

Flat taxes are just an excuse to make the rich richer

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The Tax Justice Network blog [has an entry](#) on an old bête noire of mine, [flat taxes](#). As they note:

Citizens for Tax Justice in Washington has another [excellent short paper](#), this time about the flat tax. It begins:

Since 1995, Senator Arlen Specter of Pennsylvania has introduced legislation to create a federal "flat tax" in every session of Congress, including this session. This single-rate tax would replace the existing progressive personal income tax, as well as the corporate income tax and estate tax.

Now what's wrong with the flat tax? Well, for starters, there is the fact that the people who dreamed up this gimmick in 1983 admitted that a flat tax "will be a tremendous boon to the economic elite" and that "it is an obvious mathematical law that lower taxes on the successful will have to be made up by higher taxes on average people."

This table provides the evidence:

**Impact of Specter "Flat Tax"
in 2010**

Income Group	Average Income	Average Tax Change
Lowest 20%	\$ 12,400	\$ +1,485
Second 20%	24,900	+2,299
Middle 20%	40,100	+2,678
Fourth 20%	65,500	+3,576
Next 10%	99,600	+5,182
Next 5%	140,100	+4,323
Next 4%	243,900	-5,834
Top 1%	1,327,700	-209,562
Bottom 95%	\$ 48,000	+2,887

And CTJ's time tested number crunching has analysed the proposal, and worked out that it would involve:

- * Enormous tax cuts for the richest five percent of taxpayers, including an average tax cut of \$209,562 for the richest one percent in 2010.
- * Tax hikes for all other income groups. The bottom 95 percent of taxpayers would pay an average of \$2,887 more in federal taxes in 2010.

- * Low-income Americans would lose the refundable credits that they receive under the current income tax.
- * The form of income that mostly flows to the wealthy — investment income — would be exempt from the personal income component of the flat tax, while all compensation for work, including wages and even employer-provided health care benefits, would be taxed.
- * There would be little simplification in taxes for the majority of Americans. Replacing progressive tax rates with a single rate has nothing to do with simplicity, because progressive rates are not what makes the current system complicated.

What actually makes the tax system complicated are the various loopholes and special breaks that mostly benefit businesses and higher-income individuals. Capital gains income (which wealthy investors tend to have) is currently taxed at a lower rate than the wage and salary income that constitutes almost all income for most Americans.

Many wealthy people therefore have an incentive to use various schemes to disguise what is really compensation for work as capital gains income. But instead of addressing this by taxing all income the same way, the Specter flat tax makes capital gains income entirely tax-free!

As CTJ concludes:

Senator Specter's flat tax is not so much about eliminating loopholes as it is about consolidating loopholes for the rich.

To which I would add just one thing: remember it was not long ago George Osborne was flirting with this idea. Why was that, I wonder?