

Press Release

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Contact: Jerry Irvine
(301) 801-3356
Irvine@newamerica.net

The New America Foundation Announces Comprehensive Plan to Reform the Tax System

Five Part Proposal Provides a Fair, Efficient and Transparent Tax System Better Suited to Meet the Challenges and Opportunities of the 21st Century

WASHINGTON, DC (December 5, 2005) – A proposal released today by the New America Foundation calls for dramatic structural change of the U.S. tax system. The innovative plan creates a tax system that is fairer and more efficient than the current system, while also meeting the new challenges and opportunities of a global economy. The plan calls for replacing the payroll tax with a progressive consumption tax; integrating corporate and individual taxes, while taxing all forms of income the same; creating a more transparent approach to tax expenditures; and introducing a new energy tax.

"Our tax code has become exceedingly complex, increasingly regressive, and it creates a significant drain on the economy—a drain that will only grow worse as we are inevitably forced to increase taxes," stated Maya MacGuineas, Director of New America Foundation's Fiscal Policy Program and author of the tax reform plan. "This plan calls for a fundamental change in how we raise the funds to pay for government, while creating incentives that match our national priorities on issues such as increased savings, global competitiveness and energy conservation."

President Bush has made reforming the tax code a top priority in his second term. The initial report from his tax reform advisory panel launched a renewed debate on the merits of various approaches to revamping the tax system. As Congress gears up to address this issue, the New America Foundation released its proposal at a major tax policy conference on Capitol Hill. The New America proposal consists of five fundamental parts.

Replace the Payroll Tax with a Progressive Consumption Tax. A progressive consumption tax would create a much stronger incentive for individuals to save, leading to higher levels of saving in the economy, while doing so in a way that is fair by using a progressive rate structure. Replacing the outdated, regressive, and insufficient payroll tax with a progressive consumption tax would have positive effects on businesses, families, the economy, and the programs funded by the tax.

Integrate the Individual and Corporate Income Taxes. The corporate income tax is increasingly ill-suited for the highly integrated and global economy. Either eliminating the tax or better integrating the corporate tax with the individual income tax would simplify it and reduce its significant drain on the economy. In exchange, the plan would tax all forms of income at the same progressive rates.

Reform Tax Expenditures. The growing use of targeted exemptions, deductions, and credits has greatly added to the complexity of the income tax. Reducing, reforming and consolidating these tax breaks is vital in creating a more transparent and efficient tax system.

Create an Inheritance Tax. Rather than debate the merits of the estate tax, a far better approach would be to tax people fairly on all the income they receive by repealing the estate tax while simultaneously replacing it with an income tax on inheritances. Under such a tax, inheritances would be counted as part of one's income and taxed accordingly in the reformed tax code. Such a reform would both broaden the base and lower the rates on the taxation of estates.

Create a New Revenue Stream from Environmental Taxes. Pollution taxes or other market-based policies need to be designed to decrease both America's energy consumption and its emissions of greenhouse gases. Adopting an environmental tax—such as a gas tax or a system of tradable carbon

permits—would bring with it many benefits including helping to curb energy consumption and dependency, improvements to pollution and environmental degradation, and a much-needed new revenue stream.

The proposal can be downloaded at the New America Foundation website: "[A Comprehensive Tax Plan for the 21st Century](#)".

About the New America Foundation

Established in 1999, the New America Foundation is an independent, non-partisan, non-profit public policy institute dedicated to supporting a new generation of public intellectuals and public policy thinkers.

Described by *The New York Times* as “breaking out of the traditional liberal and conservative categories” and by *Newsweek* as “a hive of state-of-the-art policy entrepreneurship,” New America’s mission is to produce solutions-oriented research and writing on our nation’s most difficult policy challenges. Please visit our web site for more information on New America’s Fiscal Policy Program.