

Taxing Options

Option 1: Flat Tax

A Flat Tax system applies the same rate to every taxpayer regardless of their income, generally allowing no deductions or exemptions. Sales tax and payroll taxes are types of flat tax.

Pros:

Makes filing easier

Encourages people to earn more

Cons:

Most agree that a flat tax is regressive, penalizing low-income people

Option 2: Value-Added Tax (VAT)

Value-added tax is a “consumption tax” on goods and services that is levied at each stage of the supply chain where value is added, from initial production to the point of sale. The amount of VAT the user pays is based on the cost of the product minus any costs of materials in the product that have already been taxed at a previous stage.

Pros:

Substituting VAT for income tax could close loopholes

Provides incentive to earn more than a progressive system does

Simplify tax-code and streamline IRS

Cons:

VAT creates higher costs for businesses

Can encourage tax evasion

Higher prices

Create conflicts between state and local governments re: sales tax