high as nearly 40% for small businesses and 35% for corporations. This tax would be levied on revenues minus allowable expenses, such as the purchase of parts, computers and office equipment. All capital purchases would be immediately expensed, ending complicated depreciation schedules.

The immediate question everyone asks is: Won't this 14.5% tax plan blow a massive hole in the budget deficit? As a senator, I have proposed balanced budgets and I pledge to balance the budget as president.

Here's why this plan would balance the budget: We asked the experts at the nonpartisan Tax Foundation to estimate what this plan would mean for jobs, and whether we are raising enough money to fund the government. The analysis is positive news: The plan is an economic steroid injection. Because the Fair and Flat Tax rewards work, saving, investment and small business creation, the Tax Foundation estimates that in 10 years it will increase gross domestic product by about 10%, and create at least 1.4 million new jobs.

And because the best way to balance the budget and pay down government debt is to put Americans back to work, my plan would actually reduce the national debt by trillions of dollars over time when combined with my package of spending cuts.

The left will argue that the plan is a tax cut for the wealthy. But most of the loopholes in the tax code were designed by the rich and politically connected. Though the rich will pay a lower rate along with everyone else, they won't have special provisions to avoid paying lower than 14.5%.

The challenge to this plan will be to overcome special-interest groups in Washington who will muster all of their political muscle to save corporate welfare. That's what happened to my friend Steve Forbes when he ran for president in 1996 on the idea of the flat tax. Though the flat tax was surprisingly popular with voters for its simplicity and its capacity to boost the economy, crony capitalists and lobbyists exploded his noble crusade.

Today, the American people see the rot in the system that is degrading our economy day after day and want it to end. That is exactly what the Fair and Flat Tax will do through a plan that's the boldest restoration of fairness to American taxpayers in over a century.

Sen. Paul, a Republican from Kentucky, is running for his party's presidential nomination.

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