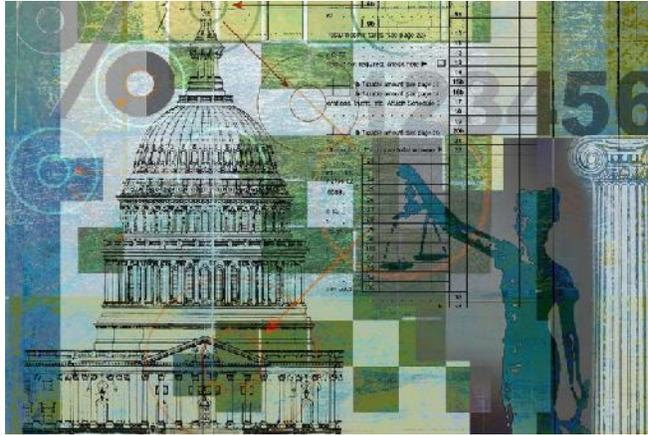


Pro-Growth, Pro-Family Tax Reform

Cut the corporate rate to 25%. For individuals and families, reduce the current seven brackets to two: 15% and 35%.



By

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Six years after the Great Recession officially ended, most Americans can sense that the U.S. economy is still operating below its full potential. Far too many Americans remain unemployed, underemployed or stuck in jobs with stagnant wages and narrow horizons.

Many are beginning to wonder: Is this the new normal?

We don't believe it is. We believe that America's best days are still ahead. But we also recognize that restoring the shared prosperity that comes from a strong economy requires reforming the most antiquated and dysfunctional government policies, beginning with the federal tax system.

The tax code's failures are manifold—impeding growth, discouraging investment, and restricting freedom on the business and the individual side—but they are all rooted in the same fundamental unfairness and inequity of a government that picks winners and losers.

A tax code that works for, not against, American businesses, families and individuals must be built on the twin pillars of equal opportunity and fair treatment for all.

That was precisely our objective when we joined together to design a comprehensive tax-reform plan. We built our plan on the simple, yet powerful, truths at the heart of the free-enterprise system: that economic growth is a function of economic freedom, and that economic freedom depends on equal opportunity and fair treatment under the law.

The need for tax reform is most acute on the business side of the Internal Revenue Code.

The current system inhibits businesses from expanding, creating jobs and investing in the American economy by taxing them too much and taxing them unfairly. In addition to imposing a higher corporate-tax rate than any other developed country in the world, the U.S. taxes businesses across two separate and complex regimes—the corporate code and the “pass-through” portions of the individual code.

Moreover, the current Internal Revenue Code is riddled with special-interest carve-outs that discriminate against the kind of economic choices that drive long-term growth.

Our plan addresses each of these inequities in turn.

First, by consolidating the corporate tax system into a single layer and lowering the maximum rate to 25% on both corporate and pass-through entities, our plan eliminates double taxation of capital gains and dividends, and establishes parity among large and small businesses. And under our proposal, firms with overseas operations will no longer be taxed twice (once abroad and again at home), but only in the country where income is actually earned.

Our plan also removes the current bias against capital investment that discourages businesses from investing in their own growth and expansion. So when a business wants to buy new equipment, upgrade its inventory, or make infrastructure improvements, it will immediately be able to deduct 100% of those expenses.

Underlying all of these reforms is a shared understanding that increasing the amount of government coercion, regulation and taxation on American businesses makes the economy less fair and less free. And that is what drives investment and jobs overseas. The only way to strengthen the economy is to make America the best place in the world to operate a business and create jobs, by building a tax code that maximizes economic freedom and ensures fairness under the law.

The same principles of fairness, freedom and growth inform the changes we propose to the individual side of the tax code—though here, we’re dealing with investments not just in financial capital, but also in human and social capital.

We seek to simplify the code and lower rates for families and individuals, by consolidating the seven existing tax brackets into two simple groups—15% and 35%—and by making remaining deductions available to all filers.

Our plan will also put an end to the unfair treatment of our ultimate investor class: America’s moms and dads.

In addition to eliminating the well-known marriage penalty—which taxes married couples at a higher rate than if they had filed individually—our plan will reform another, less-familiar inequity in the code: the parent tax penalty.

The current tax system charges parents twice for federal senior entitlement programs. Parents pay payroll taxes like everyone else, but they also shoulder the financial burden of raising the next generation of taxpayers, who will grow up to fund the Social Security and Medicare benefits of all future seniors. Parents, in effect, pay twice for the same Social Security and Medicare benefits as everyone else.

Therefore, to equalize the tax code’s treatment of working parents, our plan would create a new, \$2,500 per-child tax credit. This credit—like the correction of the marriage penalty—eliminates an unfair distortion in the code and helps level the playing field for working families.

President Obama and his party will tell the American people that our approach to tax reform is all wrong. Their message is that economic growth is generated by politicians and bureaucrats in Washington, not by hard-working Americans in the free market. Their approach is that being better off means someone else has to become worse off.

We disagree. We believe that pro-growth, pro-family tax reform will empower the American people to succeed in a revived free market, in which everyone has an equal opportunity to participate. We believe that doing so is an essential step toward restoring the American dream and bringing it into reach of more people than ever before.

Mr. Lee (R., Utah) and Mr. Rubio (R., Fla.) are U.S. senators.