

The Effects of the Hedge Tax

Briefly, the principal components of the Hedge Tax are as follows.

- A single-rate income tax that applies to the top 85% of all income earners
- An asset tax applied to the top 10% of asset holders
- A requirement that spending be balanced with taxation

On the face of it, these ideas may not seem new, but here are some twists:

1. The single rate tax would:

- Apply to all income earners – individuals, corporations, trusts, churches, foundations – no exceptions. No one will be able to manipulate their taxpayer status or income type to avoid taxes. Ordinary taxpayers will enjoy lower taxes thanks to the broader base.
- Replace nearly every existing federal tax. Politicians would no longer be able to reward their supporters through the tax code or confuse taxpayers with countless ways to hide tax increases.
- Remove the poor from the tax rolls; currently, they pay more than 15% (both halves of social taxes) on the first dollar they earn. What's fair about that?

2. The asset tax (on assets, not net wealth) would:

- Require the truly wealthy to contribute more to the tax burden. Remember, these are the entities that often can manipulate their affairs to avoid triggering taxable income.
- Provide broader political support for needed reform. The single rate tax has little Democratic support and cannot pass standalone. Adding an asset tax would attract support from those who believe a single rate tax is a giveaway to the rich.
- Discourage excessive leverage, not a bad thing given recent events.

3. A balanced budget requirement would:

- Automatically translate spending increases into increases in the single tax rate. Politicians will have to vote either to cut spending or raise the tax rate, which will provide single-point accountability that voters can understand and measure. Multiple increases in the tax rate to cover higher expenditures should create a broad and powerful constituency for spending reform.
- Re-link taxing and spending in the minds of taxpayers. When it comes to government spending, too many taxpayers today ask themselves, "what's

in it for me?" Instead, they should be asking, "how much will this cost me?"

Hedge