

A Tax Reform Conundrum: Insights From A Survey Of Tax Professors

Gary M. Fleischman, (Email: gflash@uwyo.edu), University of Wyoming
Paul D. Hutchison, (Email: hutchp@cobaf.unt.edu), University of North Texas

Abstract

The George W. Bush presidency's mandate for tax cuts, combined with predictions of substantial budget surpluses during the next ten years, is fueling two related debates: (1) elimination of the estate tax, and (2) reduction of tax rates by reforming and simplifying the tax code. This paper uses the results of a survey of accounting tax professors to assess opinions regarding the elimination of the estate tax, as well as, the feasibility of reducing tax rates through reform by using a flat tax. The results of this study suggest that tax professors do not favor the repeal of the estate tax and are lukewarm to replacing the current tax system with a flat tax.

Introduction

During the first month of the George W. Bush presidency, issues concerning tax cuts are stealing the headlines inside the Washington, D.C. Beltway once again. Projections of substantial budget surpluses during the next ten years are partially fueling this renewed attention. Further, Gilder and Rhodes (2001) assert that the federal tax burden has risen to 20.7 percent of gross domestic product, which is the highest level it has been in 50 years. Consequently, the Bush camp argues that the tax surplus should be partially returned to taxpayers in the form of tax cuts. Others counter argue that the projected surplus creates an opportunity to increase governmental spending on programs such as education, social security, Medicare, prescription drugs, and defense.

In addition to the renewed call for tax cuts, there also are two related debates that are raging: 1) a call to gradually eliminate the estate tax, and 2) suggestions to reduce tax rates by reforming and simplifying the tax code in general, which could be accomplished with a flat tax. Since taxation in this country is currently in the spotlight, it is therefore appropriate to critically assess these emotionally charged economic policy issues since each side of the debate is fraught with advantages and disadvantages.

Background And Literature Review

Tax issues are exceedingly complex because of conflicting economic theories, public opinion, and politics. Therefore, background and literature pertaining to the following tax quandaries are discussed

Readers with comments or questions are encouraged to contact the authors via email.

more fully below: (1) the issue of tax cuts in general, (2) arguments for and against elimination of the estate tax, and (3) proposals to simplify the tax code which could involve the introduction of a flat tax.

Arguments For And Against Tax Cuts In General

One of our most dividing economic issues in the United States relates to differing perceptions regarding the behavioral response to tax cuts. Many politicians do not support the Bush tax cut plan because they assert that lowering tax rates makes little sense because such cuts lead to less tax revenue. Other policymakers, often called supply-siders, counter that tax cuts stimulate economic activity, and thus minimize the loss of revenue through an energized economy.

Supply-side theory is usually associated with conservatives, but this now seems to be less descriptive. *The Wall Street Journal* recently told of the District of Columbia city council's attempt to spur economic growth through massive tax cuts.¹ Further, voters in socialist-minded Ontario, Canada ratified Mike Harris's Conservative government after he pledged that "tax cuts create jobs."² Also, a Senate Democrat, Bob Torricelli of New Jersey, states that "no one is rich enough in this country that the government should be taking 40% of anyone's income."³

Shlaes (1999) argues the public now wants *less* government rather than *more* government, so there is no reason to maintain a huge tax engine that consumes a larger share of the economy than it ever has since World War II. Gilder and Rhodes (2001) also believe that the only thing that could erase the projected 5.6 trillion dollar surplus over the next ten years would be slow or no economic growth. Additionally, Gilder and Rhodes are confident that if tax cuts could stimulate growth of 3 to 4 percent, this would lead to the largest budget surpluses in our history.

Paulson (2001) also believes that tax cuts are necessary to avert both a domestic and global recession. He asserts that monetary policy alone will not be enough to stave off recession because liquidity is not the only issue. Therefore, tax cuts are needed to jump start the economy, like the Kennedy and Reagan cuts, to stimulate weakening investment as consumers shy away from the stock market to save more. He also argues that across the board rate cutting is fair to the extent that all taxpayers benefit in proportion to their present tax contributions.

Hunt (1999) totally disagrees with cutting taxes, however. He calls the Republicans and opportunistic Democrats that wish to cut taxes because of the large projected budget surpluses the "worst pigs at this trough." Hunt sarcastically cites that tax cuts would disproportionately reward the "needy" rich. He mentions further that the surplus should instead be used to further finance education, Medicare, or even defense.

Pros And Cons Relating To The Elimination Of The Estate Tax

The estate tax was enacted in 1916 to redistribute the nation's wealth. This tax soon became a major revenue source during World War I. Today, however, federal estate and gift taxes account for only about 1 percent of federal tax revenues, and many argue that the costs of this transfer tax exceed the benefits.⁴

The Congressional Joint Economic Committee (CJEC) recently stated that "there is no theoretical or empirical basis to suggest that the estate tax promotes fairness or reduces inequality." Even though

the estate tax is credited with raising over \$23 billion in annual federal government revenue, the report asserts that this number is illusory, because estate tax avoidance activities likely generate equally large revenue losses to taxpayers, the environment, and to the economy as a whole.⁵

The CJEC further asserts that a widow(er)'s environment is hurt because not only must they deal with the loss of a loved one, they must also simultaneously deal with the pressures and headaches of an onerous tax with marginal rates of 55 percent or more. Besides the obvious damage that the estate tax renders to a family's estate, the CJEC also emphasizes that the tax is likely the primary reason why many family-owned businesses fail to survive beyond one generation. Additionally, the report states that the average family business spends \$318,074 for life insurance over the life of the business, and these businesses must spend an additional \$33,000 over time on lawyers, accountants, and financial advisors. A survey within the report stated that about 61 percent of family businesses indicated that the estate tax made long-term growth difficult or impossible.⁶

Finally, the CJEC report speaks for many that are ardently opposed to the estate tax. In fact, some states that are doing quite well fiscally are electing to trim or even eliminate these "death" taxes.⁷

Hunt (1999) satirically argues that repealing the estate tax is one of the sacred cows of the "deserving rich" tax cutters. He also points out that less than 2 percent of Americans will have to pay the estate tax, since there will be a \$1 million exemption by 2006. Kosnett (1999) agrees, noting that the anti-estate tax issue is slow to resonate with liberal Democrats who tend to see a curtailed estate tax as less of relief for small businesses and farmers and more as a "tax cut for the rich."

Proposals To Simplify The Tax Code—Would A Flat Tax Work?

Steve Forbes (1997) has long criticized the current income tax system. He asserts that the current tax code should be completely scrapped, and that some form of a flat tax should replace the current code that comprises a "monstrous, antifamily, anti-growth" system. Mr. Forbes is not alone in his disdain of the current system. Paulson (2001) highlights new Treasury Secretary Paul O'Neill's statement saying that the current code is "unworthy of an advanced civilization." Indeed, *the Wall Street Journal* reports that the American Bar Association Tax Section, American Institute of Certified Public Accountants Tax Division, and Tax Executives Institute all recently bombarded O'Neill about the tax complexity issue. These groups asserted in unison that tax simplification is now "an economic, political, and even moral imperative."⁸ Additionally, Caplin (2001) believes the following regarding the current tax system.

Our laws are riddled with an array of targeted tax preferences and so-called incentives—grievously complicating tax compliance, eroding our tax base and thus necessitating increased tax rates to meet revenue demands... Many taxpayers feel left out, discriminated against and abused. Their respect for the tax system is repeatedly undermined: they are less willing to comply. And when weakening occurs in voluntary compliance—which is at the very heart of our tax collection process—our nation pays a high price.

Clearly, the current code is much too complex and out of control. Consequently, a number of policymakers and politicians alike have suggested that we eliminate the current tax system and replace it with a flat tax.

Fleischman and Payne (1997) report in their study that Steve Forbes, Phil Gramm, and Arlen Specter have all offered flat tax proposals. Probably the most well developed flat tax proposal was suggested a few years ago by Congressman Dick Armey of Texas. His plan included only earned wages and pension benefits in income, while eliminating all itemized deductions. The Armey plan also proposed a family exemption of \$21,400 for families. Further, the tax rate that was to apply to the taxable base was 20 percent for the first two years and 17 percent thereafter. Both Armey and Forbes boasted that their flat tax proposals would not only cut tax rates for everyone, but would also be so simple that filings could be made on postcard-sized returns.

Research Questions

The present study surveyed tax professors regarding estate tax elimination as well as the effectiveness of the Armey Flat Tax as compared with the current tax system. Both of these issues relate to the Bush administration's goal of tax rate reduction. The questions about the Armey Flat Tax are associated with economist Eric Toder's (1995) characteristics of an efficient and effective tax system. More specifically, Toder argues that a system of idealized tax reform would involve a new structure that would:

1. Distribute the tax burden equitably;
2. Minimize the distortion of economic decisions;
3. Promote economic growth and taxpayer savings; and
4. Minimize monitoring (auditing) costs.

Consequently, this study assesses the following six research questions (RQs):

- RQ#1. Should the current estate tax system be repealed?
- RQ#2. Would the Flat Tax distribute the tax burden MORE equitably than the current tax system?
- RQ#3. Would the Flat Tax distort economic decisions LESS than the current tax system?
- RQ#4. Would the Flat Tax MORE effectively promote economic growth as compared to the current tax system?
- RQ#5. Would the Flat Tax MORE effectively promote individual taxpayer savings as compared to the current tax system?
- RQ#6. Would the Flat Tax require LESS monitoring costs (auditing) as compared to the current tax system?

The next section discusses the study's survey sample and response rate. Next, the statistical results associated with the above six research questions are addressed.

The Survey Sample And Response Rate

The authors surveyed accounting tax professors at colleges and universities throughout the United States via email to obtain perceptions regarding the key tax issues described above. More specifically, the email survey asked tax professors for their opinions regarding the potential repeal of the estate tax, as well as, their views regarding the effectiveness of the Armey Flat Tax as compared to the current tax system.

Tax professors were chosen as the subject group of this email survey for a number of reasons. As academics, tax professors are more likely to read and write about tax policy problems, issues, and potential reform solutions. Tax professionals, on the other hand, often do not have the flexibility to delve deeply into tax reform proposals because of their day-to-day client pressures. Further, the general public does not generally possess the tax expertise to thoughtfully critique complex political and economic issues.

Information and email addresses for this email opinion survey were obtained from John Hasselback's *1997 Accounting Faculty Directory*. Tax professors received a questionnaire using a five-point Likert-scale continuum where a response of "1" indicated **Strongly Disagree** while a response of "5" indicated **Strongly Agree**.

The authors emailed the first surveys on February 13, 1997. It took six days to distribute the entire email survey. The authors hoped that mid-February would be an appropriate time to send the survey, since it was not at the very beginning of the semester or at the very end.

The initial sample included 703 email addresses. Unfortunately, this initial sample contained 163 erroneous addresses, so the authors made significant efforts to correct them, including Internet searches. The authors were able to correct 105 addresses after all their efforts to properly identify the erroneous ones. Therefore, the final sample consisted of 645 tax professors.

To insure that there were no errors in transmission, the authors sent each survey individually. There were 164 professors (25.4 percent) who responded to the survey, including 12 surveys with no data, which possibly could have been caused by email system dissimilarity. Follow-up efforts produced 3 more email surveys, which provided a total of 155 usable responses (24 percent). The authors received the last response seven weeks after emailing the survey, and received most surveys during the first two weeks after transmittal.

Demographic Description Of Survey Respondents

Table 1 provides descriptive information about the survey respondents. Each respondent was classified by James R. Hasselback's *1997 Accounting Faculty Directory* as teaching at least some tax classes, as denoted by an "X" next to the professor's name. Panel A reports that most of the respondents are male (78 percent), while Panel B shows that 83 percent of the responding group are CPAs. The majority (67 percent) hold the Ph.D. degree, while 20 percent have an MBA only, according to Panel C. Panels D and E indicate that responses were received from various teaching ranks and regions of the country. Finally, Panel F evidences that most respondents teach tax and other classes on a regular basis.

Results

The following section provides the statistical results pertaining to the six research questions that provide the focus for this study. The simple statistics pertaining to the professor responses to each research question (the dependent variable in the regressions) will be discussed first. This data is contained in Table 2. Simple statistics regarding the estate tax (research question #1) are contained in Panel A of the table. The simple statistics for the five Flat Tax questions (research questions #2 through #6) are contained in Panel B of Table 2. For comparison purposes, tax professor opinions re-

garding the *current* tax system are presented in Table 3.

Next, the dependent variables associated with research questions #1 through #6 are further investigated using ANOVA multiple regression analysis. For each research question dependent variable, the demographic variables contained in Table 1 are used as explanatory variables to further investigate tax professor responses. Also, the other research questions from the survey are included as explanatory variables to assess associations between the questions themselves. Table 4 contains only the statistically *significant* explanatory (independent) variables associated with each research question dependent variable (alpha = .10).

Table 1
Demographic Description Of Respondents

Panel A: Sex	Percent
Male	78
Female	22
Panel B: CPA Certification	Percent
Yes	83
No	17
Panel C: Graduate Degree Type	Percent
Ph.D.	67
J.D.	13
M.B.A.	20
Panel D: Rank	Percent
Full Professor	32
Associate Professor	33
Assistant Professor	26
Lecturer	9
Panel E: Region of Country	Percent
Southeast	28
Northeast	17
Southwest	25
Northwest	5
Midwest	25
Panel F: Percentage Teaching Tax Classes	Percent
Teach Tax classes only	37
Regularly teach Non-tax classes as well	63

Research Question #1: *Should the estate tax system be repealed?*

Table 2, Panel A reports a research question #1 mean response of **2.57** (median and mode = 2) pertaining to the elimination of the estate tax. Although this response is not overwhelmingly negative, it is interesting to note that approximately 60 percent of the tax professors responding to the survey are against elimination. These results *could* indicate that many professors do not want to eliminate the estate tax because they believe that elimination would favor the rich disproportionately. Also, estate tax

elimination may provide a conflict of interest for some tax professors, since they may teach a course on estate planning and/or may consult in this field.

Table 2
Research Questions

Panel A—Estate Tax Question

SURVEY QUESTION	SIMPLE STATISTICS	
Research Question #1: <i>The current estate tax system should be repealed since it raises little revenue.</i>	MEAN	2.57
	MEDIAN	2
	MODE	2
	STD DEV	1.35

Panel B—Flat Tax Questions

SURVEY QUESTION	SIMPLE STATISTICS	
Research Question #2: <i>The Arme y Flat Tax proposal would distribute the tax burden in a MORE equitable manner than the current tax system.</i>	MEAN	2.01
	MEDIAN	2
	MODE	1
	STD DEV	1.17
Research Question #3: <i>The Arme y Flat Tax proposal would distort economic decisions LESS than the current tax system.</i>	MEAN	2.70
	MEDIAN	3
	MODE	3
	STD DEV	1.20
Research Question #4: <i>The Arme y Flat Tax proposal would MORE effectively promote economic growth as compared to the current tax system.</i>	MEAN	2.70
	MEDIAN	3
	MODE	3
	STD DEV	1.20
Research Question #5: <i>The Arme y Flat Tax proposal would MORE effectively promote individual taxpayer savings as compared to the current tax system.</i>	MEAN	3.00
	MEDIAN	3
	MODE	4
	STD DEV	1.30
Research Question #6: <i>The cost of effectively monitoring the Arme y Flat Tax proposal would be LESS than the costs to effectively monitor the current tax system.</i>	MEAN	3.10
	MEDIAN	3
	MODE	4
	STD DEV	1.31

Where a Likert-Scale response of:

- 1 = Strongly Disagree
- 2 = Disagree
- 3 = Neither Agree nor Disagree
- 4 = Agree
- 5 = Strongly Agree

Table 4 provides the multiple regression results for the estate tax elimination dependent variable associated with research question #1. The only independent variable that provided marginally significant explanatory power was the survey question that asked respondents whether or not the current tax

system raised sufficient revenue (Table 3—current tax system question #1). Not surprisingly, this variable has a positive association with the estate tax elimination dependent variable. Tax professors do not support the elimination of the estate tax, which also contributes to the overall sufficiency of the tax system as a whole to generate revenues.

Research Question #2: *Would the Flat Tax distribute the tax burden MORE equitably than the current tax system?*

Table 3
Comparison Chart—Current Tax System

Tax Professor Opinions Of The Current Tax System

SURVEY QUESTION	SIMPLE STATISTICS	
Current Tax System Question #1: <i>The current tax system raises sufficient revenue.</i>	MEAN	3.86
	MEDIAN	4
	MODE	5
	STD DEV	1.14
Current Tax System Question #2: <i>The current tax system distributes the tax burden equitably.</i>	MEAN	2.60
	MEDIAN	3
	MODE	2
	STD DEV	1.00
Current Tax System Question #3: <i>The current tax system does not excessively distort economic decisions.</i>	MEAN	2.60
	MEDIAN	2
	MODE	2
	STD DEV	1.10
Current Tax System Question #4: <i>The current tax system promotes economic growth.</i>	MEAN	2.80
	MEDIAN	3
	MODE	3
	STD DEV	0.90
Current Tax System Question #5: <i>The current tax system promotes individual taxpayer saving.</i>	MEAN	2.20
	MEDIAN	2
	MODE	2
	STD DEV	1.00
Current Tax System Question #6: <i>With the current tax system, the costs of monitoring compliance are reasonable.</i>	MEAN	2.80
	MEDIAN	3
	MODE	2
	STD DEV	1.20

Where a Likert-Scale response of:

- 1 = Strongly Disagree
- 2 = Disagree,
- 3 = Neither Agree Nor Disagree
- 4 = Agree
- 5 = Strongly Agree

Table 2, Panel B reports a research question #2 mean response of 2.01 (median = 2; Mode = 1). Tax professors overwhelmingly believe that the Flat Tax would not distribute the tax burden more equitably than the current tax system. In fact, the low measures of central tendency indicate that professors believe the Flat Tax would be much *worse* than the current tax system. For comparison purposes, it is instructive to note that Table 3—current tax question #2, indicates that professors believe that the current system is not that equitable with respect to tax burden distribution either, given the mean response rate of only 2.6. This leads us to conclude that tax professors are ambivalent at best about the current system’s distributional effects, and are much more skeptical about the relative ability of the Flat Tax to distribute tax burdens equitably.

Table 4
ANOVA Multiple Regression Results

DEPENDENT VARIABLE	SIGNIFICANT INDEPENDENT VARIABLE(S)	t-Value / p-Value
Research Question #1 (Repeal Estate Tax)	Does the current tax system raise sufficient revenue?	1.85 / .0671
Research Question #2 (Flat Tax—Tax Burden)	(RQ#3) Flat Tax—Distortion (RQ#4) Flat Tax—Economic Growth Time devoted to teach Tax	4.42 / .0001 6.37 / .0001 -2.27 / .0250
Research Question #3 (Flat Tax—Distortion)	(RQ#2) Flat Tax—Tax Burden (RQ#4) Flat Tax—Economic Growth Tax professor rank	3.92 / .0002 4.46 / .0001 -2.04 / .0444
Research Question #4 (Flat Tax—Economic Growth)	(RQ#2) Flat Tax—Tax Burden (RQ#3) Flat Tax—Distortion (RQ#5) Flat Tax—Promote Savings (RQ#6) Flat Tax—Monitoring Costs	5.19 / .0001 2.58 / .0109 7.55 / .0001 2.29 / .0233
Research Question #5 (Flat Tax—Promote Savings)	(RQ#4) Flat Tax—Economic Growth	12.48 / .0001
Research Question #6 (Flat Tax—Monitoring Costs)	(RQ#3) Flat Tax—Distortion (RQ#4) Flat Tax—Economic Growth	1.90 / .0591 4.80 / .0001

Where,

- Research Question #1 (RQ#1): *The current estate tax system should be repealed since it raises little revenue.*
- Research Question #2 (RQ#2): *The Arme y Flat Tax proposal would distribute the tax burden in a MORE equitable manner than the current tax system.*
- Research Question #3 (RQ#3): *The Arme y Flat Tax proposal would distort economic decisions LESS than the current tax system.*
- Research Question #4 (RQ#4): *The Arme y Flat Tax proposal would MORE effectively promote economic growth as compared to the current tax system.*
- Research Question #5 (RQ#5): *The Arme y Flat Tax proposal would MORE effectively promote individual taxpayer savings as compared to the current tax system.*
- Research Question #6 (RQ#6): *The cost of effectively monitoring the Arme y Flat Tax proposal would be LESS than the costs to effectively monitor the current tax system.*

Table 4 presents the significant independent variables associated with research question #2. The ANOVA results suggest that both research question #3 (relating to the Flat Tax distorting decisions less than the current system) and question #4 (relating to the Flat Tax promoting economic growth more effectively than the current system) are positively associated with the dependent variable. Respondents apparently were consistent in their assessment of research questions #2 through #4. For example, if they disliked the Flat Tax as compared to the current system, they responded accordingly to these three research questions.

What is more interesting, however, is the negative association Table 4 reports regarding the demographic dummy variable *time devoted to teach tax*. This dummy variable was set to equal one when professors teach only tax, and equal to 0 when they taught tax as well as other courses. Professors teaching *only tax* are much more skeptical about the ability of the Flat Tax to distribute the tax burden equitably. It is possible that professors that focus solely on tax issues embrace the concept of a progressive tax structure more passionately than their colleagues who focus on other sub fields of accounting in addition to tax.

Research Question #3: *Would the Flat Tax distort economic decisions LESS than the current tax system?*

Table 2, Panel B reports a research question #3 mean response of **2.70** (Median and Mode = 3). This suggests that tax professors are ambivalent at best regarding the ability of the Flat Tax to distort economic decisions less than the current tax system. For comparison purposes, Table 3—current tax question #3 indicates (mean of **2.60**) that professors were not impressed with the current system's ability to not distort economic decisions. Again, these simple statistics do not bode well for the Flat Tax. Tax professors are not happy with the amount of distortion caused by the current system, but are apparently even less optimistic about a proposed Flat Tax system's distortion of economic decisions.

Not surprisingly, Table 4 suggests that dependent variable question #3 is positively associated with the Flat Tax burden and growth questions (research questions #2 and #4 respectively). This corroborates the associations mentioned in the above discussion of the research question #2 dependent variable. What is interesting to note is that the demographic variable *tax professor rank* is negatively associated with the Flat Tax distortion dependent variable. Tax professor rank is a multi-level variable where assistant professors are coded with a 0, associate professors are assigned a 1, full professors a 2, and lecturers in the sample are coded a 3. Lecturers as well as Assistant and Full professors are much more positive about the Flat Tax's ability to not distort economic decisions than are associate professors, who are quite skeptical.

Research Question #4: *Would the Flat Tax MORE effectively promote economic growth as compared with the current tax system?*

Table 2, Panel B reports a research question #4 mean response of **2.70** (median and mode = 3). For comparison purposes, Table 3 reports that tax professors are ambivalent regarding the current system's ability to promote economic growth (see question #4-mean = **2.80**). Again, these simple statistics do not reflect well for the Flat Tax. Professors are ambivalent about the current system's ability to promote growth, and tend to be ambivalent at best regarding the Flat Tax's ability to promote growth any better than the current tax system. As was the case with the previous Flat Tax dependent variables, the present dependent variable is positively associated with a host of other Flat Tax research questions

(Table 4).

Research Question #5: *Would the Flat Tax MORE effectively promote individual taxpayer savings as compared to the current tax system?*

Table 2, Panel B reports a research question #5 mean response of 3.00 (median = 3 and mode = 4). For comparison purposes, Table 3 reports that tax professors believe that the current system poorly promotes individual taxpayer savings (see question #5—mean = 2.20). These results indicate that tax professors are unimpressed with the current system's savings incentives, and believe that the Flat Tax would not provide greater savings incentives than the current system. As expected, Table 4 reports that the research question #5 dependent variable is positively associated with Flat Tax research question #4 regarding economic growth.

Research Question #6: *Would the Flat Tax require LESS monitoring (auditing) costs as compared with the current tax system?*

Table 2, Panel B reports a research question #6 mean response of 3.10 (median = 3 and mode = 4). For comparison purposes, Table 3 reports that tax professors are ambivalent regarding the reasonableness of the current tax system's costs of monitoring compliance (see question #6—mean = 2.80). For practical purposes, these results suggest that tax professors do not have any strong beliefs about the compliance costs of the current system or the Flat Tax. Table 4 reports a positive association between Flat Tax research question #6 (dependent variable) and both the Flat Tax distortion and economic growth independent variables (research questions #3 and #4 respectively).

Summary Of Results

Table 2, Panel A suggests that tax professors do not favor a repeal of the estate tax. If the results associated with Flat Tax research question #2 are any indication, it is possible that tax professors believe that such a repeal would not be equitable because it would favor the wealthiest individuals. Further, the elimination would also hamper the government's ability to raise revenues. It is important to keep in mind, however, that the estate tax raises only about one percent of overall revenues, so the *equitable* argument may be more plausible here.

The authors were not surprised that professors believe the Flat Tax is not equitable regarding the distribution of the tax burden. They expected this reaction because the progressive tax rate structure that has been a part of our current system for over eighty years would be replaced with a single tax rate structure.

What was especially alarming, however, was the professors' lukewarm response to the other four Flat Tax questions (research questions #3 through #6). Economists have long argued that higher tax rates distort economic decision-making. Rosen (1992) argues that doubling a tax rate quadruples its excess burden (inefficiency), holding other factors constant. A lower, single level tax rate should, therefore, reduce this distortion. Further, lower marginal rates from a flat tax are hypothesized by supply-side economists to spur the economy, just as the Kennedy and Reagan tax cuts did in the past. It is possible that the professors in the present study do not generally share these supply-side beliefs. These persons may cite the economy of the past eight years as an example where Americans have flourished despite former president Clinton's tax increases in 1993.

Indeed, the greatest shock to the authors related to the last two research questions pertaining to the Flat Tax's ability to promote individual taxpayer savings and minimize monitoring (compliance) costs, respectively. The current system has been criticized for years that it provides little incentive for taxpayer savings, and even rewards debt through deduction of certain forms of interest expense. The Arme Flat Tax proposal, however, would exempt interest, dividend and capital gain income from taxation, which should provide a tremendous incentive for individual savings! The results regarding monitoring costs also surprised the authors. The Flat Tax would eliminate the majority of the convoluted complexity associated with the current tax system. In fact, Steve Forbes and Dick Arme, among others, have promulgated the fact that the Flat Tax could be filed on a postcard. Not only would simpler returns be easier to monitor, they should also encourage compliance because of their simplicity, while eliminating the multitude of special deductions that many taxpayers believe to be unfair.

In conclusion, a key contribution of this study relates to a simple fact: there is tremendous disagreement regarding how we can effectuate tax reform in this country. Vicious debate seems to shroud any tax reform proposal, and a consensus seems difficult to achieve. Clearly, America faces a tax reform conundrum as policymakers struggle to reform our unwieldy tax system in an attempt to purge it of its growing complexity and perceived unfairness by many citizens.

Suggestions For Future Research

Further research is needed to investigate the opinions and beliefs of other key taxpayer constituents regarding tax reform issues. For example, academicians should query members of the American Bar Association's (ABA) tax section as well as the American Institute of Certified Public Accountant's (AICPA) tax division to determine their beliefs about the current system, as well as, substantive tax reform proposals. Further, researchers should query the public and examine tax return databases to determine a present day ranking of importance for tax credits and deductions, and assess whether there is a need for more or less. The authors believe that further investigations will be helpful to policymakers as they struggle to find a balance between refining the old tax system versus completely scrapping it in favor of a tax reform alternative. □□

Endnotes

1. "Cities Discover Tax Cuts," *The Wall Street Journal* (April 26): p. A18, 1999.
2. "Tax Cuts Rewarded," *The Wall Street Journal* (June 8): p. A18, 1999.
3. Gigot, P., "Torch Wants To Burn GOP On Taxes," *The Wall Street Journal* (February 26): p. A14, 1999.
4. See, for example, Strupp, J., "Federal Estate Tax Repeal Rides Again," *Editor and Publisher*, Vol. 132, No. 11 (March 13): p. 14, 1999.
5. See, for example, Brostoff, S., "Congressional Report Blasts The Estate Tax," *National Underwriter*, Vol. 103, No. 1 (January 4): pp. 1 and 29, 1999; and Brostoff, S., "Agent Group Hails Estate Tax Report," *National Underwriter*, Vol. 103, No. 3 (January 18): p. 9, 1999.
6. Ibid.
7. See, for example, Kosnett, J., "Estate Tax Backlash Spreads," *Life Association News*, Vol. 94, No. 4 (April): pp. 26-28, 1999.
8. See, for example, "Tax Report," *The Wall Street Journal* (February 14): p. A1, 2001.

References

1. Brostoff, S., "Agent Group Hails Estate Tax Report," *National Underwriter*, Vol. 103, No. 3 (January 18): p. 9, 1999.
2. Brostoff, S. "Congressional Report Blasts The Estate Tax," *National Underwriter*, Vol. 103, No. 1 (January 4): pp. 1 and 29, 1999.
3. Caplin, M., "Now Is The Time To Reform The Tax Code," *The Wall Street Journal* (February 7): p. A26, 2001.
4. "Cities Discover Tax Cuts," *The Wall Street Journal* (April 26): p. A18, 1999.
5. Fleischman, G. and T. Payne, "An Analysis Of The Ramifications Of Key Tax Reform Proposals On Small Business Proprietorships," *Arkansas Business And Economic Review*, Vol. 30, No. 3 (Fall): p. 13, 1997.
6. Forbes, S., "Tear Down This Tax Code," *The Wall Street Journal* (July 15): p. A18, 1997.
7. Gidgot, P., "Torch Wants To Burn GOP On Taxes," *The Wall Street Journal* (February 26): p. A14, 1999.
8. Gilder, R. and T. Rhodes, "Bush Needs A Bigger Tax Cut," *The Wall Street Journal* (February 8): p. A22, 2001.
9. Hasselback, J., *1997 Accounting Faculty Directory*, Prentice Hall, Inc.: Upper Saddle River, New Jersey, 1997.
10. Hunt, A., "The Wrong Tax Cut At The Wrong Time," *The Wall Street Journal* (July 8): p. A19, 1999.
11. Kosnett, J., "Estate Tax Backlash Spreads," *Life Association News*, Vol. 94, No. 4 (April): pp. 26-28, 1999.
12. Paulson, H., "Bush Tax Plan: Just What The Economy Needs," *The Wall Street Journal* (February 15): p. A18, 2001.
13. Rosen, H., "Taxation And Efficiency," *Public Finance*, 3rd edition, Irwin Publishers: Homewood, Illinois, p. 316, 1992.
14. Shlaes, A., "Why Tax Cuts Make Sense In Good Times," *The Wall Street Journal* (July 1): p. A14, 1999.
15. Strupp, J. "Federal Estate Tax Repeal Rides Again," *Editor And Publisher*, Vol. 132, No. 11 (March 13): p. 14, 1999.
16. "Tax Cuts Rewarded," *The Wall Street Journal* (June 8): p. A18, 1999.
17. "Tax Report," *The Wall Street Journal* (February 14): p. A1, 2001.
18. Toder, E., "Comments On Proposals For Fundamental Tax Reform," *Tax Notes* (March 27): pp. 2003-2015, 1995.

Notes