Optimizing the U.S. Tax System

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I. Introduction

Taxation is one of the most important aspects of an organized society. No government in history has been able to properly function without some form of gathering resources from its citizens and redirecting them toward collective purposes. Roads, national defense, and social safety nets are examples of goods that society is better off providing than leaving to individuals. Every household and every business is subject to taxation, making the way a nation designs its tax system play an important role in what it rewards, what it discourages, and how it distributes those funds to society's needs.

Growing concerns over the complexity of the tax code, the inefficiency of its administration, the size of the national debt, and a general decline in public trust have caused calls for fundamental tax reform. Politicians, economists, and ordinary taxpayers have questioned whether the current system is suitable and reasonable for the modern era.

How can the United States modernize its tax system to promote fiscal stability, economic growth, social cohesion, and national unity? Answering this question requires understanding why taxation has historically mattered to the success of civilizations, how the American system arrived at its current state, and which specific principles can lead America to a solution that unifies our country.

II. The Role of Taxation in Great Civilizations

Throughout history, taxation has served a consistent set of purposes. It funds the day-to-day operations of government, from administrators' salaries to the maintenance of courts and legal systems. It provides public goods that markets struggle to supply, such as roads, sanitation, and public safety. It maintains national defense, allowing states to protect their populations and their territorial integrity. It supports the infrastructure that enables private infrastructure. These purposes have not changed fundamentally for thousands of years, even as the methods of collection have grown more advanced.

In ancient Egypt, taxation was closely tied to the agricultural cycle and the management of the Nile River. Taxes, often collected in the form of grain or labor, funded the irrigation systems that made farming possible in an otherwise arid region, as well as the administrative apparatus that coordinated construction projects, religious institutions, and the pharaoh's government. Without a reliable system of taxation, the successes of ancient Egypt would not have been possible.

The Roman Empire built one of the most extensive tax systems of the ancient world, and it used the proceeds to fund a military that protected an empire spanning three continents. Roman taxation also financed an extraordinary network of roads, aqueducts, and public works that connected distant provinces to the imperial center and improved the quality of life for millions of subjects. Rome thrived on its tax system, sustaining its civilization for centuries.

Looking at prior civilizations' successes with their tax systems shows that they used their systems to their advantage, making them as efficient and effective as possible so they could flourish. Taxation has historically been essential not only to economic stability but also to social unity, since the perceived fairness of a tax system affects citizens' willingness to support their government. When tax systems become disconnected from public consent or perceived legitimacy, many problems can arise, with most taxpayers feeling that tax collection is unfair and refusing to participate.

III. Evolution of Taxation in the United States

In the early years of the republic, the federal government relied primarily on tariffs on imported goods and excise taxes on select domestic products, such as whiskey, to fund its operations. The federal government during this period was smaller than our government is now, so it didn’t require as much revenue. Even so, early excise taxes were controversial, as demonstrated by the Whiskey Rebellion of the 1790s, foreshadowing tensions that would continue to arise over federal taxation.

The Civil War also marked a major turning point in American fiscal history. To finance the war effort, Congress introduced the nation's first federal income tax in 1861, along with other emergency revenue measures. The U.S. imposed a flat 3% tax on incomes over $800. It was quickly replaced in 1862 by a progressive tax system. This wartime income tax established a precedent that the federal government could, in moments of national necessity, tax its citizens' incomes directly.

The modern federal income tax came with the ratification of the Sixteenth Amendment in 1913, which permanently established the federal government's authority to levy an income tax without apportioning it among the states based on population. This amendment transformed the scale and scope of federal taxation, building the foundation for the income tax system that persists today.

The current federal tax system is a complex collection of taxes that has grown and changed over the last hundred years. Individual income taxes remain the largest single source of federal revenue. Layered atop this federal structure are state and local taxes, which vary from one jurisdiction to another and include their own income, sales, and property taxes.

IV. **Problems with the Current U.S. Tax System**

Despite its long history and its central importance to government functions, the current U.S. tax system faces significant criticism. These criticisms include complexity, cost, economic distortion, fairness, fiscal sustainability, and public trust.

The current federal tax code has grown to thousands of pages of legal text, supplemented by tens of thousands of pages of regulations, rulings, and interpretive guidance. For the average taxpayer, this complexity makes it difficult to understand what is owed and what deductions or credits may be claimed.

Even tax professionals often disagree about the proper treatment of complex transactions, highlighting how far the system has become too complicated for the ordinary citizen.

There are many deductions, credits, and loopholes in the tax code that have fueled public perceptions of unfairness. Over 40% of Americans are expected to pay no federal income tax in 2025. This is not tax evasion, and these households aren't doing anything wrong, but in many cases, people will simply file a return and find they owe nothing after deductions and credits are applied.

Also, the Internal Revenue Service (IRS) is considered an inefficient government agency that has a negative reputation due to staff cuts and a lack of funding. Since Trump's inauguration in 2024, the IRS has lost over 28,000 employees. The IRS plans to use AI to address staffing gaps, but there is no telling whether that will work.

V. Principles of an Effective Tax System

An effective tax system should be easy for ordinary citizens to understand and comply with, without requiring specialized expertise or costly professional assistance to meet tax obligations. A system where a tax professional is necessary to minimize tax liability benefits the wealthier taxpayer, who can pay for the best tax advice. A tax system should treat taxpayers equitably, both in the sense of treating similarly situated taxpayers similarly and in the sense of distributing burdens in a manner that the public regards as just. If only half of America is contributing to the public services and entities we use, it is unfair. The tax code should be simple, transparent, and accessible so that all citizens can understand their responsibilities and contribute to the government.

An effective system must reliably generate sufficient revenue to fund government functions, even as economic conditions continue to fluctuate. A tax system requires public trust and a sense of unity to function well over the long term, while a divisive one invites tax evasion and further political conflict.

VI. International Perspectives on Taxation

The United States is not alone in confronting the challenge of designing a tax system that is simultaneously adequate, efficient, and considered reasonable by its citizens. Most European nations rely heavily on value-added taxes, or VATs, which are broad-based consumption taxes collected incrementally at each stage of production and distribution. VATs generate substantial revenue for European governments, often functioning alongside rather than instead of income taxation, and demonstrate that consumption-based taxation can serve as a durable and significant source of government revenue in advanced economies.

Canada operates a national Goods and Services Tax, a value-added consumption tax applied at the federal level and, in many provinces, harmonized with provincial sales taxes. The Canadian model shows that a national consumption tax can coexist with federal government structures, including relationships between national and subnational taxing authorities, in a manner similar to the American federal system.

New Zealand's Goods and Services Tax is frequently cited by economists as a model of simplicity and administrative efficiency, largely because it applies to a very broad base of goods and services with few exemptions. This design choice minimizes the complexity and compliance costs associated with the tax, offering a useful example of how appealing to the largest number of citizens can contribute to unity.

The Nordic countries, including Sweden, Denmark, and Norway, are known for combining relatively high overall tax burdens with extensive public services, including universal healthcare and generous social insurance programs. These countries rely on a mix of income and consumption taxation, and their experience suggests that public acceptance of taxation is closely tied to citizens' confidence that tax revenue is fully used.

VII. Tax Reform, Public Trust, and National Unity

Debates over the proper scope of income redistribution and the appropriate distribution of the tax burden among income groups have become a constant source of political conflict in the United States. These disagreements often reflect different values on fairness and the proper role of government, and it is becoming increasingly more difficult to please everyone in the US.

The complexity of the current tax code compounds these political divisions by creating confusion and frustration among ordinary taxpayers, many of whom struggle to understand how their tax burden compares with others'. This confusion makes it easier for political polarization to continue to increase, since citizens often lack a shared understanding of how the system functions.

A more transparent system of taxation, in which citizens can clearly see what they are paying and why, has the potential to improve accountability between citizens and their government. When tax burdens are visible and comprehensible, elected officials face greater public scrutiny of decisions to raise or lower taxes, underscoring that the people have the power to influence legislation.

Unity in taxation also carries symbolic importance as an expression of shared civic participation. A system in which all citizens contribute to funding government, without extensive special treatment or the perception of favoritism toward specific classes of households, can reinforce a sense of common purpose and shared national identity.

VIII. Proposal for a Modernized Tax System: A Hybrid VAT

The FairTax Act, first introduced in Congress in 1999 and reintroduced in nearly every session since, offers a useful blueprint even if its full version is unlikely to ever pass. Its core mechanics can be adapted into a hybrid system that layers a national retail sales tax on top of a simplified, reduced-scope federal income tax, rather than eliminating income taxation entirely.

Under a pure national sales tax, the collection mechanism is straightforward: retailers collect tax at checkout, much like the state sales tax already in place in roughly 45 states and remit it to the federal government. But a purely retail-based sales tax, and even more so a full value-added tax (VAT), creates its own vulnerabilities. VAT systems rely on chains of business-to-business exemptions and input credits to avoid taxing production rather than final consumption. This creates increased opportunities for fraud, including misclassifying business inputs as exempt, manipulating invoice chains to claim credits that were never legitimately due, or exploiting cross-border and carousel schemes in which goods are passed through shell transactions solely to generate refundable credits. Countries with mature VAT systems, including several in the EU, continue to lose substantial revenue to exactly this kind of exploitation each year. A consumption tax layered onto, rather than replacing, the income tax gives the IRS a second, independent data source to cross-check against sales tax remittances, making these loopholes harder to sustain.

A hybrid model also preserves a role for tax professionals rather than eliminating their need outright. A simplified income tax would still have fewer brackets and fewer itemized deductions. But people would still need to file annually for items such as capital gains, business income, and multi-state activity. So demand for tax preparation, planning, and compliance services would stay intact. This matters both economically, since it avoids an abrupt shock to the accounting and tax-preparation labor market, and practically, since professional preparers serve as a layer of compliance monitoring that a pure point-of-sale system would lose.

A hybrid system would still include a prebate or similar rebate mechanism to offset the regressive impact of the sales-tax component on lower-income households' spending on necessities, preserving the primary equity feature of the original FairTax design without requiring repeal of the 16th Amendment or a wholesale dismantling of the existing tax infrastructure.

IX. **Conclusion**

Taxation has been essential to the success of great civilizations throughout history, from ancient Egypt to the Roman and British Empires, and the durability of those civilizations depended in part on the stability and perceived legitimacy of their tax systems. The U.S. tax system has evolved dramatically since the nation's founding, growing from a limited system of tariffs and excise taxes into a complex structure built around federal income taxation following the ratification of the Sixteenth Amendment. That system today faces significant challenges, including excessive complexity, high compliance costs, economic distortions, perceived inequities, fiscal sustainability concerns, and declining public trust. An effective tax system, by contrast, should embody simplicity, efficiency, fairness, transparency, revenue stability, and public legitimacy.

International examples, including value-added taxes in Europe, Canada's Goods and Services Tax, and New Zealand's broad-based consumption tax, demonstrate that consumption-based taxation can meaningfully supplement income-tax-centered systems. At the same time, those same examples show that consumption taxes are not a cure-all. VAT regimes remain persistently vulnerable to fraud through the credit-and-exemption chains that make them workable in the first place, a weakness any U.S. reform should design around rather than import wholesale.

Instead of replacing the income tax outright, a hybrid model offers a more realistic path forward. It would combine a visible, point-of-sale consumption tax with a simplified, narrower income tax.

This approach captures the FairTax's core strengths of transparency at the point of sale, a built-in prebate to protect low-income households, and a real reduction in compliance burden for the average taxpayer. It also avoids the FairTax's most unrealistic demands, like repealing the 16th Amendment and dismantling the existing tax infrastructure. It also maintains a role for tax professionals and preserves a second layer of enforcement, which helps eliminate the loopholes and vulnerabilities that a pure consumption tax would create. As the United States continues to face rising national debt, deep political polarization, and declining trust in government institutions, this hybrid reform offers a more achievable path toward fiscal stability, economic growth, and national unity.

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