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Taxation as it Relates to Politics, Small Business & Corporate America

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Federal Taxation as it relates to Politics, Small Business, and Corporate America

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Rebecca J. Wuorio

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A thesis submitted in partial fulfillment of the requirements for the degree of

BACHELORS OF SCIENCE IN BUSINESS ADMINISTRATION: ACCOUNTING

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2016
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Introduction

Fewer issues on the campaign trail offer broader debate than that of taxation in the United States of America. From the debate of lowering individual taxes or driving business overseas through high corporate tax rates, taxation has become an issue that is both polarizing and complex. Of course, corporate tax reform and individual tax reform are difficult to separate, making taxation a policy that affects all individuals in the United States. Presidential candidates are in the habit of promising over-simplified tax plans, which do not take into account the complexities of the Internal Revenue Code or how to fund government programs without the revenue generated from taxes today.

This analysis will look into the current status of taxation in the United States, and what our modern political candidates propose in the 2016 Presidential election. The consequences of this election are great, with a large deficit at the federal level stirring debate and increased tensions over both government spending and government programs. We will begin with a discussion of the history behind American taxation, looking at the current status of tax policy. This analysis will then examine the issues that are perceived to exist within the American tax structure and will then give an in-depth account of tax policy for leading candidates of the 2016 Presidential race.

Overall, this analysis hopes to take a broad, unbiased look at tax policy and where the future of American taxation lies. Taxation is both a logistical and ethical quagmire to politicians, because it is both difficult to implement and calls into question what is “fair” or “equal”; these are difficult questions to answer in today’s partisan political climate. It is apparent to many that tax reform is needed, and it is up to the legislature and executive branch to bring meaningful change for the future.
I: A Brief History of Federal Taxation

History of Tax Structure in the United States

Evidence of taxation exists from around 2,500 BC; tablets discovered in modern time link to an ancient Mesopotamia system of recording when taxes were paid. With the absence of coin money, items such as cows or sheep were used to satisfy ancient governments. As a result, smuggling became a large issue of the time period, suggesting that tax evasion has been at the forefront of taxation issues since inception. One of the most difficult taxes to pay was a “burden”, which entitled the head of household to many months of labor service as a form of tax payment (Sharlach, 2002).

American taxation was to evolve many years later, with the ratification of the United States Constitution in 1788. Beforehand, British attempts at taxing the colonies through the Stamp Act (1765) and Townshend Acts (1767) angered colonists and led to the famous Boston Tea Party. Indeed, “No taxation without representation!” became a rallying cry for the colonists, where the hatred of taxation was so extreme it eventually led to war. In the Constitution, the federal government was granted authority to tax its populace indirectly, through sales taxes or other indirect routes. However, the “direct” taxes on individuals was limited, which foreshadows the issues with taxation we today face. From the onset, there was a preference in the Constitution for state and local taxation, with a “skeleton” of federal government described; the Framers were leaving how to precisely fund federal expenditures up for further discussion (Brownlee, 2004).

However, the Constitution was explicit in the federal government’s power to collect taxes from the states:

“In the words of Article One, Section 8, of the Constitution, Congress had the general power ‘to lay and collect taxes, duties, imposts and excises.’ In addition, Section 8
established the power ‘to borrow money on the credit of the United States’ and to ‘coin money, regulate the value thereof, and of foreign coin’” (Brownlee, 2004 p.17).

What followed were many years of excise taxes and tariffs, resulting in the War of 1812 and a subject for many Federalist Papers. It was clear that direct taxation would be necessary in time, so in 1798 a direct tax on property was levied, as well as a state tax that was proportional to the population of the state. However, these population taxes were progressive, as the taxes on houses increased as home values increased. Property taxes became a popular means for states to tax its population, and is still true today. During the Civil War and the early twentieth century, income taxes were introduced, and in 1862 President Lincoln created the commissioner of the Internal Revenue position to pay war expenses (Brownlee, 2004).

World War I brought individual taxation onto the forefront of American politics, as the expensive war could have bankrupted the federal government. Highly progressive taxes were introduced on corporations and the wealthiest of Americans, with broad “soak-the-rich” support from most Americans. During the Great Depression, President Hoover manipulated tax rates to stimulate investment and decrease unemployment. In the Revenue Act of 1932, new foreign sales taxes were created as well as raised personal and corporate tax rates. These taxes were further increased to fund President Roosevelt’s New Deal programs to bring the United States out of the Depression. Prior to World War II, the Revenue Act of 1942 created a personal income tax that was progressive and reached most Americans (Brownlee, 2004). By the end of World War II, personal income taxation and corporate taxation was a key part of American life and politics.
Taxation in Modern America: A Snapshot

Internal Revenue Service (I.R.S.)

When looking at taxation in modern America, it becomes recognizable that the collection of taxes is one of the primary points of interaction that the federal government has with its citizens and residents (National Research Council Staff, 1996). Officially founded in the 1950s, the Internal Revenue Service (IRS), formerly known as the Bureau of Internal Revenue, is a governmental agency used to collect tax revenues for the United States federal government. With roots of implementation that date back to the Civil war, the 16th Amendment in 1913, and World War I, Congress introduced the “pay-as-you-go” method for federal income tax payment during World War II. Known as payroll withholding and quarterly tax payments, this method, used to ensure receipt of income taxes, is still used in modern America. Employers withhold federal income tax from employees’ wages, which are then reported and deposited to the IRS.

In the United States today, the Commissioner and chief counsel are selected by the President, confirmed by the Senate, and act as the chief executives of the government agency. Commissioners, once approved by the Senate, serve five-year terms and are responsible for the operations of the IRS as it relates to the collection of income taxes. According to irs.gov, as a bureau of the Department of the Treasury, the IRS in fiscal year 2014 collected almost $3.1 trillion in revenue and processed almost 240 million tax returns.

In response to the IRS Restructuring and Reform Act of 1998, the IRS was prompted to modernize and develop the most comprehensive reorganization in nearly half a century. Today, the IRS is comprised of four primary divisions: Wage and Investment, Large Business and International, Small Business/Self Employed, and Tax-Exempt and Government Entities. The agency’s mission statement reads, “Provide America’s taxpayers top quality service by helping
them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all” (Internal Revenue Service, 2015).

The Process of Tax Law and Reform

Presently, any reform related to the federal tax system is considered to be paralyzed. Susannah Camic Tahk of the University of Wisconsin Law School writes: “Reform happened, fell apart, and seems unlikely to happen again any time soon. While politicians continue to promise tax reform, its prospects seem very dim” (Tahk, 2013). In the modern government system of the United States, the steps of proposing, passing, and implementing tax law are strict under the Constitution. The process of tax reform begins at the Executive Branch, where the President recommends tax legislation to Congress. This proposal, which is drafted by the Treasury Department and developed using the advice and recommendations of government personnel, agencies, business entities, etc., is typically proposed once a year.

The tax legislation is then considered by the House Ways and Means Committee. Recognized as the most powerful Congressional Committee, Article I, Section VII of the U.S. Constitution, which states, “All Bills for raising Revenue shall originate in the House of Representatives” declares the Committee’s jurisdiction (Ways and Means Committee, 2016). The Ways and Means Committee, upon receipt of the proposed legislation, schedules hearings for testimony. The Committee members may revise the proposal and then prepares a report which will be introduced to the House of Representatives for consideration.

Likewise, once the House version of the bill has passed, the Senate Finance Committee works in similar fashion. The Committee members hold hearings, adjusts the bill as seen fit, and reports to the full Senate. Senators may then further amend the bill. If the bill is passed, un-amended by the Senate, the legislation is then sent directly to the President. If it is not, which is
more often than not the case, the Senate amended version returns to the House of Representatives. A Conference Committee, whose members are appointed by the Speaker of the House and the President of the Senate, is then established to adjust the differences between the Senate amended version of the bill and the bill originally passed by the House.

Should the version of the bill designed by the Conference Committee be adopted by both the House of Representatives and the Senate, it is then sent to the President. It is the President who then either signs the bill or vetoes the bill, returning it to the House of Representatives. If vetoed, the House may attempt to override the President’s veto or adjust the bill to satisfy the President’s original opposition (United States Treasury Department, 2016).

This strict process, however, is often subjective. Factors, such as campaign contributions, lobbyists, and interest groups, influence the actions and decisions of the United States Congress. In response to an analysis on the influence of these groups, Richard A. Smith of NYU writes: “interest groups and attentive publics are strongly linked in the sense that organized interests have more influence in Congress when members of Congress feel electorally pressured to serve attentive citizens” (Smith, 1995 pg. 118). It is then questioned, in today’s modern tax system, whether the implementation of tax reform is even feasible. Brian Roach of Tufts University defines the system best, as he believes that taxation is as much of a political issue, as it is an economic issue in the United States:

“Political leaders have used tax policy to promote their agendas by initiating various tax reforms: decreasing (or increasing) tax rates, changing the definition of taxable income, creating new taxes on specific products, etc. Of course, no one particularly wants to pay taxes. Specific groups, such as small-business owners, farmers, or retired individuals, exert significant political effort to reduce their share of the tax burden. The voluminous tax code is packed with rules that benefit a certain group of taxpayers while inevitably shifting more of the burden to others” (Roach, 2010).
In today’s modern government, the necessity for tax reform to simplify the modern taxation system has become evident. With the current Constitutional process of tax law, however, it may be considerably impossible to enact these promises of tax simplicity.

**Democratic Party View of Modern Taxation**

The Democratic Party, founded in 1792 by Thomas Jefferson, originally advocated for a less-powerful, decentralized federal government. It has since, however, developed the ideologies of strong government involvement in the redistribution of economic wealth from the rich to the needy, the regulation of the American economy, and the general following of liberal philosophies (Editors of Encyclopedia Britannica, 2015). Lyndon Baines Johnson (LBJ), the 36th President of the United States, commented, “In our time a broadened concept of freedom requires that every American have the right to a healthy body, a full education, a decent home, and the opportunity to develop to the best of his talents” in reference to the “Great Society” and these liberal ideologies (Witcover, 2003).

The Modern Democratic party, as it relates to present-day taxation, focuses greatly on the impacts and needs of the American middle class. It is quite common to see Democrats in Congress, as well as in the White House, propose legislation to cut taxes for working families; the Democratic party then looks to the wealthiest Americans and corporations to pay additional taxes to offset the loss of middle class revenue. According to the 2012 Democratic Platform, Democrats look to utilize government power, spending, and tax reform on the wealthy to build a stronger economy:

“In order to reduce the deficit while still making the investments we need in education, research, infrastructure, and clean energy, the President has asked for the wealthiest taxpayers to pay their fair share. We have to cut what we don’t need in order to make room for the things we do need to grow our economy. We support allowing the Bush tax
cuts for the wealthiest to expire and closing loopholes and deduction for the largest
corporations and the highest-earning taxpayers. We are committed to reforming our tax
code so that it is fairer and simpler, creating a tax code that lives up to the Buffett Rule so
no millionaire pays a smaller share of his or her income in taxes than middle class
families do” (Democratic National Platform, 2012).

The Democratic party opposes any tax cuts to the wealthiest of Americans and instead
fights to utilize tax revenues to invest in the economy, education, and the middle class and
needy. The current progressive taxation system of the United States, which taxes income based
on a percentage that increases as income increases, is designed for Americans with higher
incomes to pay more in taxes, at a higher marginal rate. This, according to the Democratic party
ideology, is ill-affective, as it is often avoided through loopholes in the tax code.

President Obama’s 2012 Campaign Platform

President Barack Obama, the current President of the United States, campaigned in both
2008 and 2012 under the premise of Democratic values and tax-view. He was originally elected
as President of the United States in 2008, in the midst of an economic recession, with the
promise to fix the economy. He spoke, in an interview with CNBC’s “Closing Bell” during his
2008 campaign, “We should go back to probably a top marginal rate of 39%... I would not
increase taxes for middle-class Americans, and in fact, I want to provide a tax cut for people who
are making $75,000 a year or less” (Bartiromo, 2008). His economic and tax plans, though
heavily influenced by the state of the 2008 economy, mirrored the traditional Democratic
viewpoint: monitor the impacts of the American middle class.

The basis of his 2012 campaign platform was similar. The Democratic Platform of 2012
issued the following statement on its website, regarding President Obama’s first term in office:

“President Obama and Democrats in Congress cut taxes for every working family,
putting more money in the pockets of the Americans who need it most. A typical family
has saved $3,600 during his first term. Now he’s fighting to stop middle class families and those aspiring to join the middle class from seeing their taxes go up and to extend key tax relief for working families and those paying for college, while asking the wealthiest and corporations to pay their fair share” (Democratic National Platform, 2012).

The Democratic Party vision to redistribute the wealth from the “top to the bottom” is seen in this campaign platform. The campaign platform, as discussed in an article published by the University of California, Santa Barbara, stated the 2012 Campaign Platform sought to complete three key tax-implicating factors: cut waste, reduce the deficit, and ask all to pay their fair share (Democratic National Platform, 2012). The platform, additionally, referenced the traditional Republican Party view by noting, “The Democratic Party opposes efforts to give additional tax cuts to the wealthiest Americans at the expense of the middle class and investments in our future” (Democratic National Platform, 2012).

**Republican Party View of Modern Taxation**

The Modern Republican party are the champions of low taxation for corporations and individuals, as well as decreased federal spending. In the Republican Platform of 2012, it is clear throughout that low taxation is the key to America's success. The Republican party wants to lower federal spending, thus necessitating lower tax revenue. In general, Republicans in 2012 wished to lower all small business, corporate, and individual income taxes and follow strict guidelines:

“To that end, we propose to: Extend the 2001 and 2003 tax relief packages—commonly known as the Bush tax cuts—pending reform of the tax code, to keep tax rates from rising on income, interest, dividends, and capital gains; Reform the tax code by reducing marginal tax rates by 20 percent across-the-board in a revenue-neutral manner; Eliminate the taxes on interest, dividends, and capital gains altogether for lower and middle-income taxpayers; End the Death Tax; and Repeal the Alternative Minimum Tax (Republican Platform, 2012 p.9).
Perhaps this mantra of lower taxation is best illustrated by the conservative interest group Americans for Tax Reform, which is run by outspoken activist Grover Norquist. In this organization, Republican congressional representatives take a pledge to never raise taxes. If they sign the pledge, the representatives receive vast campaign funding and support. If they break the pledge, however, the Americans for Tax Reform is well-known for running millions of dollars of attack advertisements against the non-compliant pledge signers. As Norquist states, “They know taxes are bad for the economy. They know raising taxes kills jobs,” ... "Why would they raise taxes if they know the problem is spending?” (McCabe, 2012).

As an *Economist* article about Republican tax plans recently reported, American taxes are a mess. With seven different rates of individual federal income taxes, America’s tax system is complex and hard to keep track of. For business taxes, America’s 39% tax rate is the highest of all modern countries. America’s tax system is also ranked 53rd in the world, citing that it takes American businesses on average 87 hours to file taxes, while in France it only takes 26 (The Economist, 2016).

**Governor Romney’s 2012 Campaign Platform**

True to Republican tax doctrine, Governor Romney’s 2012 Presidential bid and campaign platform featured lowered taxes and overall tax reform. Romney wanted to simplify the Internal Revenue code, lower corporate tax rates, and encourage all Americans to save for retirement through various tax incentives. Romney wanted to cut each of the income tax brackets by 20%, lowering the top rate from 39.6% to 28%. Romney also wanted to repeal the Alternative Minimum tax and cancel taxes on capital gains for those making less than $200,000 per year. However, his tax plan did not specify which tax breaks will be cut in order to pay for these additional cuts. (Lapsevic, 2012)
Regarding corporations, Romney wished to improve US global competitiveness through a variety of tax reforms. Citing the highest corporate tax rate in the world, Romney wanted to reduce the corporate tax rate from 35% to 25%. He also wanted to implement a “tax holiday” so that companies that went overseas could come back to the United States, as many companies had been going overseas to avoid the high American tax rates. Romney also wanted to transfer the US tax system to a territorial tax system, which the many countries in the Organization for Economic Co-operation and Development have currently (Lapsevic, 2012).

II: Perceived Problems with Taxation in the United States

Issues of IRS Budget & Internal Revenue Code

The complexity of issues related to the IRS budget stem from a lack of funding; this lack of funding then translates to a lack of completed audits, a loss of tax revenues, and the inability to complete normal IRS operations. The United States Government Accountability Office notes, “The financing of the federal government depends largely upon the IRS’s ability to collect taxes, including providing taxpayer services that make voluntary compliance easier and enforcing tax laws to ensure compliance with tax responsibilities” (United States Government Accountability Office, 2015). Between 2010 and 2014, the IRS budget has declined by 7 percent: from $12.1 billion to $11.3 billion. Between the fiscal years 2014 and 2015, the IRS budget decreased an additional $326 million. According to the Center of Budget and Policies, the IRS budget is being defunded, therefore weakening and compromising taxpayer service and weakening enforcement. The authors write, “Each additional $1 spent on IRS enforcement yields $6 of additional revenue” (Marr et al, 2015). Yet, there is little to be noted about the importance of funding the Internal Revenue Service.
The following figure, provided by the Center on Budget and Policy Priorities, seeks to prove the continued weakening of the IRS as an organization:

As demonstrated, the IRS role in assisting taxpayers comply with tax code is considerably compromised and the organization’s ability to collect “nearly all of the revenue that funds federal programs from national defense and the safety net to roads, science research, and education” is severely underfunded (Marr et al, 2015). In typical Democratic Party fashion, however, President Barack Obama for 2016, “required $12.9 billion in appropriations for IRS; the request is almost $2 billion (18 percent) more than IR’s fiscal year 2015 appropriation” (United States Government Accountability Office, 2015). This request, however, may not sufficiently unburned the IRS’ ability to perform its necessary functions.
The following Program Summary by Appropriations Account and Budget Activity (Page 14), provided by the IRS, emphasizes this point:

## Program Summary by Appropriations Account and Budget Activity

<table>
<thead>
<tr>
<th>Budget Activity</th>
<th>FY 2014 Actuals</th>
<th>FY 2015 Enacted</th>
<th>FY 2016 Request</th>
<th>FY 2015 TO FY 2016 $ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxpayer Services</td>
<td>$2,145,195</td>
<td>$2,156,554</td>
<td>$2,408,803</td>
<td>$252,249</td>
<td>11.70%</td>
</tr>
<tr>
<td>Pre-filing Taxpayer Assistance and Education</td>
<td>595,168</td>
<td>626,510</td>
<td>682,753</td>
<td>56,243</td>
<td>8.98%</td>
</tr>
<tr>
<td>Filing and Account Services</td>
<td>1,550,027</td>
<td>1,530,044</td>
<td>1,726,050</td>
<td>196,006</td>
<td>12.81%</td>
</tr>
<tr>
<td>Enforcement</td>
<td>$4,914,497</td>
<td>$4,860,000</td>
<td>$5,399,832</td>
<td>$539,832</td>
<td>11.11%</td>
</tr>
<tr>
<td>Investigations</td>
<td>601,740</td>
<td>602,298</td>
<td>713,282</td>
<td>110,984</td>
<td>18.43%</td>
</tr>
<tr>
<td>Exam and Collections</td>
<td>4,154,342</td>
<td>4,104,453</td>
<td>4,513,376</td>
<td>408,923</td>
<td>9.96%</td>
</tr>
<tr>
<td>Regulatory</td>
<td>158,415</td>
<td>153,249</td>
<td>173,174</td>
<td>19,925</td>
<td>13.00%</td>
</tr>
<tr>
<td>Operations Support</td>
<td>$3,722,599</td>
<td>$3,638,446</td>
<td>$4,743,258</td>
<td>$1,104,812</td>
<td>30.36%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>845,558</td>
<td>829,389</td>
<td>973,521</td>
<td>144,132</td>
<td>17.38%</td>
</tr>
<tr>
<td>Shared Services and Support</td>
<td>1,127,931</td>
<td>1,143,864</td>
<td>1,274,194</td>
<td>130,330</td>
<td>11.39%</td>
</tr>
<tr>
<td>Information Services</td>
<td>1,749,110</td>
<td>1,685,193</td>
<td>2,495,543</td>
<td>830,350</td>
<td>49.87%</td>
</tr>
<tr>
<td>Business Systems Modernization</td>
<td>$145,235</td>
<td>$290,000</td>
<td>$379,178</td>
<td>$89,178</td>
<td>30.75%</td>
</tr>
</tbody>
</table>

### Subtotal Internal Revenue Service

<table>
<thead>
<tr>
<th></th>
<th>FY 2014</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2015 TO FY 2016 $ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reimbursables</td>
<td>97,840</td>
<td>119,000</td>
<td>127,000</td>
<td>8,000</td>
<td>6.72%</td>
</tr>
<tr>
<td>Offsetting Collections - Non Reimbursables</td>
<td>31,073</td>
<td>33,100</td>
<td>33,075</td>
<td>(25)</td>
<td>-0.08%</td>
</tr>
<tr>
<td>User Fees</td>
<td>419,145</td>
<td>462,360</td>
<td>450,360</td>
<td>(12,000)</td>
<td>-2.60%</td>
</tr>
<tr>
<td>Recovery from Prior Years</td>
<td>3,297</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unobligated Balances from Prior Years</td>
<td>241,022</td>
<td>408,926</td>
<td>385,763</td>
<td>(23,163)</td>
<td>-5.66%</td>
</tr>
<tr>
<td>Transfers In/Out</td>
<td>17</td>
<td>7,561</td>
<td>(5,000)</td>
<td>(12,561)</td>
<td>-166.13%</td>
</tr>
</tbody>
</table>

### Total Program Operating Level

<table>
<thead>
<tr>
<th></th>
<th>FY 2014</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2015 TO FY 2016 $ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct FTE</td>
<td>82,643</td>
<td>81,279</td>
<td>90,524</td>
<td>9,245</td>
<td>11.37%</td>
</tr>
<tr>
<td>Resources from Other Accounts</td>
<td>9</td>
<td>3</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>User Fee FTE 1</td>
<td>1,151</td>
<td>191</td>
<td>191</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reimbursable FTE</td>
<td>619</td>
<td>730</td>
<td>768</td>
<td>38</td>
<td>5.21%</td>
</tr>
<tr>
<td>Unobligated Balances from Prior Years 1</td>
<td>339</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total FTE</td>
<td>84,761</td>
<td>82,203</td>
<td>91,486</td>
<td>9,283</td>
<td>11.29%</td>
</tr>
</tbody>
</table>

---

1 FTE funded by User Fees and Unobligated Balances from Prior Years are included in the direct civilian full-time equivalent employment line of the President's Appendix.

2 Resources from Transfers In/Out include FY 2014 transfers between IRS and the Office of National Drug Control Policy (ONDCP) High Intensity Drug Trafficking Area (HIDTA) Program (net transfer $17K), FY 2015 transfers between IRS and Spectrum (net transfer $7.6M), and an FY 2016 transfer out to the Alcohol and Tobacco Tax and Trade Bureau (TTB) ($5M).
Secondly, the current Internal Revenue Code implemented and enforced by the IRS is considered to be overly complex, confusing, and inadequate in serving its purpose. In an article published by *Forbes*, author Bill Frenzel writes, “The U.S. tax code is a hopelessly complex mess, antithetical to growth, and is crammed with conflicting incentives, which screams for reform” (Frenzel, 2013). From a political standpoint, Frenzel notes that Democrats prefer tax expenditures for the less affluent, while Republicans prefer tax expenditures to stimulate economic growth. In general, Frenzel alludes to the fact that individuals, small businesses, and even corporate entities find difficulty in following tax law. His opinion on the possibility of tax reform, to omit these confusions, is pessimistic. He writes:

“There is little agreement on how to repair it. My preferences are necessary, just, and ordained in heaven. Your preferences are unnecessary, unjust and counter-productive. Tax reform is the most difficult and complicated piece in the U.S. budget battle. It is integral to both the Republican House and the Democratic Senate budgets. As in every budget item, there is a conservative vs. liberal confrontation, but tax reform is loaded with more confusing detail, and it adds extra layers of difficulty to the budget debate” (Frenzel, 2013).

According to a Taxpayer Advocate Service (TAS) analysis of IRS data, taxpayers and businesses in the United States spend about 7.6 billion hours a year complying with the filing requirements of the Internal Revenue Code (TAS Research, 2008).

Written in the 2008 Annual Report to Congress, TAS stated that the most serious problem taxpayers face in the modern-world, today is the complexity of the Internal Revenue Code. The researchers seek to consider the following:

1. The 7.6 billion hours a year does not “even include the millions of additional hours that taxpayers spend when they are required to respond to an IRS notice or an audit.”

2. “If tax compliance were an industry, it would be one of the largest in the United States. To consume 7.6 billion hours, the “tax industry” requires the equivalent of 3.8
million full-time workers.”

3. “Compliance costs are huge both in absolute terms and relative to the amount of tax revenue collected. Based on Bureau of Labor Statistics (BLS) data on the hourly cost of an employee, TAS estimates that the costs of complying with the individual and corporate income tax requirements in 2006 amounted to $193 billion – or a staggering 14 percent of aggregate income tax receipts” (TAS Research, 2008).

In summary, the Internal Revenue Code is not only complex, but also expensive: both for the IRS and governmental entities, but additionally for taxpaying individuals, businesses, and corporations.

The Issues of Tax on Small Business

In relation to the complexity of the U.S. Tax Code, the Small Business Committee writes, “For newly established businesses, navigating the confusing rules and reporting requirements is extremely tough” (Small Business Committee, 2016). Studies have found that small firms – fewer than 20 employees – pay more than $1200 per employee to comply with the paperwork and recordkeeping required by tax law (Small Business Committee, 2016). According to Raymond J. Keating, Chief Economist of the Small Business & Entrepreneurship Council, who issued Small Business Tax Index 2015 and identified the “Best to Worst State Tax Systems for Entrepreneurship and Small Business” in April 2015, “tax increases at the federal level in recent years have raised costs and hurt the international competitiveness of U.S. small businesses and entrepreneurs” (Keating, 2015). The implications for small businesses at the federal tax level are more severe and aggregately more expensive than at the corporate level. Donald Marron of
Forbes Magazine testified before the House Small Business Committee in 2014. His opening remarks incorporated seven statements on the issues of tax on small business:

1. “Tax compliance places a large burden on small businesses, both in the aggregate and relate to large businesses.
2. Small businesses are more likely to underpay their taxes.
3. The current tax code offers small businesses several advantages over larger ones.
4. Several of those advantages expired at the end of last year and thus are part of the current “tax extenders” debate.
5. Many small businesses also benefit from the opportunity to organize as pass-through entities such as S corporations, limited liability companies, partnerships, and sole proprietorships.
6. Tax reform could recalibrate the tradeoff between structuring as a pass-through or as a C corporation.
7. Tax reform could shift the relative tax burdens on small and large businesses” (Marron, 2014).

Today, Self-employment tax is considered to be 15.3% on earnings up to $117,000, based on the net profit of the business. According to HR Block, a tax preparation company, this tax pays for the businesses social security and Medicare contributions. With net income above $117,000, earnings are subject to only Medicare tax (2.9%) (Slack, 2014). Additionally, concerns over small business deductions and credits, such as a deduction for a small business owner work from home, are currently being investigated. Small business owners today appear to be seeking simplicity of the tax code, simplicity of filing taxes in compliance of the tax code, and an updated tax policy that is useful for small business owners, rather than corporations.
Additional implications associated with starting a self-employed business venture include: income is taxable, despite any reinvestment in the business or organization (unlike corporations); filing requirements are constantly changing; quarterly estimated payments of tax implications are required; and small businesses are the IRS’ most audited returns (despite severe underfunding) (Slack, 2014).

Corporate America Tax Problems

Today’s corporate tax rates, at 35%, is the world’s highest in a developed nation. This not only discourages businesses from incorporating in the United States, but also forces US investments to move to foreign nations, tax-free. According to Mihir Desai, professor at Harvard Law School, these high corporate tax rates lead to four major problems:

1. **High rates and a narrow base**

Due to the high tax rates relative to other countries, businesses leave the United States and this shrinks the tax base for the government to raise money. The cost of doing business in the United States has increased, and as a result real wages have decreased for workers. Talented individuals now create no economic value by focusing their talents into tax avoidance strategies. Further, firms such as retail stores that have less mobile options are hit disproportionately with high tax rates than other business types (Desai, 2012)

2. **The rise of non-corporate business income**

In 1986, non-corporate income was 20% of all business income. Today, however, this figure has risen to more than 50%. The creation of S-corporations, limited liability companies and the like have enabled a large group to reduce taxes through these created entities. Creating a corporation is no longer the ultimate goal for many businesses, due to the high tax rates (Desai, 2012). As of
2011, 54% of business income was earned through these pass-through entities and not through corporations facing higher rates (Rubin, 2016).

3. The globalization of firm activity
Outsourcing has created an opportunity for companies to operate essential business functions outside of the country, such as payroll and other accounting practices. The United States taxes its citizens based on worldwide income, but offers credits to limit double taxation. This has led to US citizens keeping more investments offshore and decreased investments in the United States economy, which has had a twofold negative effect (Desai, 2012).

4. The decoupling of financial and taxable income
Because firms wish to minimize taxable income, they engage in tax avoidance policies and skew accounting methods to lower taxes. At the same time, these firms show profits to worldwide markets and present healthy companies to lure investors. Manipulating depreciation methods as well as off-balance sheet activities such as leases enables companies to have very different financial versus taxable incomes (Desai, 2012).

The Lengthy Reform Process

Another issue with taxation in the United States resides with the lengthy amount of time it takes to pass new tax legislation. The process is quite bureaucratic, and requires consensus with both Democrats and Republicans- a large feat in today’s partisan atmosphere. The last fundamental tax reform occurred in 1986, which is further proof that today’s Internal Revenue Code is hard to change. Because the code is over 5600 pages, filing taxes and creating new tax law is both difficult and complex. There are administrative sources of tax law, which are issued by the Treasury Department or the IRS. Judicial sources of tax law include the Tax Court, which
was established in 1942 to give remedies for individuals and corporations accused of tax malpractice (Hasseldine, 2015).

The passage of tax legislation is arduous. Bills must first be passed through the House Ways and Means Committee, put to a vote to the full House, then next to the Senate Finance Committee and full Senate, and finally sent to the President for final approval. This process can take years, and by the time bills are presented to the President they are likely quite different than what was originally proposed. To further confound this lengthy process, there are many lobbying efforts (such as Grover Norquist’s Americans for Tax Reform) and these are powerful players who sway votes. In all, the process to change tax law is a complex and often unsuccessful process and is the reason that tax law has not been greatly reformed in recent years.

**Taxing the Wealthy: Too Much or Not Enough?**

Another issue that Americans have with today’s current taxation system is that they believe personal income taxes are inequitable. From the liberal perspective, many believe that millionaires should be paying more and that the poor should have tax cuts. Conversely, conservatives predominately believe that taxing the wealthy decreases their spending in the economy and that lower taxes across the board would be best for all.

There are seven different rates of federal income taxes, with taxes based on a percentage rate for incremental income. Different rates are used for single or married taxpayers (which can confuse filers due to issues such as divorce or death within the year, as well as a “head of household” label with different rates.) The United States has a progressive tax system, but many argue that the highest income should have a higher marginal tax rate than exists. The rich often attempt to lower taxable income through investments and alternate means of property, as they are
not incentivized to cross into higher brackets and face higher taxes for their current income. Accordingly, these brackets “distort incentives and benefit mainly richer folk, but are hard to keep track of because their cost stays off the government’s books.” Further, an average individual tax filing consumes about eight hours and the overall inconvenience of filing costs up to 1.3% of United States GDP (The Economist, 2016).

III: The 2016 Presidential Candidates

Democratic Party Frontrunners

Hillary Clinton

Overall Plan

Former United States Secretary of State, Hillary Clinton, is seeking to “make the tax code even more progressive than it is today” (Sahadi, 2016). In typical Democratic fashion, she is seeking to utilize the top 1 percent of taxpayers in the United States to fund government programs and initiatives: she seeks to add a 4 percent surtax on income over $5 million and cap the tax benefit of itemized deductions at 28 percent of the deduction, to name a few initiatives of her campaign (Clinton, 2016).

According to Clinton’s Tax Platform, Hillary will:

1. “Give working families a raise, and tax relief that helps them manage rising costs.
2. Create good-paying jobs and get pay rising by investing in infrastructure, clean energy, and scientific and medical research to strengthen our economy and growth.
3. Close corporate tax loopholes and make the most fortunate pay their fair share” (Clinton, 2016).
Her platform seeks to align itself with the traditional tax viewpoints of the Democratic party. Her platform proposals greatly take into account the impacts on the American middle class, by redistributing wealth from the top to the bottom. According to Tax Policy Center director Len Burman, however, “[Clinton’s plan] would make the tax code more complex” than it already is: a perceived issue in modern-day federal taxation (Sahadi, 2016).

**Small Business**

Though not fully developed, Clinton’s campaign seeks to be viewed as the Small Business Candidate. Clinton seeks to “simplify taxes for millions of small businesses - and allow small businesses to write off investments” (Clinton, 2016). She notes, “Today, the smallest firms spend 20 times as much in money and hours filling out their taxes compared to their larger competitors. Over the coming weeks and months, Clinton will offer new plans to simplify tax filing for millions of small businesses and allow small businesses to immediately deduct expenses, letting them expand their investments, hiring, and growth” (Clinton, 2016).

The four key elements of Clinton’s plan for small businesses include: cutting red tape for small businesses, expanding access to capital, providing tax relief and tax simplification, and expanding access to new markets.

**Corporate America**

Clinton, as identified in her “Make it in America” proposal, recognizes that outsourcing of United States employment, specifically related to manufacturing, is a way for Corporate America to avoid Federal taxation. Her campaign writes, “Businesses participating in Hillary’s strategy would pledge not to shift jobs or profits gained from “Make it in America” incentives to other countries by outsourcing production or “inverting” to move their residence abroad and
avoid paying their fair share of U.S. taxes” (Clinton, 2016). Her philosophy seeks to minimize support to companies who avoid taxation responsibility.

She believes “we need a broader conversation on reforming our business tax code” and “simply cannot wait to prevent inversions and related transactions that threaten to further erode our tax base” (Clinton, 2016). Her campaign seeks to prevent United States based companies to merge with foreign companies for the sole purpose of reducing tax obligations. Her proposal “will prevent inversions and related transactions driven by tax planning to lower corporate tax bills” (Clinton, 2016). In summary, Clinton seeks to prevent ‘inversions’ that erode the tax base: entirely block inversions that are likely to be the most abusive through a 50% merger threshold; ensure that companies leaving the U.S. pay an “exit tax” on what they owe on their overseas earnings; and limit the ability of multinationals to engage in “earnings stripping” (Clinton, 2016).

Clinton’s campaign notes that “Even though the U.S. has a 35% top statutory rate, loopholes and distortions mean that some of the largest U.S. multinationals that are pursuing inversions already often face low effective tax rates” (Clinton, 2016).

**Taxation of the Wealthy**

Informally referred to as the “so-called Buffett Rule”, Clinton would require those with adjusted gross income over $1 million to pay a minimum of 30% of their income in taxes. Additionally, according to an article posted on *Cnn.com*, Clinton would impose a 4% surcharge on adjusted gross income over $5 million (Sahadi, 2016). Secondly, high-income investors, according to Clinton’s tax reform plan, would be subject to higher capital gains taxes, as well. In the current tax code system, high-income investors pay a 20 percent tax on realized gains from investments held more than a year. Under Clinton’s plan, taxes on realized gains from
investments will increase to between 24 and 39.6 percent (Hillary Clinton, 2016). The 20 percent tax will be preserved, but only for investments held for more than six years.

According to a report issued in March of 2016, the top 1 percent of households in the United States will see tax burden increase by more than $78,000 on average, reducing after-tax income by 5 percent, respectively (Sahadi, 2016). This redistribution of wealth from the wealthiest of Americans mirrors the traditional Democratic view on taxation.

Bernie Sanders

Overall Plan

A campaign built on Sanders’ self-proclaimed “democratic socialism,” Vermont Senator Bernie Sanders’ tax reform looks to Wall Street, the wealthy, and large corporations to “pay their fair share” (Sanders, 2016). According to Sanders’ campaign, he would seek to establish four new brackets: 37 percent, 43 percent, 48 percent, and 52 percent, the top 52 percent bracket referring to taxable income over $10 million (Sanders, 2016). Unorthodox to traditional Democratic view, all tax brackets would increase by 2.2 percent – including the tax brackets associated with the American middle class. Sanders’ plan identifies health are premiums, employer-side payroll tax and these tax bracket increases as primary revenue sources to fund government programs.

Additionally, Sanders’ proposes an increase in employer-side payroll tax of 6.2 percent and the creation of a new payroll tax of 0.2 percent to fund paid family leave (a conventional tax seen in European countries) (Sanders, 2016). Sanders’ proposal aligns with the Democratic view of redistributing wealth, however proposes significant tax increases on the middle class.
According to Tax Policy Center, an independent analysis firm, Sanders’ plan would raise taxes, in some cases, well beyond recent historical experience (Sammartino et al, 2016).

Small Business

Sanders’ tax platform currently does not have a specified proposal related to the effects of federal taxation on small business. It is possible, through professional judgement and related research as to the taxation on Corporate America and wealthy Americans, that Sanders’ will reduce the tax burden on small businesses, as the tax burden on larger businesses will increase.

Corporate America

Sanders’ tax platform seeks to implement the “Rebuild America Act” which looks to end corporate-level tax avoidance by reevaluating inversions, tax loopholes, and profit sharing (Sanders, 2016). Currently, as described by Sanders’ campaign, his plan would generate $1 trillion in revenue over 10 years by focusing efforts on reducing tax avoidance on corporate offshore income. According to Tax Policy Center, Senator Sanders’ plan does the following:

“Senator Sanders proposes a number of measures to change the tax treatment of foreign profits earned by US multinational corporations. Such measures include (1) ending deferral of federal income taxes on profits of foreign subsidiaries, (2) imposing a per country limit on foreign tax credits to end cross-crediting, (3) limiting corporate inversions, and (4) preventing earnings stripping” (Sammartino et al, 2016).

In essence, Sanders’ plan for Corporate America focuses on foreign revenues and income earned by multinational corporations. As demonstrated in his generic tax plan – which seeks to fund government programs through the redistribution of wealth – it is apparent Sanders’ wishes to increase the tax burden on American-based companies and companies that choose to utilize the United States to perform transactions or business.

Comparatively, Sanders’ campaign platform writes:
“Sanders will crack down on corporate tax avoiders: end the rule allowing American corporations to defer paying federal income taxes on profits of offshore subsidiaries; prevent corporations from avoiding U.S. taxes by claiming to be a foreign company through the establishment of a post office box in a tax haven country; eliminate tax breaks for big oil, gas, and coal companies; prevent American companies from avoiding U.S. taxes by corporate inversions; and close loopholes that allow U.S. corporations to artificially inflate or accelerate foreign tax credits” (Sanders, 2016).

Taxation of the Wealthy

Sanders’ platform has succeeded in describing “an enormous transfer of wealth from the middle class and the poor to the wealthiest people in this country” (Sanders, 2016). As a result, his tax platform – as it relates to taxation of the wealthy – seeks to reduce income and wealthy inequity by:

“Demanding that the wealthy and large corporates pay their fair share in taxes. As president, Sen. Sanders will stop corporations from shifting their profits and jobs overseas to avoid paying U.S. income taxes. He will create a progressive estate tax on the top 0.3 percent of Americans who inherit more than $3.5 million. He will also enact a tax on Wall Street speculators who caused millions of Americans to lose this jobs, home, and life savings” (Sanders, 2016).

Republican Party Frontrunners

Ted Cruz

Overall Plan

By far, Senator Cruz has the most revolutionary approach to tax reform. He wishes to completely overhaul the current system, and abolish the IRS as it is today. Senator Cruz’s tax plan centers around a flat tax system, where all aspects of income are taxed at a single rate. While this will reduce taxes for many, this system is largely seen as regressive in that a 10% tax of income for a low-income taxpayer is much more valuable to them as compared to a 10% tax of a billionaire’s income. Another of the key points of Senator Cruz’s tax plan is to make taxes simple to fill out each year. On his presidential campaign website, he is quoted as saying,
“Imagine a 10 percent income tax, with every American filling out his or her taxes on a postcard or iPhone app. And abolishing the IRS as we know it,” (Cruz, 2016).

Other key cuts in his tax plan is to abolish the Death Tax, Overseas Profit Tax, the Alternative Minimum Tax, and Obamacare Taxes through the repeal of Obamacare. Senator Cruz believes that repealing these taxes will save jobs and bring outsourced jobs back to the United States, due to the lowered corporate tax rate and simplicity in accounting. Senator Cruz advocates for a tax code that is simple and short, so that tax avoidance manipulation is not necessary nor available (Cruz, 2016).

Small Business

All businesses, including small businesses not incorporated, will face a tax on net business sales of 16%. Through the simplification of tax methods, Senator Cruz wishes to reduce business taxes and incentivize new business growth. One of the biggest impacts that his plan involves the immediate expensing of all business equipment, to increase mining, energy, farming, ranching, and manufacturing business in the United States (Cruz, 2016).

Corporate America

The most sizable changes to the United States Taxation system would come from a complete repeal of the corporate tax rate, and instead a single business flat tax of 16% for all business types. By taxing solely off of net business sales (Gross sales less expenses and capital expenses), corporations will likely take advantage of investment options that will go untaxed.

Another key aspect of his plan is to return corporate overseas profits at a one-time 10% rate, which would add billions of dollars back to the United States from overseas. Cruz wishes to de-incentivize corporations from moving operations abroad and will offer the low 16% tax rate
to keep businesses in the United States (Cruz, 2016). Further, Cruz is thought to gather more revenue from corporations by using a Value Added tax system similar to the one used in Canada.

Taxation of the Wealthy

Cruz wishes to completely simplify personal income taxes, so that individuals are able to fill out their taxes on phones and take less time to do so. Regarding individuals, Cruz is a strong proponent of a single tax rate of 10% for all income, called the “Simple Flat Tax.” This 10% rate would completely replace the current seven rates and exempt the first $36,000 of income for a family of four. The standard deductions will increase to $10,000, with a level $4000 personal exemption. The Child Tax credit will be kept and the the Earned Income Tax credit will be further strengthened (Cruz, 2016).

This will impact the wealthy most because Cruz has vowed to cancel other tax exemptions, where traditionally the wealthy can shelter taxable income. However, it is undetermined whether this plan will either increase tax revenues or decrease them, as many sources debate the impact of this plan on the wealthy.

A sample tax form is provided below for this new system:
Donald Trump

Overall Plan

Donald Trump’s tax plan is less developed than Senator Cruz’s plan, yet shares some underlying principles of flat taxes and reducing the burden of corporate income taxes. Trump believes in simplifying the tax code, but does not go as far as abolishing the IRS. He is also supportive of abolishing the Death Tax. Due to these large tax cuts, Trump argues that his plan is revenue neutral because it will be paid for by:

1. “Reducing or eliminating most deductions and loopholes available to the very rich.
2. A one-time deemed repatriation of corporate cash held overseas at a significantly discounted 10% tax rate, followed by an end to the deferral of taxes on corporate income earned abroad.
3. Reducing or eliminating corporate loopholes that cater to special interests, as well as deductions made unnecessary or redundant by the new lower tax rate on corporations and business income. We will also phase in a reasonable cap on the deductibility of business interest expenses” (Trump, 2016).

Small Business

Trump supports lowering the business tax rate to a flat 15%, so that small businesses can thrive and enjoy lowered compliance costs. Trump believes that lowering personal income tax rates will further help small businesses, because sole proprietors today are taxed at high personal income tax rates through these flow-through entities. Another issue with small businesses is the cost of tax compliance, which Trump wishes to lower with simpler rates and less loopholes and deductions for businesses, which he believes will also negate tax avoidance (Trump, 2016).

Corporate America

Donald Trump believes in lowering the corporate tax rate to a single 15% rate, 1 percentage point lower than the rate of Senator Cruz’s tax plan. Trump promises to bring
multinational firms back to the United States by repatriating corporate tax dollars held overseas at a discounted, one-time 10% rate- which is identical to Senator Cruz’s plan. Trump cites that American businesses hold $2.5 trillion in cash overseas due to our high corporate tax rates, and that this must be solved to increase taxation of these profits. Another way that Trump wishes to change the corporate tax structure is to end the deferral of taxes earned abroad, which he hopes will bring more investments into the US economy (Trump, 2016).

Taxation of the Wealthy

According to the presidential platform website,

“If you are single and earn less than $25,000, or married and jointly earn less than $50,000, you will not owe any income tax. That removes nearly 75 million households – over 50% – from the income tax rolls. They get a new one-page form to send the IRS saying, “I win,” those who would otherwise owe income taxes will save an average of nearly $1,000 each (Trump, 2016).”

Another factor in Trump’s tax plan is to reduce the number of brackets of marginal tax from seven to four brackets, with the top rate of 25%. According to his website, this eliminates the “Marriage Penalty” and the Alternative Minimum tax. Below reproduce these new four tax brackets:

<table>
<thead>
<tr>
<th>Income Tax Rate</th>
<th>Long Term Cap Gains/Dividends Rate</th>
<th>Single Filers</th>
<th>Married Filers</th>
<th>Heads of Household</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>0%</td>
<td>$0 to $25,000</td>
<td>$0 to $50,000</td>
<td>$0 to $37,500</td>
</tr>
<tr>
<td>10%</td>
<td>0%</td>
<td>$25,001 to $50,000</td>
<td>$50,001 to $100,000</td>
<td>$37,501 to $75,000</td>
</tr>
<tr>
<td>20%</td>
<td>15%</td>
<td>$50,001 to $150,000</td>
<td>$100,001 to $300,000</td>
<td>$75,001 to $225,000</td>
</tr>
<tr>
<td>25%</td>
<td>20%</td>
<td>$150,001 and up</td>
<td>$300,001 and up</td>
<td>$225,001 and up</td>
</tr>
</tbody>
</table>
To pay for these lower personal income rates, Trump plans to phase in caps on personal income exemptions as well as certain business deductions. One important practice Trump does want to keep is charitable giving deductions, because he believes that individuals should have the ability to help others and receive a benefit for doing so. In all, it appears that the wealthy will pay less tax under this plan and that half of Americans will not owe any income tax (Trump, 2016).

IV: Response to Candidate Tax Policies

General Summary

When comparing the traditional Democratic view and the traditional Republican view, it is inherently obvious the parties share a significant divide on taxation: Republicans seek low taxes, Democrats seek to utilize revenues derived from taxation to fund government ventures and programs. It is often notably radical and unconventional for a candidate running for office – specifically presidency – to deviate from the norms of his or her party’s taxation viewpoints. However, as demonstrated by Senator Sanders’ “democratic socialism” which seeks to raise taxes on the American middle class, a typical no-go for Democratic party members, and Senator Cruz’s platform of abolishing the IRS and implementing a flat tax, anything is possible.

In today’s media and polls, reporting entities are considerably biased when broadcasting scholarly or academically-driven analysis on the candidate’s tax platforms. However, despite the persuasive reporting, notable differences between the candidate’s policies (both within and outside of one another’s parties) can be made. For example, between Hillary Clinton and Bernie Sanders’, both Democratic frontrunners seek to utilize wealthy or high-income American taxpayers as the primary sources for tax revenue. Between Donald Trump and Ted Cruz, both candidates seek to reduce the corporate tax burden – fully embodying the Republican viewpoint
on low taxes – and implement a less progressive, more flat-tax approach. Unanimously, all four candidates acknowledge a general issue with the current tax system: high corporate tax rate leading to corporate tax avoidance; an overly complex and ultimately confusing tax code; and unwanted implications on small business owners under the current system. Each candidate, however, approaches each issue very differently, or not at all.

According to PolitiFact, an online political website that is run by editors and reporters from the *Tampa Bay Times*, an independent newspaper in Florida, the authors write:

“Republicans Donald Trump and Ted Cruz are both promising significant tax cuts across the board, largely benefitting the wealthy. Trump also wants to use the tax code to encourage companies to do business at home, while Cruz is for a one-rate-fits-all approach. On the Democratic side, Bernie Sanders is also advocating radical changes to the tax code, but he wants higher taxes on the super rich and to fund new government programs. Hillary Clinton targets the top income earners for tax increases through policy-specific tweaks, but her plan is hardly a revolution” (Qiu, 2016).

Is one considerably better than the other? The question is unanswerable, as the distinction between taxation reform and social reform are undeniable inseparable in today’s culture. In order to argue that one tax plan is significantly better than the other, one must ultimately make the distinction that less government involvement is better or worse than more government involvement in the day-to-day lives of Americans.

**Independent Analysis & Inconclusive Results**

However, independent researchers have attempted to determine what tax plan is considered to be better, more efficient, and more reliable than the others. Addressing general issues such as effects on Gross Domestic Product (GDP) in the United States, effects on the United States deficit, and increases or decreases in federal tax revenues, wage rates, and the like, both Tax Policy Center and Tax Foundation have performed independent analyses on the four
political frontrunners. However, it is important to note that with any political system in the United States, biased information is often inevitable. The following will demonstrate the findings of both independent organizations for each of the 2016 Presidential Candidates.

Hillary Clinton

The Tax Policy Center, in its abstract on Clinton’s tax proposal, noted the following:

“Hillary Clinton proposes raising taxes on high-income taxpayers, modifying taxation of multinational corporations, repealing fossil fuel tax incentives, and increasing estate and gift taxes. Her proposals would increase revenue by $1.1 trillion over the next decade. Nearly all of the tax increases would fall on the top 1 percent; the bottom 95 percent of taxpayers would see little or no change in their taxes. Marginal tax rates would increase, reducing incentives to work, save, and invest, and the tax code would become more complex (Auxier et al, 2016).

Analysts additionally noted that in addition to the $1.1 trillion increase in federal revenues, Clinton’s proposal will also generate an additional $2.1 trillion over the subsequent ten years (Auxier et al, 2016).

Tax Foundation, however, noted “Hillary Clinton’s plan would raise tax revenue by $498 billion over the next decade on a static basis. However, the plan would end up collecting $191 billion over the next decade when accounting for decreased economic output in the long run” (Pomerleau et al, 2016). Additionally, according to the Tax Foundation’s Taxes and Growth Model, “the plan would reduce GDP by 1 percent over the long-term due to slightly higher marginal tax rates on capital and labor” (Pomerleau et al, 2016).

Bernie Sanders

The Tax Policy Center, in its abstract on Sanders’ tax proposal, noted the following:

“Presidential candidate Bernie Sanders proposes significant increases in federal income, payroll, business, and estate taxes, and new excise taxes on financial transactions and
carbon. New revenues would pay for universal health care, education, family leave, rebuilding the nation’s infrastructure, and more. TPC estimates the tax proposals would raise $15.3 trillion over the next decade. All income groups would pay some additional tax, but most would come from high-income households, particularly those with the very highest income. His proposals would raise taxes on work, saving, and investment, in some cases to rates well beyond recent historical experience in the US” (Sammartino, 2016).

Analysts at Tax Foundation, however, noted “Senator Sanders’s plan would raise tax revenue by $13.6 trillion over the next decade on a static basis. However, the plan would end up collecting $9.8 trillion over the next decade when accounting for decreased economic output in the long run” (Cole et al, 2016). Additionally, the Tax Foundation’s Taxes and Growth Model found “the plan would significantly increase marginal tax rates and the cost of capital, which would lead to 9.5 percent lower GDP over the long term” (Cole et al, 2016).

Ted Cruz

According to Tax Policy Center, the analysts determined the following:

“Presidential candidate Ted Cruz’s tax proposal would (1) repeal the corporate income tax, payroll taxes for Social Security and Medicare, and estate and gift taxes; (2) collapse the seven individual income tax rates to a single 10 percent rate, increase the standard deduction, and eliminate most other deductions and credits; and (3) introduce a new 16 percent broad-based consumption tax. The plan would cut taxes at most income levels, although the highest-income households would benefit the most and the poor the least. Federal tax revenues would decline by $8.6 trillion (3.6 percent of gross domestic product) over a decade” (Rosenberg et al, 2016).

Additionally, the analysts noted that “barring extraordinarily large cuts in government spending or future tax increases, it would yield persistently large, and unlikely unsustainable, budget deficits” (Rosenberg et al, 2016). However, Tax Foundation stated, “Senator Cruz’s plan would cut taxes by $3.6 trillion over the next decade on a static basis. However, the plan would end up reducing tax revenues by $768 billion over the next decade when accounting for economic growth from increases in the supply of labor and capital and the much broader tax base due to the
new value-added tax” (Pomerleau et al, 2015). Additionally, the Tax Foundation’s Taxes and Growth Model found “the plan would significantly reduce marginal tax rates and the cost of capital, which would lead to a 13.9 percent higher GDP over the long run” (Pomerleau, 2015).

Donald Trump

According to Tax Policy Center, the analysts determined the following:

“His plan would significantly reduce marginal tax rates on individuals and businesses, increase standard deduction amounts to nearly four times current levels, and curtail many tax expenditures. His proposal would cut taxes at all income levels, although the largest benefits, in dollar and percentage terms, would go to the highest-income households. The plan would reduce federal revenues by $9.5 trillion over its first decade before accounting for added interest costs or considering macroeconomic feedback effects. The plan would improve incentives to work, save, and invest. However, unless it is accompanied by very large spending cuts, it could increase the national debt by nearly 80 percent of gross domestic product by 2036, offsetting some or all of the incentive effects of the tax cuts” (Nunns et al, 2015).

Additionally, Tax Policy Center noted that Trump tax cuts would produce deficits of as much as $11.2 trillion over the next decade (Nunns et al, 2015). In comparison, Tax Foundation’s analysis found that Trump’s “plan would cut taxes by $11.98 trillion over the next decade on a static budget. However, the plan would end up reducing tax revenues by $10.14 trillion over the next decade when accounting for economic growth from increases in the supply of labor and capital” (Cole, 2015). Additionally, Tax Foundation’s Taxes and Growth Model noted that “the plan would significantly reduce marginal tax rates and the cost of capital, which would lead to an 11 percent higher GDP over the long term provided that the tax cut could be appropriately financed” (Cole, 2015).

Conclusion
Overall, after looking at all of the major candidate’s tax platforms it can be concluded that gridlock surrounding taxation will likely continue into the future. The steep divide among Democrats and Republicans over what is the “fair” amount of taxation for both individuals and businesses to pay continues to divide the parties. We found that there are no simple answers—taxation pulls at both financial and ethical sources of research and emotion. Balancing these conflicting sources of information leads to presidential candidates promising overarching reform, but most likely not being able to implement these reforms if elected.

To further complicate matters, looking at unbiased sources for information regarding the impacts of candidate tax plans leads to vastly conflicting accounts. Both the Tax Foundation and Tax Policy Center, well-known organizations for being unbiased, can offer different accounts for candidate tax plan impacts. The nature of tax research depends on too many variables for these evaluations of tax platforms to be very accurate or helpful to voters.

We also believe that the process of tax reform discourages change and encourages tax complexity. It is unlikely that any future president will be able to pass reform that is both lasting and revolutionary: historically, even moderate tax reforms have difficulty passing the legislative process. It is thus our prediction that taxation in the future will remain complicated and burdensome, much to the dismay of voters and taxpayers.

Change must come for the American tax system, in order for the United States to uphold its position as a worldwide economic superpower. It is likely that more corporations will move operations abroad due to high corporate rates, while individuals will always attempt to pay the least amount of taxes they can. It is both the challenge and opportunity for today’s political candidates to change the tax avoidance culture in the United States and bring about tax reform that is meaningful and long lasting.
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