

# **The Economic Effects of a Corporate Tax Reform**

The Honors Program  
Senior Capstone Project  
Kevin Levinson  
Faculty Advisor: Professor Laurie Bates  
Editorial Reviewer: Professor Joseph Shaanan  
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**ABSTRACT**

This thesis points out the inefficiencies associated with the corporate income tax system in the United States. After reviewing alternatives, I suggest adapting a consumed-income tax to form a new 'progressive consumed-income tax' to take us into the 21<sup>st</sup> century.

Using current data from international tax system changes, international tax rate comparisons, economic theory, and economists' views I will provide evidence to support my argument that the progressive consumed-income tax is the best possible plan for economic growth in America. With the implementation of a consumption-based tax, the corporate income tax is completely eliminated. I will demonstrate the economic effects of this change as well as provide a model for a progressive consumed-income tax system. The simplicity, efficiency, administrative ease, and economic incentives provided by a consumption-based tax are overwhelmingly positive. This economic analysis will prove that the move to the progressive consumed-income tax is the best option when looking at tax reform.

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**INTRODUCTION**

Every year around April 15<sup>th</sup>, stress levels across the nation reach a maximum. U.S. citizens scramble to mail in the infamous “Tax Return” form to the Internal Revenue Service (IRS). Form 1040 is known as the personal income tax return or as some might put it, evil personified on paper. Filling out this form can be difficult and time consuming with the end result often being incorrect. Due to the complexity and overall hassle, many individuals hire professional tax consultants (paid-preparers) with the knowledge necessary to complete the form in the correct manner. The whole process is arduous but necessary. As the saying goes, ‘only two things in life are certain; death and taxes’.

Form 1120 is known as the “Corporate Tax Return”, a form that is astronomically more complex than any individual tax return ever completed. The first page of the 1120 corporate tax return is essentially a summary of incomes, deductions, and tax payments. This is followed by schedule A, schedule C, schedule E, schedule J, schedule K, schedule L, schedule M-1, and finally schedule M-2, all of which serve a different purpose on the corporate income tax return. After working at a large public accounting firm recently, I can say with a high level of assurance that each and every single dollar value attained on these four pages requires an exorbitant amount of time to acquire. The process begins by pouring over financial statement after financial statement collecting the data necessary. Even after calculating what is thought to be the correct number, the tax return must be reviewed several times before anything is passed as ‘okay’. The amount of resources, labor, time, and effort put into completing form 1120 is astronomical. Each year, large and small businesses pay obscene amounts of money to accounting firms for tax planning advice. There has got to be a more efficient and less complex reform idea that can replace the current corporate income tax system. In Alicia Hansen’s Tax Policy Blog she posted a graph indicating the rise in the number of words in the Internal Revenue Code (IRC) since 1955. In 1955 the number of words in the IRC was below 500,000. By 2005 it had risen to over 2,000,000 words. The considerable jump is due to changes in the tax code involving phase-ins, phase-outs, revenue rulings, and court decisions to name a few. “A lot of the tax law is really quite hard—and it can also be very counterintuitive” (Hansen, 2008), says Mel Schwarz, a partner and director of tax legislative affairs at Grant Thornton LLP in Washington. Even professionals in the tax field have trouble

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interpreting and keeping up with the ever more confusing tax code. There must be a more simplistic solution to the current mish-mash that is the corporate income tax. In fact, why not eliminate the corporate income tax entirely? In the words of President Ronald W. Reagan, “I’ll probably kick myself for having said this, but when are we going to have the courage to point out that in our tax structure, the corporate tax is very hard to justify?”

Corporations are one of the drivers behind economic growth. Yet, the corporate income tax has been a huge burden on American corporations throughout history. Countries around the globe are beginning to realize that the corporate income tax is loaded with problems. The move to lessen its burden has begun. Many countries have started employing various consumption taxes such as VAT (Value-Added Tax) and other tax systems in an attempt to find a better way to generate revenue for the government.

The adverse economic effects of the corporate income tax are extremely apparent. First, the international flow of capital to other countries has become a huge issue as the United States continues to maintain high marginal tax rates on large companies. Many corporations have moved their business to ‘tax havens’. Tax havens are countries where the corporate income tax rate is considerably lower than that of the United States. Moving business to these ‘tax havens’ provides huge tax-saving incentives for U.S. companies. Second, the corporate income tax has led to a shifting of capital from the corporate sector to the non-corporate sector to avoid the high corporate income taxes. This movement of capital leads to inefficiencies that will be discussed in the ‘Problems with the Corporate Income Tax’ section. In sum, the corporate income tax is partially to blame for the lower economic growth experienced in the U.S.

An alternative to the corporate income tax would be a consumption-based tax. Taxation on consumption rather than taxation on earnings would provide an incentive for more savings and investment. In addition capital shifting and the flow of capital abroad would end if consumption rather than income served as the base of the tax. There are many forms of taxes that could be implemented in place of the income tax, but none are as effective as the ‘progressive consumed-income tax’ that I am proposing.

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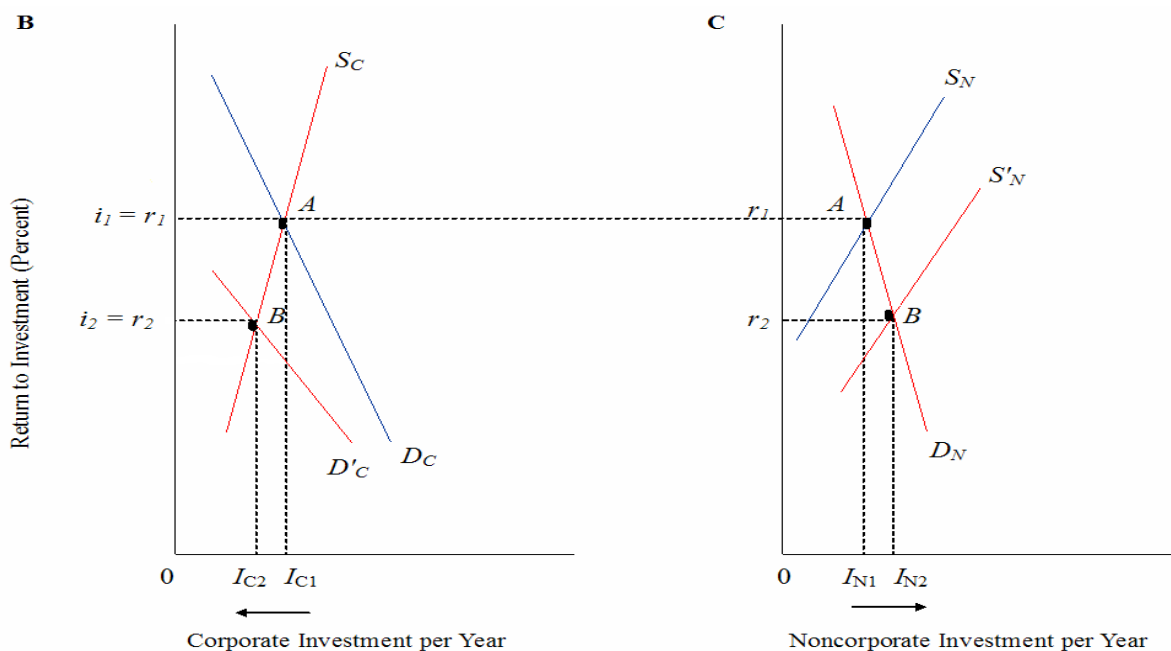
Before we get into the details of my new proposal, let us further explore the problems with the current tax system.

**PROBLEMS WITH THE CORPORATE INCOME TAX**

It is widely known that the corporate income tax has negative effects, but what are they? What effect do they have on our economy? Do the costs outweigh the benefits? I will analyze simple problems with the corporate income tax and the large adverse effects they cause.

Capital Shifting

The first problem deals with capital shifting from the corporate sector to the non-corporate sector (Hyman, 2005). This is a problem because it lowers rates of return to investment in both sectors. This is analyzed by a simplified version of Harberger's model below (See Appendix D for the Complete Model):



Before analyzing this graph there are a few facts you will need to know:

- The left graph is the corporate sector and the graph to the right is the non-corporate sector
- The Y-axis is the return to investment of funds invested in each sector
- The X-axis is the total investment per year with respect to each sector

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- Both graphs are mutually dependent on one another - this means a shift or change in one will lead to a shift or change in the other
- Initial equilibrium is at point A in both sectors
- The shift due to corporate income taxes results in the new equilibrium at point B in both graphs

Facts you need to know when analyzing the corporate sector graph (graph B):

- Line  $S_C$  is the supply of funds for investment
- Line  $D_C$  is the demand for funds for investment
- Line  $D'_C$  is the demand for funds for investment after a corporate income tax is implemented

At point A in the corporate sector, investment is at its most optimal level yielding a rate of return of  $r_1$ . When a corporate income tax is in place, the demand for funds for investment in the corporate sector shifts to  $D'_C$  as the net rate of return to investment is lowered. This means investments in the corporate sector will not be earning as much interest (rate of return) as they would have prior to the implementation of the corporate income tax. Because the level of total investment/savings in the economy remains the same (as indicated in appendix C) the funds not invested in the corporate sector shift to the non-corporate sector. This leaves the corporate sector with less investment (indicated by the shift from  $IC_1$  to  $IC_2$ ) and a decrease in net rate of return to investment (indicated by the new rate of return  $r_2$ ). Capital that was transferred yielded a higher rate of return and was more productively used in the corporate sector.

Before looking at graph C you will need to know a few facts:

- $D_N$  is the demand for funds for investment
- $S_N$  is the supply of funds for investment
- $S'_N$  is the supply of funds for investment when the corporate income tax is in effect

Instead, the decrease in capital in the corporate sector ( $D_C \rightarrow D'_C$ ) can be seen as shifting the supply of capital ( $S_N \rightarrow S'_N$ ) by a comparable amount in the non-corporate sector. At point A in graph C we are at the optimal amount of investment in the non-corporate sector with total investment at  $I_{N1}$  and the rate of return to investment at  $r_1$ . The corporate income tax reduces

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demand for investment in the corporate sector meaning that there will be capital shifting to the non-corporate sector. This in turn increases the supply of capital in the non-corporate sector illustrated by the shift from  $S_N$  to  $S'_N$ . The supply shift causes an increase in the investment in the non-corporate sector effectively increasing the total investment from  $I_{N1}$  to  $I_{N2}$  and lowering of the net rate of return from  $r_1$  to  $r_2$  (Hyman, 2005).

In conclusion, Harberger's model shows that the corporate income tax lowers the overall rate of return to  $r_2$  in both sectors. This effect results in continually lower funds invested in U.S. corporations causing reduced production and a reduction in corporate projects being undertaken. As a result, growth is reduced because capital is less efficiently utilized in the non-corporate sector.

#### Capital Flow Abroad

The second problem is the international flow of capital abroad. With countries such as Ireland (12.5% top marginal tax rate) and Hungary (16% top marginal tax rate) the U.S. is losing large amounts of business with corporations shifting their capital to these 'tax havens' (Chamberlain, 2006). With less investment in the U.S., the capital stock grows more slowly thereby reducing economic growth. "A nation will not attract new and expanded business and its attendant job creation if its corporate income tax is significantly higher than it is in comparable nations" (Atkins & Hodge, 2005).

This is an important issue as many other countries are looking to lower their corporate income tax rates. Evidence of the world's move toward consumption-based tax systems is undeniable: Poland plans to move to a likely flat tax rate of 17 percent by 2011; Taiwan and Iceland continue to slash their corporate income taxes; Hungary is considering joining the flat tax family as well as cutting taxes on labor and replacing them with a higher VAT; and finally, Kuwait recently passed a bill cutting taxes on profits from foreign companies to 15 percent from the current progressive tax rate with a high of 55 percent (Henchmen, 2008). The U.S. needs to make a move to avoid 'lagging behind'

#### Creative Accounting

This issue arises because of the difference in the standards for 'taxable income' according to the IRS and 'book income' (net income) according to FASB (Financial Accounting Standards



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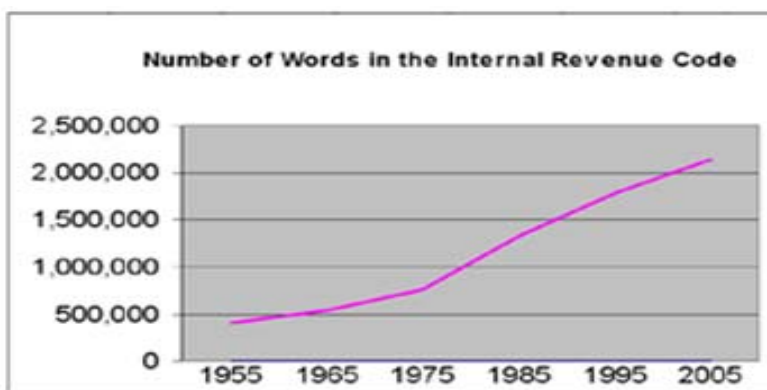
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Board). Essentially, the job of a CPA is to make book income look as high as possible to attract investors and creditors. The job of a tax accountant is to make sure taxable income is as low as possible so as to avoid paying taxes. Large amounts of resources, time, and money are put into both accounting practices. The corporate income tax is solely responsible for this ‘creative accounting’. Without a corporate income tax, corporate tax planning for would be minimal. In a recent article in the *Norwich Bulletin* the, “\$170 billion compliance cost for corporations represented 43 percent of corporate income taxes collected in fiscal year 2007” (Abrams, 2008). This leads me to the next problem.

#### Compliance and Complexity

Complex tax codes and high costs of compliance do not allow for the best possible allocation of resources. First let me examine the complexity of the income tax (both corporate and personal). The number of words in the tax code has increased dramatically over the years as show below:



This graph clearly shows the increasing complexity of the tax law in recent years. It is difficult to understand even the most simple of tax laws, let alone over 2,000,000 words of it (Hansen, 2008). In a similar study, the number of words in the entire tax code and tax regulations reached a staggering 9,097,000 (see appendix G).

With complexity comes an increase in compliance costs. Most individuals do not understand tax laws and most corporations do not have the time to pour through the entire code and prepare their tax returns. In this sense, many individuals and corporations use ‘paid-preparers’. With 2005 tax compliance costs reaching \$265.1 billion, it is clearly problematic

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(see appendix F). This totaled 22.2% of federal revenue collection for the year (Hodge, Moody & Warcholik, 2005). The elimination of many of these costs would allow resources allocated in this area to be put to better use.

**REFORM SOLUTIONS**

There are many ideas out there on how to reform the current tax structure. Most of them result in more reliance upon consumption as a form of taxation rather than income. There are 4 main methods of tax reform that need to be understood as I attempt to form my own new system.

Partnership Method

The partnership method (also known as the full integration method) is one of the most radical approaches to corporate tax reform. Under this method all earnings of a corporation, whether distributed or not, are taxed to all the shareholders. Essentially all shareholders are treated like partners in the firm. This means that each individual shareholder is liable for personal income tax based on their share of the earnings.

The biggest upside to the full integration method are the economic benefits attained, namely in the area of efficiency. It is obvious to most that the current corporate tax system imposes large excess burdens on the U.S. economy (Rosen & Gayer, 2008). Here is a list of efficiency benefits attained from the partnership method:

Misallocation of resources between the corporate and non-corporate sectors would be eliminated (This is demonstrated in more detail by the Harberger model discussed later on).

Integration lowers the rate of taxation on the return to capital; tax-induced distortions in savings would be reduced.

The partnership method reduces the incentive for retained earnings. It can be said that companies with large amounts of retained earnings have no trouble attaining investors on new projects because they feel their money is safe. In this sense companies may invest in risky and inefficient projects. If companies did not have large amounts of retained earnings they would be forced to convince investors that the project is worthwhile. This would force companies to invest in the most profitable and efficient projects possible.

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Our current tax system favors debt as a form of financing. Integration would remove this favoritism because interest payments would no longer be deductible from corporate taxable income as there would not be any. High ratios of debt to equity run the risk of bankruptcy. “This increased risk and the actual bankruptcies that do occur lower welfare without any concomitant gain to society” (Rosen & Gayer, 2008). Integration would solve these problems by favoring equity over debt as a form of financing.

In a study by Jorgenson and Yun (2001) mentioned by Rosen & Gayer in their text *Public Finance: Eighth Edition* the estimated present value of the lifetime efficiency gain from switching to this method would be more than \$250 billion.

This method has a number of administrative issues. One such issue is that of shareholders owning stock for less than one year, or even one day for that matter. How would corporate earnings be taxed to them? Would shareholders be allowed to deduct corporate operating losses from their own taxable income? This is clearly one huge area of concern. Rosen & Gayer conclude that the method is a worthwhile consideration but there is clearly, “considerable uncertainty surrounding the likely impact of full integration” (Rosen & Gayer, 2008). This integration of personal and corporate taxes would result in efficiency and equity gains but it is difficult to say exactly how beneficial these gains would be. With too much uncertainty we cannot reform to this system.

#### Value Added Tax

Value Added Tax, or VAT as it is better known, is a percentage tax on value added applied at each stage of production (Rosen & Gayer 2008). This is shown by the table below taken from Rosen & Gayer’s text *Public Finance: Eighth Edition*.

#### **Implementation of a value-added tax**

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<i>Producer</i>	<i>Purchases</i>	<i>Sales</i>	<i>Value Added</i>	<i>VAT @ 20% Rate</i>
<i>Farmer</i>	\$ -	\$ 400.00	\$ 400.00	\$ 80.00
<i>Miller</i>	\$ 400.00	\$ 700.00	\$ 300.00	\$ 60.00
<i>Baker</i>	\$ 700.00	\$ 950.00	\$ 250.00	\$ 50.00
<i>Grocer</i>	\$ 950.00	\$ 1,000.00	\$ 50.00	\$ 10.00
<i>Total</i>	\$ 2,050.00	\$ 3,050.00	\$ 1,000.00	\$ 200.00

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As you can see, a 20% tax is levied at every stage of production. The United States has never had a national VAT. However, the VAT is very popular throughout Europe. There are a few positives to the VAT. The implementation of a VAT allows for more revenue to the government. A VAT is in conjunction with an income tax and is not a replacement. The addition of a VAT helps to generate revenue. Another benefit of VAT is that it does not tax investment. The full value of an investment good is subtracted from sales in the computation. This allows for the exclusion of investment goods from tax. One other benefit of the VAT is induced by the 'invoice method' often used in determining the tax liability (fully explained below). This method ensures that producers police themselves against tax evasion.

On the other side of the coin, Europe's experience of VAT concludes that administrative decisions have caused economic issues. Firstly, the invoice method causes a loss in business. Looking at the table above the problem with this method is easily described. If the baker sells his/her goods for \$950 he/she would be liable for  $950 \times 20\%$  or \$190 in taxes. If the baker were to attain invoices for the taxes previously paid by the miller (\$60) and the farmer (\$80), the baker could take this as a credit against his/her liability. Thus the baker would only have to pay \$190 less \$60 and \$80 for a total of \$50 in VAT (Rosen & Gayer, 2008). The problem here is that the baker will not do business with anyone who will not give them an invoice of the taxes previously paid. This way a lot of business and potential revenue are lost.

A second issue is that, unlike the table example, a rate structure is needed. In most European countries, commodities are all taxed differently. Necessities such as food and healthcare are generally taxed at a lower rate than other products. Similarly, banking and finance institutions are often exempt from all taxes. This is a mess when attempting to calculate value added. Along the same lines, computation and administration issues become problematic when firms produce multiple products (Rosen & Gayer, 2008).

#### Progressive Consumption Tax

This idea is very well discussed by the economist Robert Frank in his article "We Need a Progressive Consumption Tax". I will not spend too much time on this topic as the idea of a progressive system will be more fully analyzed in the implementation of my own method. There are a few points I would like to highlight in this system:

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- A progressive income tax (the current U.S. system) is where tax rates rise as taxable income rises (Tax Foundation Staff, 1983). In principle this is how a progressive consumption tax would work; the higher the item of consumption, the more tax that is levied onto it
- Robert Frank suggests a ‘steeply progressive’ tax rate system starting as low as 10% and rising to 100%. This eases the tax burden on lower income families (Frank, 2007)
- The higher the marginal tax rate, the higher the incentive to save becomes. The money not spent on consumption will be spent on investing and savings.
- An area of concern for most critics is that this consumption taxes will lead to a drastic reduction in spending and will send the economy into a recession. Mr. Frank shows that the effect of this progressive system will be to, “shift spending from consumption to investment, causing productivity and incomes to rise faster” (Frank, 2007).
- One negative effect of the progressive system is noted in the area of revenue collection for the government. With more money being invested and saved due to the tax progression less money is collected as tax revenue.

It is difficult for most to imagine a progressive consumption tax system. Most systems currently in place (throughout the world) are flat. VAT is a classic example. The idea of a progressive consumption tax system is fairly new and solely based on the economic benefits, and not on revenue collection.

#### Consumed-Income Tax

The consumed-income tax was redesigned by the Tax Foundation in 1983. It has not been discussed much since the days of President Ronald Reagan. The sheer brilliance of this simple plan was underestimated. Their plan was based upon the 1977 treasury study entitled *Blueprints for Basic Tax Reform* which discussed this consumption tax idea under the label of a ‘cash flow tax’ (Tax Foundation Staff, 1983).

This plan involved the following (See Appendix A & B):

- Taxpayers would report all cash income (Tax Foundation Staff, 1983)
- They then subtract all savings (Tax Foundation Staff, 1983)
- This resulting balance is ‘consumed-income’. There would be no tax credits or exclusions in contrast to current law (Tax Foundation Staff, 1983)
- Standard deductions and exemptions are then deducted and taxable consumed-income is the result (Tax Foundation Staff, 1983)

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- This taxable consumed-income is then taxed at different rates depending on filing status (Tax Foundation, 1983)
- The result less prepayments is your tax liability for the year (Tax Foundation, 1983)

This plan would completely exclude corporations from paying taxes as all consumption eventually ends up at the consumer (individual) level. Taxable income would include all distributions and sales of corporate shares. In terms of sale of stock, gains and losses would not be reported and thus have no tax consequences. This means corporate income will eventually be taxed at the consumer level.

The economic effects with the consumed-income tax are to; increase savings and investment, decrease spending on consumption, prevent increased international flow of capital, and to prevent capital shifting to the non-corporate sector (as described by Harberger's model). The increase in savings cannot be stressed enough when comparing international savings rates. The U.S. and U.K. savings rate are notably way below the rest of the developed countries. This has been an increasing problem with personal savings hitting an all time low in 2005 as noted by the news blurb from bankrate.com below:

According to the BEA, the national annual savings rate fell in 2005 to its lowest point since the Great Depression: negative 0.4 percent. Since then, it has continued to fall, registering at negative 1.6 percent in May 2006 and negative 1.5 percent in June. Compare those numbers with 1985 when the national savings rate hit a record 11.1 percent and it's clear why economists are raising the warning flag. (Guisti, 2006)

After further research into international savings, it can be seen that the U.S. has a much lower rate than the rest of the developed world. As a percent of GNI, in 2004, the U.S. had a rate of 13% and the U.K. had a rate of 14.5%. This is considerably lower than most other countries that generally average in the 20% range or above (See Appendix E).

A large problem with this method is that it does not outline tax brackets, exemptions, deductions, and other various logistics needed to for a tax system. I will rectify this in my own proposal. The consumed-income tax is considered regressive. It hurts lower-income families

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the most. Questions surrounding government revenue also arise. The simplistic consumed-income model does not address these issues and this is its major downfall.

**MY PROPOSAL FOR REFORM**

Before introducing my proposal it must be made apparent that my proposal completely eliminates the corporate income tax and that most of my focus will be on designing a new personal ‘progressive consumed-income tax’. It must also be noted that most of the calculations revolve around consumed-income (income less savings) rather than plain income.

My proposal is a combination of tax reform ideas with a few of my own ideas mixed in. Using the Tax Foundation ‘consumed-income tax’ proposal and Robert Frank’s idea of a progressive consumption tax, I plan on forming my own ‘progressive consumed-income tax’. First off I will discuss my newly designed tax brackets which are based upon income quintiles, savings rates, and overall consumed-income. Secondly I will design a standard deduction system following poverty guidelines as of 2007. Thirdly I will use the ‘consumed-income annual tax return’ as a basis for the new tax forms. To illustrate how these forms work I will provide some examples. Each stage of this new reform will be compared to the old system just as a point of reference. Let us begin with the tax bracket.

**Progressive Consumed-Income Tax Brackets**

When I first looked into forming my own tax brackets I needed some sort of basis to understand how a bracket system works. Naturally I looked to our current system for advice (see appendix H). I noted the progressive marginal tax rates and how the brackets varied with respect to filing status. For simplicity purposes I will keep the current filing status options the same in the new system.

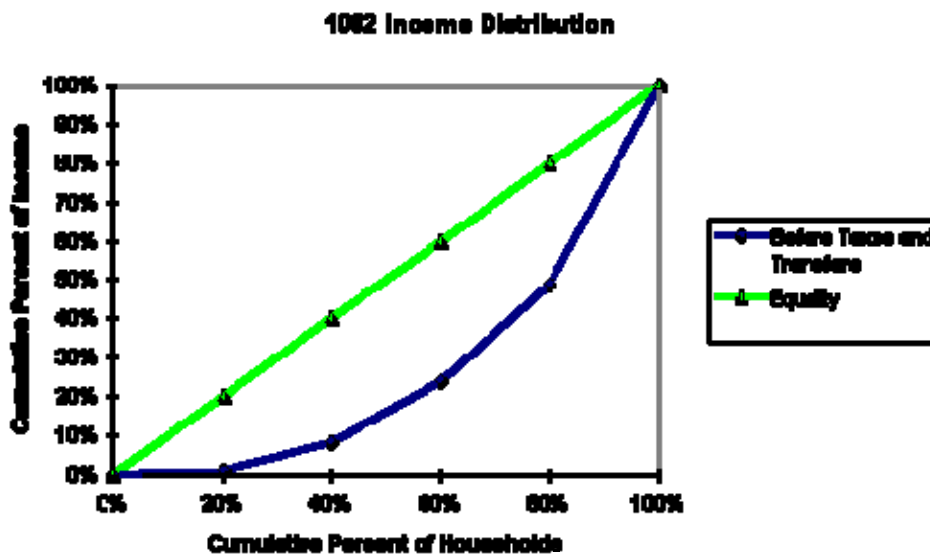
Turning to logic, I decided to base my tax brackets on consumed-income rates per quintile. Why not kill two birds with one stone and design progressive tax rates that follow the income quintiles, essentially equalizing the tax burden on each income level. To do this I would need to determine ‘consumed-income’ in each of the income quintiles. Before this analysis it is important to understand what a quintile is. Essentially households are lined up by increasing levels of income with the lowest on one end and the highest on another. They then split this

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line into 5 equal increments with each amounting to 20% of all households. The result is 5 quintiles based on income level. Income inequality arises throughout each of the quintiles with the richer quintiles earning a larger portion of the total income per year. This is shown clearly through the Lorenz Curve below:



As seen above, the green line represents an equal income distribution meaning 20% of households account for 20% of total income and so forth. The actual income distribution is illustrated by the blue line; in this case the first 20% of households account for roughly 2% of total income, 40% of households account for almost 10% of the total income and so on. Why not base a progressive tax rate system along this line?

First we need to figure out 'consumed-income'. To do this we will need to take the limit of each quintile (in terms of regular income) and subtract out the amount saved per quintile. Looking below we can see the income limit per quintile and the savings per quintile:



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Income class	Savings Rate 2000
Highest quintile	2.1
Fourth quintile	2.6
Middle quintile	2.9
Second quintile	7.4
Lowest quintile	7.1

**10-Oct-06**  
**Household Income Distribution, 2005**

Quintile	Limit	Mean
Lowest	\$19,178	\$10,655
Second	\$36,000	\$27,357
Third	\$57,660	\$46,301
Fourth	\$91,705	\$72,825
Highest Fifth	--	\$159,583
Top 5%	\$166,000 <sup>1</sup>	\$281,155

Note: Households as of March of the following year.

<sup>1</sup> Lower Boundary

Source: Census Bureau Historical Income Tables  
 Tables H-1 and H-3  
 (October 10, 2006)

In order to determine the consumed-income per quintile I simply took the income ‘limit’ of each quintile and subtracted the amount they ‘saved’ according to the savings rates per quintile. The result would be the consumed-income per quintile shown below:

Lowest Quintile Income Limit	% Saving 2000	% Consumption	Consumed-Income (Quintile Limit * % Consumption)
\$ 19,178	7.1%	92.9%	\$ 17,816
\$ 36,000	7.4%	92.6%	\$ 33,336
\$ 57,660	2.9%	97.1%	\$ 55,988
\$ 91,705	2.6%	97.4%	\$ 89,321
\$ 159,583	2.1%	97.9%	\$ 156,232

Consumed-income is indicated by the last column. These will be the new marginal tax bracket limits. With consumed-income tabulated and the percent of total income per quintile determined (2%, 10%, 20%, 50%, and 100%); it is time to form a consumed-income tax table.

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The 3 tables below relate to tax brackets based on filing status. It is noted that the filing statuses are defined in current law and will remain the same:

***Single and Married Filing Separately***

<i>If Consumed-Income Is Over --</i>	<i>But Not Over --</i>	<i>The Tax Is:</i>
\$ -	\$ 17,816	2% Of Amount Over Zero
\$ 17,816	\$ 33,336	\$356.33 Plus 10% of the Amount Over \$17,816
\$ 33,336	\$ 55,988	\$1,908.33 Plus 20% of the Amount Over \$33,336
\$ 55,988	\$ 89,321	\$6,438.73 Plus 50% of the Amount Over \$55,988
\$ 89,321	No Limit	\$23,105.23 Plus 100% of the Amount Over \$89,321

***Head of Household***

<i>If Consumed-Income Is Over --</i>	<i>But Not Over --</i>	<i>The Tax Is:</i>
\$ -	\$ 26,725	2% Of Amount Over Zero
\$ 26,725	\$ 50,004	\$534.50 Plus 10% of the Amount Over \$26,725
\$ 50,004	\$ 83,982	\$2862.40 Plus 20% of the Amount Over \$50,004
\$ 83,982	\$ 133,981	\$9658.00 Plus 50% of the Amount Over \$83,982
\$ 133,981	No Limit	\$34,657.50 Plus 100% of the Amount Over \$133,981

***Married Filing Jointly and Qualified Widow(er)***

<i>If Consumed-Income Is Over --</i>	<i>But Not Over --</i>	<i>The Tax Is:</i>
\$ -	\$ 35,633	2% Of Amount Over Zero
\$ 35,633	\$ 66,672	\$712.66 Plus 10% of the Amount Over \$35,633
\$ 66,672	\$ 111,976	\$3,816.56 Plus 20% of the Amount Over \$66,672
\$ 111,976	\$ 178,641	\$12,877.36 Plus 50% of the Amount Over \$111,976
\$ 178,641	No Limit	\$46,209.86 Plus 100% of the Amount Over \$178,641

The doubling of rates for married filing jointly and qualified widow(er) solves the annoying problem known as the ‘marriage penalty’ caused by current law. Head of household is one and a half times that of single and married filing separately. These brackets will be implemented just as the current system allows. Federal tax liability examples using the tax brackets will be illustrated later on. There is one huge question that arises with this system; with the elimination of corporate income tax, will the federal government be able to raise similar revenue to that of the current system? To understand this problem further let us analyze the graph below:

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Year	Quintiles				
	Lowest	Second	Middle	Fourth	Highest
2000	1.1	4.8	9.8	17.5	66.6
2001	1.0	4.9	10.1	18.4	65.3
2002	1.0	4.9	10.4	18.8	64.8
2003	1.0	4.5	10.0	18.4	65.8
2004	0.9	4.4	9.7	17.6	67.2
2005	0.8	4.1	9.3	16.9	68.7

What this graph shows is that only 0.8% of the federal tax liabilities come from the lowest quintile. In fact, only 14.2% come from the bottom 3 quintiles. The top two quintiles account for a whopping 85.6% of federal tax liabilities. In this sense, most of the governmental revenue from individual taxpayers comes from the top two quintiles. The loss in revenue generated by the bottom two quintiles would not be problematic regarding federal tax revenue. My new steeply progressive tax brackets show that the top two quintiles pay a higher percentage tax. The federal government will actually collect a larger amount of tax revenue from individuals in this system than with the personal income tax. This is needed to offset the loss of revenue caused by the elimination of the corporate income tax

The Standard Deduction

When looking at the standard deduction system it is only natural to look at what the previous system implemented. After hours of attempting to figure out where the numbers came from I gave up. The amounts are seemingly arbitrary and thus I could not base my numbers according to the old system. In search of a new way of attaining a standard deduction I looked to the most logical place. With a consumption-based tax being notably a regressive tax, it was only fitting to look at poverty guidelines. Looking at these poverty guidelines would allow for a simple and easily understandable system of calculating standard deductions. Here are the 2007 poverty guidelines as calculated by the Federal Register:

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2007 HHS Poverty Guidelines

Persons in Family or Household	48 Contiguous States and D.C.	Alaska	Hawaii
1	\$10,210	\$12,770	\$11,750
2	13,690	17,120	15,750
3	17,170	21,470	19,750
4	20,650	25,820	23,750
5	24,130	30,170	27,750
6	27,610	34,520	31,750
7	31,090	38,870	35,750
8	34,570	43,220	39,750
For each additional person, add	3,480	4,350	4,000

**SOURCE:** *Federal Register*, Vol. 72, No. 15, January 24, 2007, pp. 3147–3148

In this case, a household of 1 person would be considered ‘poor’ if their total annual income were to be below \$10,210 adding \$3,480 for each additional person in the household. Why not use standard deductions and exemptions to eliminate this issue. Assuming that ‘poor’ households consume all of their income and save none of it, they should be able to deduct the full amount of their ‘consumed-income’. This would allow for the progressive consumed-income tax to lose its regressive nature. Below is my new standard deduction table alongside the personal income standard deduction table:

**Current System**

<i>Filing Status</i>	<i>Amount</i>
Single	\$ 5,350.00
Married Filing Jointly	\$10,700.00
Married Filing Separately	\$ 5,350.00
Head of Household	\$ 7,850.00
Qualifying Widow(er)	\$10,700.00

*Based on 2007 Amounts*

**Reformed System**

<i>Filing Status</i>	<i>Amount</i>
Single	\$10,210.00
Married Filing Jointly	\$20,420.00
Married Filing Separately	\$10,210.00
Head of Household	\$15,315.00
Qualifying Widow(er)	\$20,420.00

Along with these standard deductions there will also be exemptions. For every additional dependent, other than the taxpayer and spouse, there will be a \$3,480 exemption. This number is based on the poverty guidelines and allows another deduction to consumed-income. This

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further eliminates the burden on lower-income family households. The change to the new system is not hugely different and will be administratively easy.

The New Tax Forms

The forms associated with the personal income and corporate income taxes are extremely difficult to grasp. The proposed tax forms from the Tax Foundation are a simple and easy solution (see appendix A and B). The only change to these forms is to add distributions from IRAs, 401(k)s, and 403(b)s to the ‘Receipts’ section and contributions to IRAs, 401(k)s, and 403(b)s to the ‘Deductions’ section. Three examples of the tax liability incurred by three individuals in three different income brackets are shown below:

*\*Assumed to Be Single For Simplicity*

	<b>Person 1</b>	<b>Person 2</b>	<b>Person 3</b>
	<i>Low Income</i>	<i>Middle Income</i>	<i>High Income</i>
<b>Receipts:</b>			
Salary	\$ 25,000.00	\$ 60,000.00	\$ 140,000.00
Receipts from Dividends and Interest	\$ 5,000.00	\$ 5,000.00	\$ 20,000.00
Gifts and Inheritances	\$ -	\$ 5,000.00	\$ -
<b>Total Cash Receipts</b>	<b>\$ 30,000.00</b>	<b>\$ 70,000.00</b>	<b>\$ 160,000.00</b>
<b>Deductions:</b>			
Contributions to Trusts	\$ -	\$ -	\$ 4,000.00
Contributions to IRAs	\$ 1,000.00	\$ 2,000.00	\$ 4,000.00
Contributions to 401(K)s and 403(B)s	\$ -	\$ -	\$ 6,000.00
Purchase of Stock and Bonds	\$ 1,000.00	\$ 3,000.00	\$ 15,000.00
Charitable Contributions and Other Allowable Deductions	\$ 1,000.00	\$ 1,000.00	\$ 5,000.00
<b>Total Deductions</b>	<b>\$ 3,000.00</b>	<b>\$ 6,000.00</b>	<b>\$ 34,000.00</b>
<b>Computation of Tax:</b>			
Excess of Receipts Over Deductions	\$ 27,000.00	\$ 64,000.00	\$ 126,000.00
Personal Exemptions	\$ 10,210.00	\$ 10,210.00	\$ 10,210.00
Taxable Consumed-Income	\$ 16,790.00	\$ 53,790.00	\$ 115,790.00
<b>Tax Liability (From Tax Table)</b>	<b>\$ 335.80</b>	<b>\$ 5,999.13</b>	<b>\$ 54,866.28</b>
<b>Personal Income Tax Liability (Rough Calculation)</b>	<b>\$ 3,006.25</b>	<b>\$ 11,923.75</b>	<b>\$ 33,590.75</b>

Adding each of the individuals’ tax liabilities, the total tax revenue for the federal government from the new system would be \$61,201.21. The old system results in a total tax liability of about \$48,520.75. The new system generates revenue mostly in the higher bracket sections. The lower quintiles are eased of the tax burden and the rich pay more. The overall revenue generated from individual taxpayers for the federal government is higher in the new system. This makes up for lost revenue from corporate income taxes not paid. Thus it can be said that a reform to this new system would be ‘revenue neutral’.

**ECONOMIC BENEFITS OF MY PROPOSAL**

There are essentially four main benefits to my proposal; the elimination of capital shifting, reduced capital flow abroad, increased savings, and increased total labor hours worked. All of these benefits work to bring about growth in the economy.

Elimination of Problems Induced by the Corporate Income Tax

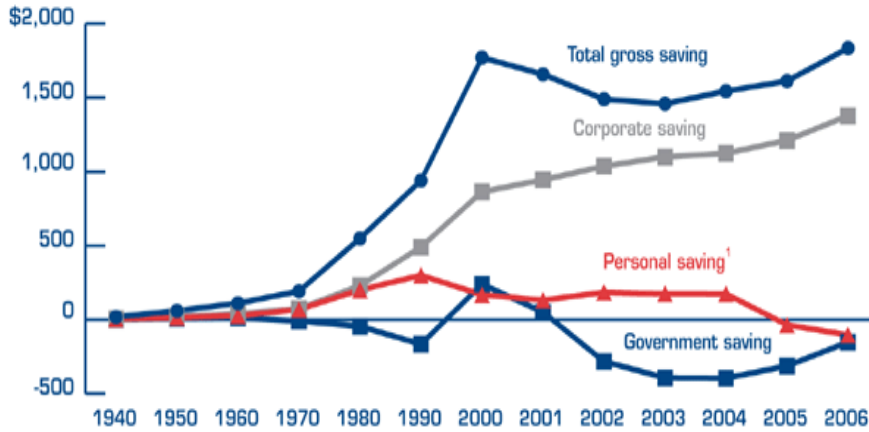
This is the second benefit gained through the switch to the progressive consumed-income tax system. As previously discussed, the corporate income tax gives rise to capital shifting from the corporate sector to the non-corporate sector. This is illustrated by the analysis of Harberger's model. Investment in the corporate sector declines causing the overall rate of return across the board to decrease. People become less willing to invest in corporations causing lower production levels which results in reduced economic growth. This effect is eliminated when there is no corporate income tax (as with my new system). Refer to 'Problems with the Corporate Income Tax' for further explanation on Harberger's model.

The effect of corporations taking their business to countries with lower corporate income taxes so as to yield a higher return on investment projects is the idea behind international capital flow. This is notable when looking at the high U.S. corporate income tax rates compared with the OECD countries. The elimination of the corporate income tax not only reduces this effect but reverses it, allowing the U.S. to compete more effectively on an international scale. New business and increased production will work to expand the economy. Please see 'Step 1 – Problems with the Corporate Income Tax' for more information.

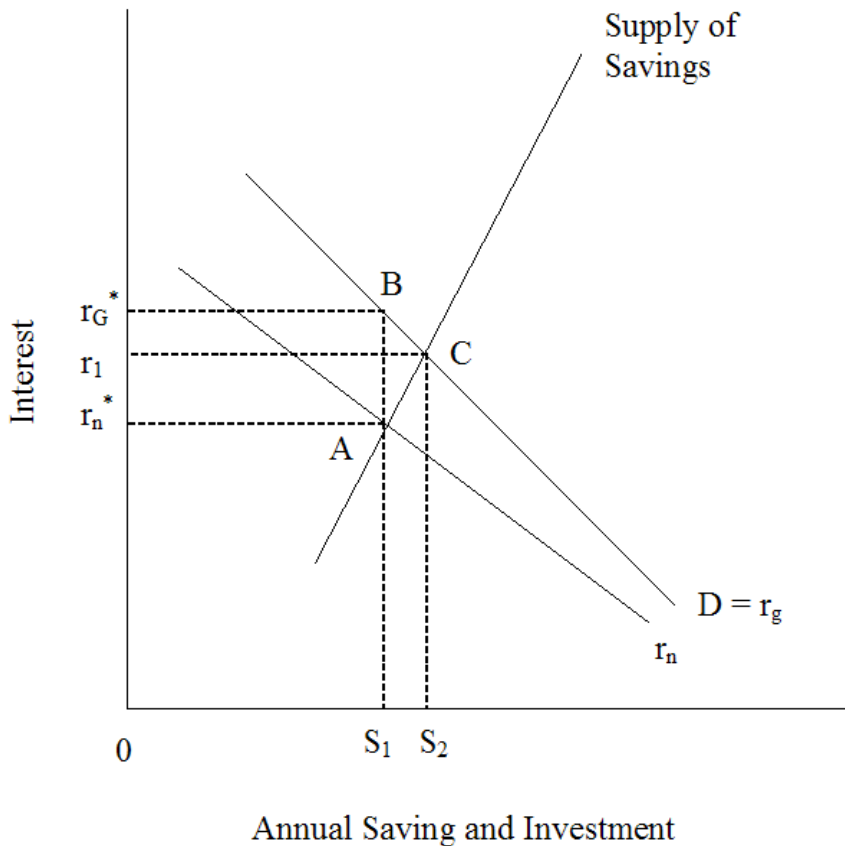
Savings

The U.S. savings rate has dropped significantly over the last few decades. When compared to the rest of the developed world, the U.S. and U.K. savings rates are much lower (see appendix E). Many other countries are recognizing the need for a switch to consumption-based taxes in order to increase savings and investment. The low personal savings rate can be seen in the graph below (Insurance Information Institute, 2008):

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The elimination of the corporate income tax and subsequent switch to the progressive consumed-income tax system gives rise to the incentive to save. This will stimulate and cause growth in the personal savings and investment market. The graph below illustrates the adverse effect of an income tax on the savings market. The switch to a consumption-based tax eliminates this problem:



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In this graph you will need to know the following:

- D is the demand for investment
- As the interest on investment is no longer taxed the demand for investment increases to  $r_1$
- The initial equilibrium is at point A
- The equilibrium after the implementation of a consumption tax is C

Corporate income tax causes the demand for investment by corporations to increase to D. This in turn raises the supply of savings from  $S_1$  to  $S_2$ . The excess burden of triangle ABC caused by the corporate income tax is effectively eliminated. Annual savings is raised to a level that is less where there is no tax wedge between interest paid and net interest received. Savings would flow to the highest valued use. The amount of this excess burden that is eased by a consumption tax depends on the elasticity of the supply of savings. Some research leads us to believe this burden is around \$50 billion per year while other studies estimate amounts 3 times that (Hyman, 2005). Implementing the consumed-income tax works to eliminate the corporate income tax induced negative effect on savings.

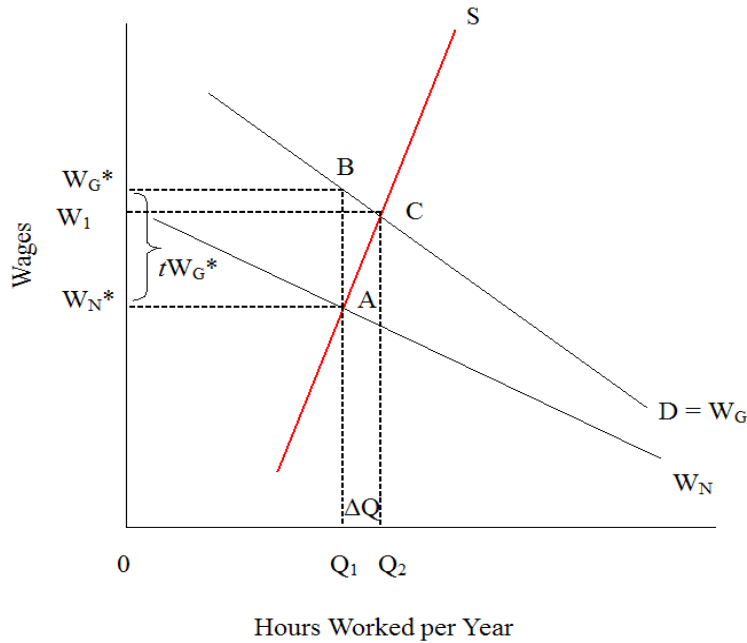
#### The Labor Market

The labor market works in a very similar way to the savings market example above. Below it is seen that the implementation of a personal consumption tax on the labor market causes the net wage rate to rise to  $W_1$ :

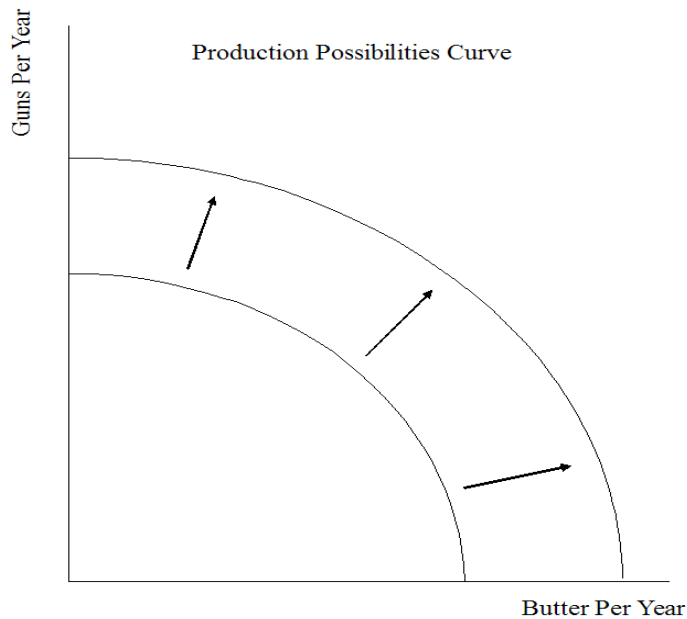


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In this example the total quantity of hours worked annually increase as indicated by  $\Delta Q$ . Workers are earning more than they would with a personal income tax, so they will choose more labor hours over leisure time. The overall gain in labor hours worked leads to an overall increase in production throughout the economy. This will cause growth in the economy as companies will produce more due to the higher hours of labor worked. This increase in output boosts growth. This is shown by the production possibilities curve below.



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The arrows indicate the expanding economy after implementation of the progressive consumed-income tax. An overall increase in production of all goods occurs. The rise in labor hours worked and increased investment result in a higher level production.

**SUMMARY AND CONCLUSION**

The American corporate income tax system is outdated and in need of dire reform. The rest of the world has begun to adopt consumption taxes as a better, more modern alternative to the income tax system. The income tax is like a big sluggish engine; sure it will get you from point A to point B, but it comes with a host of other problems. The consumption tax is a new and improved engine. We need to adapt and change our tax structure to accommodate a consumption-based tax. As shown in my three step system for tax reform, a progressive consumed-income tax is the best choice. It completely eliminates corporate income tax which has been the source of vast economic problems in the United States. Ireland's lowered corporate income tax rates have been hugely successful in attaining corporate and economic growth for the country. Just imagine what the total eradication of the corporate income tax would do for growth and economic expansion in the U.S.

With savings rates dangerously low and investment in U.S. corporations declining, it can be said that my progressive consumed-income tax would be a viable solution to our problems. As I have proven, the progressive consumed-income tax system eliminates problems with the corporate income tax by getting rid of it entirely. It also solves the savings/investment and labor market issues that arise from personal income taxes. People will work and invest more with the new system. This leads to higher overall economic growth. The reasoning is undeniably simple – almost as simple as the implementation of my plan. The newly designed tax brackets and standard deduction table (including exemptions) serve to generate revenue as well as ease lower income families from their tax burden. Resources will no longer be wasted on tax compliance, an area that should be simple will now be, and you guessed it, simple.

The economic benefits outweigh the economic costs and that is what every issue boils down to. My reform's benefits are above and beyond the minimal costs incurred. The simplifying and streamlining of the old tax system to the new 'progressive consumed-income tax' can only result in a positive outcome.

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**APPENDICES**

Appendix A – Example of a ‘Consumption Tax Annual Return’

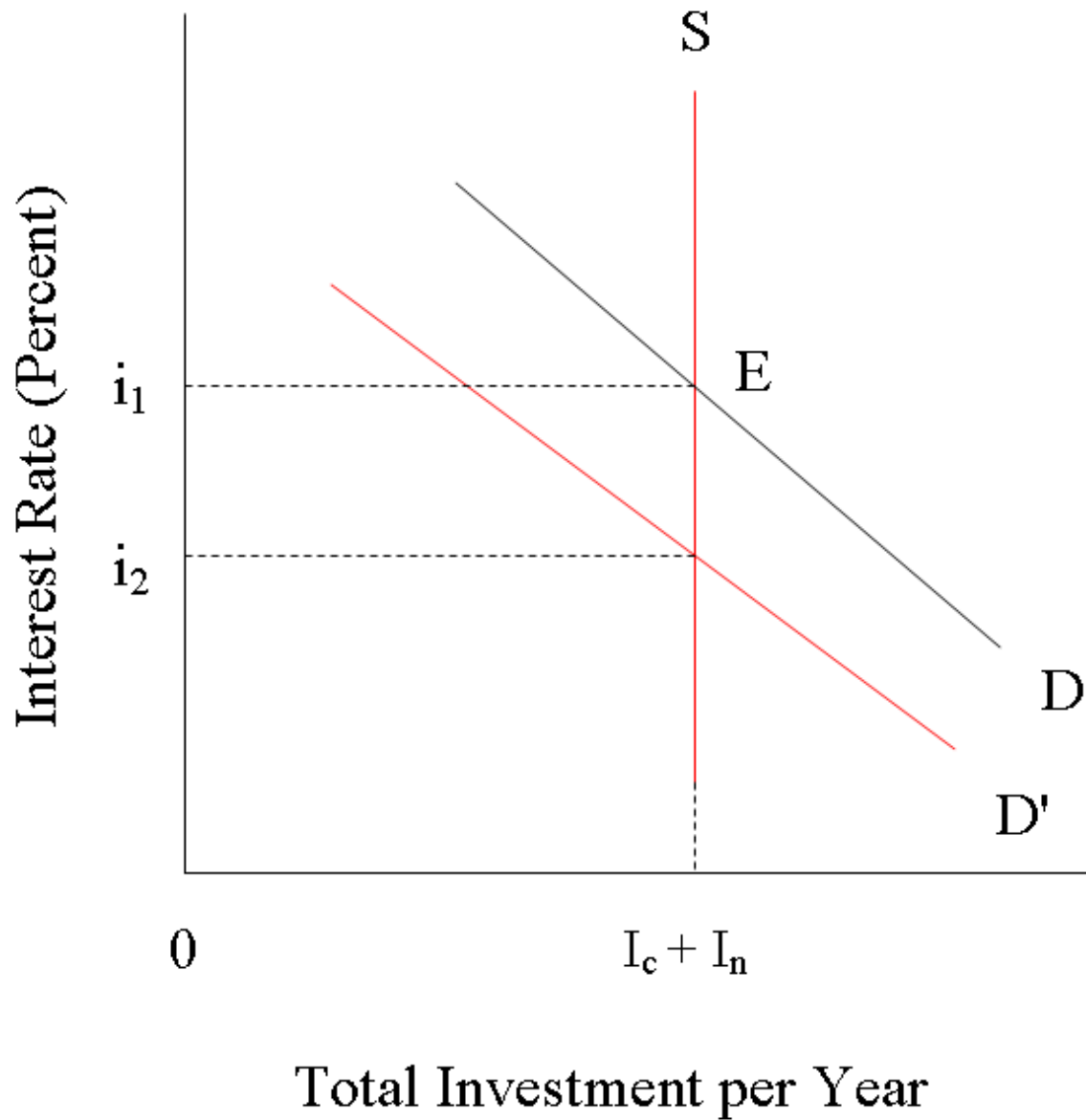
<b>A CONSUMPTION TAX ANNUAL RETURN (Illustrative Example)</b>		
<b>CT Form 000</b>	<b>INDIVIDUAL CONSUMPTION TAX</b>	<b>1983</b>
First Name/Initial _____ (if filing jointly, give spouse's name) _____	Last Name _____	
Present Home Address		
Street _____	Social Security Numbers	
City _____	Yours _____	
State _____ Zip Code _____	Spouse's _____	
<b>1. Filing Status (check one)</b>		
a. Single _____	c. Unmarried head of household _____	
b. Married filing jointly _____	d. Married filing separately _____	
<b>2. Exemptions</b>		
a. Self _____	c. Number of dependent children _____	
b. Spouse _____	d. Other dependents _____	
e. Total exemptions _____		
<b>3. Receipts</b>		
a. Wages, salaries, tips of all wage earners in family (attach W-2s) _____		
b. Gross business receipts (if self-employed) _____		
c. Gross distributions from partnerships _____		
d. Distributions from pension funds, Social Security benefits _____		
e. Gifts and inheritances received _____		
f. Receipts from interest, dividends, and sale of any asset _____		
g. Alimony received _____		
h. Disability pay, unemployment pay, workmen's compensation, sick pay, public assistance (welfare) aid, food stamps, fellowships, other cash stipends _____		
i. Total Cash Receipts (3a-h inclusive) _____		
<b>4. Deductions</b>		
a. Gross business expenses if self-employed _____		
b. Contributions to partnerships _____		
c. Contributions to trusts _____		
d. Addition to savings, including purchase of stocks, bonds, and other assets _____		
e. Other allowable deductions, as determined by law, such as taxes or charitable contributions _____		
f. Total Deductions (4a-e inclusive) _____		
<b>5. Computation of Tax</b>		
a. Cash flow (consumption) subject to tax (subtract 4-f from 3-i) _____		
b. Personal exemptions _____		
c. Taxable cash flow (consumption-income) (subtract 5b from 5a) _____		
d. Tax liability (from table showing tax rates for different levels of consumption-income) _____		
e. Federal consumption-income tax withheld by employer(s) _____		
f. Payments of estimated tax in quarterly installments _____		
g. Total tax prepayments (5e plus 5f) _____		
h. If amount on line 5d is greater than 5g, enter BALANCE DUE _____		
i. If amount on line 5g is greater than 5d, enter REFUND DUE _____		
Note: Based in part on sample tax form for "cash flow tax" in <i>Blueprints for Basic Tax Reform</i> , U.S. Treasury Department, January 17, 1977.		

Appendix B – How to fill out the above Tax Return

## **A 5-Step “Personal Consumption” Tax**

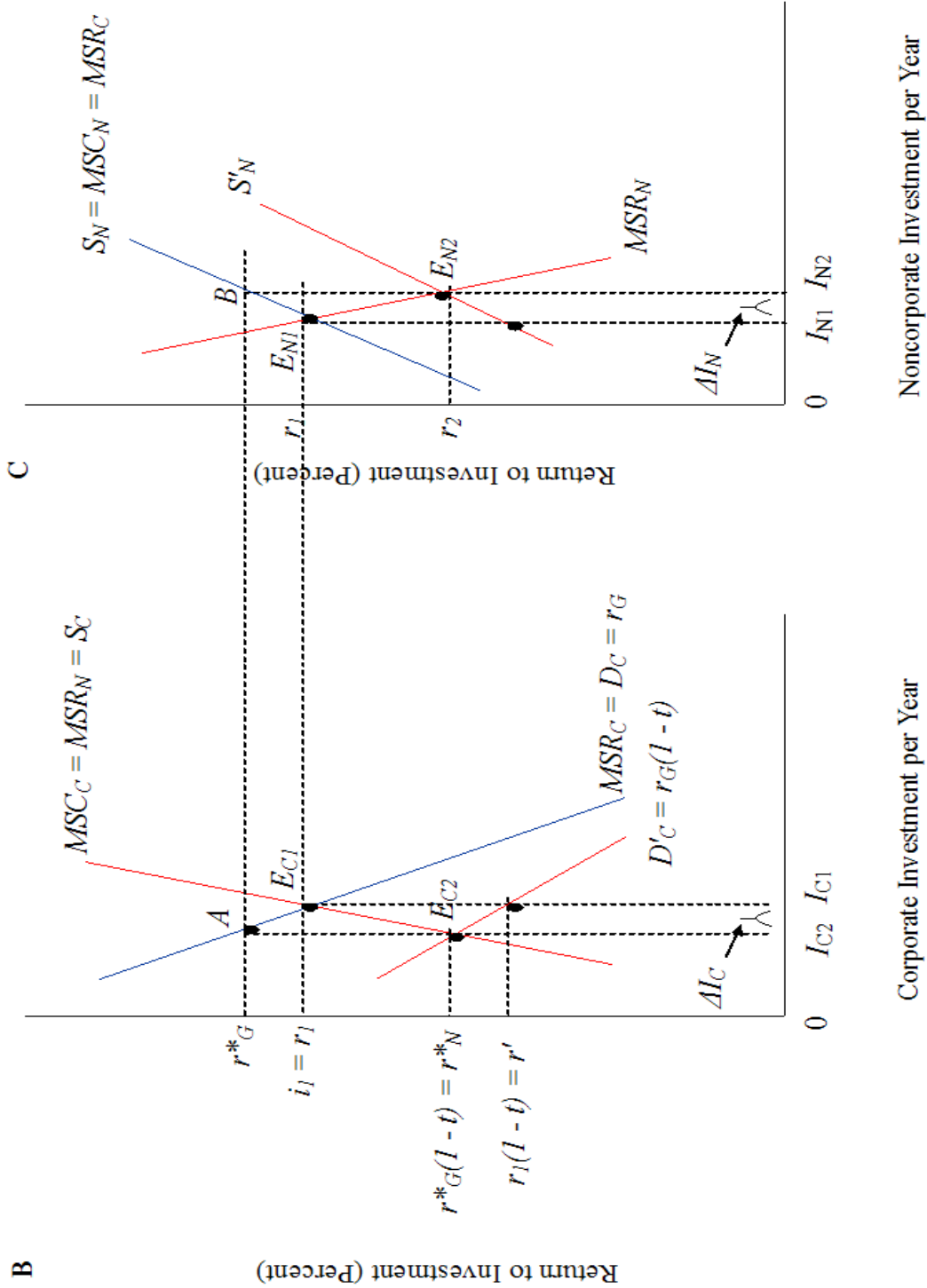
- Step 1** Add up all the cash received in a year including wages; salary; tips; net business income (if self-employed); gifts and inheritances; rental income; interest and dividends; proceeds from the sale of stock and other assets; proceeds of loans used to purchase certain short-lived consumer goods and services such as vacation trips and recreation equipment, for example (excluding loans for buying a home and other lasting assets). The total is “Cash Receipts” for the year.
- Step 2** Add up all savings for the year, including increases in checking and savings accounts and money market funds; payments on a home mortgage or for purchases of stock, rental real estate, and other assets; amounts invested in a farm or business; repayments on earlier borrowings. The total is “Savings” for the year.
- Step 3** Subtract “Savings” from “Cash Receipts.” The result is “Total Consumption-Income” for the year.
- Step 4** Subtract from “Consumption-Income” an allowance for personal exemptions, plus a basic living allowance, plus other deductions such as charitable contributions that would be part of any likely tax system. The result is “Taxable Consumption-Income.”
- Step 5** Pay the tax on this “Taxable Consumption-Income,” at either a flat rate applying to everyone, or a progressive tax rate that increases as the amount of “Consumption-Income” rises.

Appendix C – Harberger’s Analysis Graph A



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Appendix D – Harberger’s Graph B & C



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Appendix E – International Savings Rate Comparison

<i>National Savings: Gross savings, percent of GNI</i>											
<b>Countries</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>	<b>1994</b>
United States	13	13	13.8	15.8	17.4	17.6	17.9	17.3	16.2	15.7	14.8
United Kingdom	14.5	14.5	14.9	14.9	14.9	15.3	17.5	16.8	15.8	15.8	15.5
Portugal	15.3	16.5	17.3	17.3	17.3	19.2	20.2	19.5	19.5	20.2	18.5
Poland	16.5	16.8	16.1	18	19.1	20.2	21.4	20.2	20	20.4	19
France	18.7	19	19.7	21	21.3	21.4	20.9	19.9	18.7	19.1	18.7
Bulgaria	18.7	17.1	18.7	16.9	13	13.3	17	13.8	11.1	12.3	8.6
Australia	20.2	20.9	20.6	20.8	20	20.7	19.8	20.5	20.6	19.5	19.2
Italy	20.4	19.9	21	21	20.7	21.2	21.7	22.4	22.5	22.3	20.3
Germany	20.9	19.5	19.7	19.7	20.3	20.5	21.1	20.8	20.7	21.2	21.1
Latvia	20.9	20.8	20.2	19.4	19.4	15	14.2	13.8	12.2	13.9	25
Denmark	22.5	23	23.2	23.8	23.1	21.9	20.9	21.7	20.8	20.6	19.6
Czech Rep	22.7	21.8	24.1	25.1	25.3	25.2	26.8	24.9	27.6	29.1	27.3
Spain	22.8	23.7	23.3	22.5	22.4	22.7	22.9	22.9	22.3	21.9	20.6
Sweden	22.8	22.8	22	22.3	22.6	21.8	21.4	20.8	20.5	21	18
Belgium	23.3	23.2	23.9	24.2	25.4	25.8	25.1	25.4	24.1	24.9	26.6
Slovakia	23.3	24.4	21.7	21.7	22.9	23	24.5	25.4	25	27.8	26.5
Canada	23.6	22.6	22.3	23.2	24.5	21.7	20.1	20.6	19.9	19.4	17.2
Finland	23.6	23	26.5	27.4	27.9	25.9	26.2	24.8	21.6	22.7	18.8
Croatia	24.2	21.8	21	20.7	18.1	16.2	17.1	16	17.3	10.8	20
Austria	24.4	23.5	24	22.8	22.8	22.9	22.7	21.6	20.7	21.4	21
Slovenia	25.1	24.5	25	24.3	24	24.1	24.4	24	22.8	22.3	24.7
Netherlands	25.6	24.8	25.5	26.4	27.9	27.6	26.5	28.4	27.5	28	26.9
Azerbaijan	25.8	27.1	23.7	21	18.1	13.5	2.7	11.2	3.2	10.7	5
Japan	25.9	25.8	25.5	26.5	27.4	27	28.9	30	30	29.8	30.3
Ireland	28.6	28.2	26.4	27.2	28.7	28.7	27.8	27.8	25.4	23.3	20.5
Kazakhstan	29.2	26.4	24.2	22.9	22.1	18.5	10.6	12.2	15	18.4	19.1
Ukraine	29.9	28.1	28	26	25.8	23.1	18.8	19	20.3	23.6	33.2
Russian Federation	31.5	29.9	29.3	33.5	37.1	29.4	17.9	22.4	26.9	28.3	29.7
Norway	33.4	31.1	31.9	35.3	36.9	29.5	27.5	30.5	28.7	26.8	25.2
Uzbekistan	34.6	29.2	21.9	18.9	18.2	16.7	19.6	17.9	22.3	27.1	14.4
Switzerland	..	30.7	28.2	30.3	32.5	31.1	30.6	29.8	28.5	29.1	29.1

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Appendix F – Total Federal Income Tax Compliance Costs

**Total Federal Income Tax Compliance Costs**

1990-2015 (Projected)

Calendar Year	Compliance Costs		
	Current Dollars (\$Billions)	Real 2005 Dollars (\$Billions)	Percentage of Federal Revenue
1990	\$79.70	\$107.60	14.1%
1991	\$85.10	\$111.00	15.5%
1992	\$94.70	\$120.70	16.4%
1993	\$102.20	\$127.40	16.3%
1994	\$106.00	\$129.30	15.6%
1995	\$112.20	\$134.20	15.1%
1996	\$120.30	\$141.20	14.4%
1997	\$128.50	\$148.40	13.9%
1998	\$143.40	\$163.80	14.3%
1999	\$162.60	\$183.10	15.0%
2000	\$172.90	\$190.50	14.5%
2001	\$181.10	\$194.90	16.0%
2002	\$207.70	\$219.80	21.7%
2003	\$232.50	\$241.60	24.8%
2004	\$243.90	\$248.30	24.4%
2005p	\$265.10	\$265.10	22.2%
2006p	\$278.60	\$274.40	21.9%
2007p	\$305.30	\$295.80	22.8%
2008p	\$325.70	\$310.00	23.0%
2009p	\$346.90	\$324.30	22.9%
2010p	\$368.40	\$338.30	22.8%
2011p	\$391.90	\$353.70	21.5%
2012p	\$409.50	\$363.10	20.7%
2013p	\$432.70	\$376.90	20.7%
2014p	\$457.20	\$391.10	20.7%
2015p	\$482.70	\$405.80	20.7%

Scott A. Hodge, J. Scott Moody, and Wendy P. Warcholik, "The Rising Cost of Complying with the Federal Income Tax," *Tax Foundation Special Report No. 138* (January 2006).



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Appendix G – Number of Words in the IRC and Federal Tax Regulations

**Number of Words in the Internal Revenue Code and Federal  
Tax Regulations, in Thousands  
1955-2005**

Internal Revenue Code	1955	1965	1975	1985	1995	2005
Income Tax Code Only	172	243	395	776	1,060	1,286
Entire Tax Code	409	548	758	1,332	1,791	2,139
<i>Period-to-Period Percentage Growth</i>						
Income Tax Code Only	*	41.4%	62.8%	96.4%	36.6%	21.4%
Entire Tax Code	*	33.8%	38.3%	75.7%	34.5%	19.4%
Regulations	1955	1965	1975	1985	1995	2005
Income Tax Code Only	547	1,638	2,456	3,594	4,663	5,778
Entire Tax Code	987	2,960	3,148	4,407	5,861	6,958
<i>Period-to-Period Percentage Growth</i>						
Income Tax Code Only	*	199.6%	49.9%	46.3%	29.7%	23.9%
Entire Tax Code	*	199.9%	6.4%	40.0%	33.0%	18.7%
Internal Revenue Code & Regulations	1955	1965	1975	1985	1995	2005
Income Tax Code Only	718	1,881	2,851	4,369	5,722	7,064
Entire Tax Code	1,396	3,507	3,906	5,739	7,652	9,097
<i>Period-to-Period Percentage Growth</i>						
Income Tax Code Only	*	161.8%	51.6%	53.3%	31.0%	23.4%
Entire Tax Code	*	151.2%	11.4%	46.9%	33.3%	18.9%

Source: Tax Foundation calculations based on the annual publications of "Internal Revenue Code" and "Federal Tax Regulations" from West Publishing Company. See Scott A. Hodge, J. Scott Moody, and Wendy P. Warcholik, "The Rising Cost of Complying with the Federal Income Tax," *Tax Foundation Special Report* No. 138 (January 2006).

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Appendix H – Current Personal Income Tax Brackets as of 2007

Schedule X – Single

<b>If taxable income is over--</b>	<b>But not over--</b>	<b>The tax is:</b>
\$0	\$7,825	10% of the amount over \$0
\$7,825	\$31,850	\$782.50 plus 15% of the amount over 7,825
\$31,850	\$77,100	\$4,386.25 plus 25% of the amount over 31,850
\$77,100	\$160,850	\$15,698.75 plus 28% of the amount over 77,100
\$160,850	\$349,700	\$39,148.75 plus 33% of the amount over 160,850
\$349,700	no limit	\$101,469.25 plus 35% of the amount over 349,700

Schedule Y-1 — Married Filing Jointly or Qualifying Widow(er)

<b>If taxable income is over--</b>	<b>But not over--</b>	<b>The tax is:</b>
\$0	\$15,650	10% of the amount over \$0
\$15,650	\$63,700	\$1,565.00 plus 15% of the amount over 15,650
\$63,700	\$128,500	\$8,772.50 plus 25% of the amount over 63,700
\$128,500	\$195,850	\$24,972.50 plus 28% of the amount over 128,500
\$195,850	\$349,700	\$43,830.50 plus 33% of the amount over 195,850
\$349,700	no limit	\$94,601.00 plus 35% of the amount over 349,700

Schedule Y-2 — Married Filing Separately

<b>If taxable income is over--</b>	<b>But not over--</b>	<b>The tax is:</b>
\$0	\$7,825	10% of the amount over \$0
\$7,825	\$31,850	\$782.50 plus 15% of the amount over 7,825
\$31,850	\$64,250	\$4,386.25 plus 25% of the amount over 31,850
\$64,250	\$97,925	\$12,486.25 plus 28% of the amount over 64,250
\$97,925	\$174,850	\$21,915.25 plus 33% of the amount over 97,925
\$174,850	no limit	\$47,300.50 plus 35% of the amount over 174,850

Schedule Z — Head of Household

<b>If taxable income is over--</b>	<b>But not over--</b>	<b>The tax is:</b>
\$0	\$11,200	10% of the amount over \$0
\$11,200	\$42,650	\$1,120.00 plus 15% of the amount over 11,200
\$42,650	\$110,100	\$5,837.50 plus 25% of the amount over 42,650
\$110,100	\$178,350	\$22,700.00 plus 28% of the amount over 110,100
\$178,350	\$349,700	\$41,810.00 plus 33% of the amount over 178,350
\$349,700	no limit	\$98,355.50 plus 35% of the amount over 349,700

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