

Options for Revenue

William Gale
Brookings Institution
Co-director, Tax Policy Center

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Characterizing the current tax system – A narrow tax base

- A lot of loopholes, deductions, exemptions, credits, exclusions, etc.
- Uneven tax burdens across different types of income and spending
- Higher overall tax rates than needed
- Too Complicated

A narrow base undercuts every plausible goal of tax policy

- Reduces revenues
 - making it harder to finance government, given the size of the economy
- Hurts the economy
 - making it even harder to finance spending
- Makes the system less progressive than it looks
 - because of the loopholes, etc.
- Undermines support for taxes and hence for government
 - because it is complicated and seen as unfair

What to do

- Link taxes and spending in the public debate
- Simplify taxes
- Focus on the progressivity of the (tax and spending) system as a whole, not of individual provisions
- Stop talking about tax cuts and start talking about raising revenue

Raising revenue – only 3 ways to do it

- Grow the economy
 - The economy is more important than the budget
 - Necessary but not sufficient for fiscal responsibility
- Clean up existing taxes
 - Broaden the base – close loopholes
 - Reform treatment of deductions, credits, exemptions
- Develop new revenue sources
 - VAT
 - Carbon tax or cap-and-trade