

NATIONAL REVIEW ONLINE

[The Chief Threat to American Competitiveness: Our Tax Code](#)

By [Al Cardenas](#)

More than three years after America's financial system hit a crisis point, the state of our [economy](#) remains in turmoil. As our nation's leaders grapple with immediate challenges through dueling jobs plans and the Joint Select Committee on Deficit Reduction tries to come to agreement on a trillion and a half in reductions, we must also consider long-term measures to strengthen our economic security. As it stands now, the number one threat to the future of American competitiveness isn't other countries. It's our tax law.

The United States Tax Code is difficult to understand and even harder to navigate, for families and businesses alike. Title 26 has been patchworked, reformed, and tinkered with for decades, giving us an antiquated mess of laws rife with inequities. Our [corporate tax rate](#) is among the highest in the world. We refuse to shift to a Territorial Tax System that would stop punishing our companies for bringing earned overseas income back to the U.S. for reinvestment. [Tax rates](#) for small businesses remain high and inconsistent.

A robust free-market system requires a level playing field, where the government doesn't get to pick the winners and losers. We should require the same of our system of taxation. We need a simpler, fairer, flatter tax code that removes loopholes, subsidies, and credits, one that lowers rates across the board and expands the percentage of Americans paying their fair share of taxes.

When it comes to sales tax, it is time to address the area where prejudice is most egregious — our policy towards Internet sales. At issue is the federal government exempting some Internet transactions from sales taxes while requiring the remittance of sales taxes for identical sales made at brick and mortar locations. It is an outdated set of policies in today's super information age, when families every day make decisions to purchase goods and services online or in person. Moreover, it's unfair, punitive to some small businesses and corporations and a boon for others.

This is why the American Conservative Union applauds Rep. Steve Womack for his sponsorship of the Marketplace Equity Act of 2011, one of the first sincere attempts to modernize our tax policy for the 21st century.

As conservatives we know that governmental power can be used to destroy entrepreneurship, innovation and the free market. There is no more glaring example of misguided government power than when taxes or regulations affect two similar businesses completely differently.

Over time, the company that has to comply with a tax or a regulation will lose market share to its competitor who is carved out from this government interference. In these cases the winner is not the company who outcompetes, but the one who gets special privileges from the government.

At its inception, the Internet was everyone's darling, the latest example of American innovation and ingenuity. Internet sales represented a miniscule portion of the total retail market, and the novelty led to tax loopholes and unintended consequences. Now, according to Forrester Research, Internet sales account for nearly 10 percent of all sales of products and services in America, with an annual growth rate of about 9 percent.

If we do not confront this issue, state and local governments dependent on sales taxes will need to look for other sources of revenues as Internet sales continue to expand. Policy which allows for both online and brick and mortar retailers to be susceptible to the same taxes will — and should — allow for commensurate reductions in sales tax rates. For instance, if Internet sales tax revenues will add 10 percent in revenue to a governing body's coffers, then, at a minimum, a corresponding overall reduction in rates should apply.

The current system is also inconsistent with states' rights, and the Congress ought to carefully consider enacting revenue neutral tax reform policies consistent with the Tenth Amendment.

The free-market system can only operate effectively on a level playing field of free and fair competition. Whether it's the Department of Energy's disastrous Solyndra project, or levying sales taxes, or a multitude of other policy decisions that impact the private sector, the government picking winners and losers is a perversion of the free market system. Lawmakers on Capitol Hill — especially conservatives — ought to at least acknowledge this when deliberating important reforms to the tax code. As we consider wholesale reform, exempting Internet sales can no longer be justified.

The Marketplace Equity Act of 2011 begins this conversation. It's not a perfect bill, but it's a critical beginning to this dialogue and should spark bipartisan support for revenue neutral reforms. Rest assured, we will not be party to or stand for Trojan Horse legislation that claims to strive for equity in the law merely to serve as a cloak for secret [tax increases](#).

We have a great opportunity to drastically lower rates, especially corporate rates, and eliminate esoteric tax preferences to stave off the next massive financial crisis. A flatter, fairer, simpler tax code is the key to ensuring American competitiveness for generations to come. Our leaders in Congress are obligated to thoughtfully consider measures to achieve this.