

Expanding the Discussion of the Flat Tax

I read with interest “Simulating a Flat Tax Model: What Are the Likely Outcomes,” and I would like to congratulate the authors on their deep analysis of the topic (Brita Boudreau and Thomas M Dalton, *The CPA Journal*, October 2013, pp. 14–21). The authors did a good job quantifying the impact of a flat tax model versus the existing paradigm. But this is only one side of the conversation on this concept. In addition to this quantification, a broader conversation should take place about the qualitative issues that the tax system presents. Namely, we have to involve two other financial disciplines: economics and finance.

From the perspective of economists and policy makers, the effects of tax structures represent a society’s underlying economic structure. A flat tax has to be con-

sidered in this light—for example, the authors did not refer to the economic effects of removing the mortgage interest deduction or the social value of giving each American the opportunity to own a home. Similarly, the inclusion of a charitable contribution deduction is a prime incentive to maintain a small, efficient government supplanted by a more market-driven not-for-profit sector.

In terms of financial markets and finance, a flat tax rate could affect the efficiency of markets. It could also clarify the effects of the tax system on the efficiency of financial markets. This would likely enhance the robustness of the American financial markets and make them an even better place for investors.

These two additional elements—although they somewhat contradict the proposed model in the authors’ approach—should be part of any conversation about a flat tax.

Yigal Rechtman, CPA, CFE, CITP, CISM,
*Senior manager for forensics and litigation
Grassi & Co..*

The Author Responds

Yigal Rechtman’s comments are absolutely correct. Any flat tax discussion must include the qualitative effects of a change, as well as the quantitative shift in tax burden. Our study was not interactive—in other words, taxpayer behavior will inevitably change when a tax system changes. For the sake of simplicity, our flat tax simulation ignored these complex potential behavioral changes that are indeed part of any real-world application of such a policy. □

Thomas M Dalton, PhD, CPA
*Professor of accountancy and taxation
University of San Diego*

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