

**The Effects of a Flat Tax on Employment at
Certified Public Accounting Firms**

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Abstract

This research discusses how the passage of a flat tax could affect employment among Certified Public Accounting firms. As the tax code is notoriously complex, many have built their careers upon navigating it and providing their professional services to individuals and corporations. Thus, a simpler tax code could affect the demand for such services. Certified Public Accounting firms are a major employer of tax professionals and income from tax services account for a significant portion of such firms' revenues. Therefore, a major simplification of the tax code, while easing a heavy burden on hundreds of millions of United States citizens, could also potentially generate a sudden negative shift in employment in the accounting profession, a major employment field. This research is unable to conclude exactly how a flat tax would affect employment at Certified Public Accounting firms. However, this research compiles valuable information concerning the likelihood of the flat tax, additional factors to consider when analyzing the flat tax's potential effects on Certified Public Accounting firms, how current students and professionals can prepare for potential changes, and how future research could be designed to further investigate this issue.

The Effects of a Flat Tax on Employment
at Certified Public Accounting Firms

As an accounting student approaching my career, I have become more keenly aware of articles and other news headlines about potential changes to the accounting profession. While almost every American citizen understands that the tax code is unnecessarily complex, I read an article approximately one year ago with one particular point that stood out to me. The writer commented on the frustrating complexity of the tax code and wrote that the only thing the tax code does definitively is ensure employment for accountants, lawyers, and several other professions. This made sense to me, but I had never looked at the tax code as employment insurance for anyone—especially not employment insurance for the industry to which I was entering. Upon further informal research into this topic, I found that there is little information available about major simplifications of the tax code and how these simplifications would affect the profession. As the election of the next President of the United States approaches, tax reform is gathering increasing prominence on the national stage. Many candidates have some type of simplified tax proposal, and one in particular is the flat tax. Therefore, this research occurs at a particularly relevant time and is poised to provide new information about how significant tax reform would affect the accounting profession.

A simplified tax code presents a unique opportunity for a simplification in the lives of hundreds of millions of Americans. However, as the tax code is notoriously complex, many have built their careers upon navigating and comprehending the tax code and providing their professional services to individuals and corporations. Therefore, a simpler tax code could affect the demand for such services. Certified Public Accounting firms are a major employer of tax professionals and income from tax services account for a significant portion of such firms'

revenues. Therefore, a major simplification of the tax code, while easing a heavy burden on hundreds of millions of United States citizens, could also potentially generate a sudden negative shift in employment in the accounting profession, a major employment field. One such proposed simplification of the tax code is the flat tax.

Current Tax System

A high-level understanding of the Federal income tax system for individuals is necessary before discussing the flat tax. Since the flat tax is notably simpler than the current system, one would benefit from understanding exactly what is being simplified. Figure 1 below illustrates the basic formula for computing an individual's Federal income tax in the United States.

Figure 1
Current Tax Formula

	Gross income
-	<u>Deductions for adjusted gross income</u>
	Adjusted gross income
-	Standard or itemized deduction(s)
-	<u>Personal and dependency exemptions</u>
	<i>Taxable income</i>
x	<u>Tax rate</u>
	<i>Tax on taxable income</i>
-	<u>Tax credits</u>
	<i>Tax due (or refund)</i>

Adopted from Hoffman & Smith (2013, p. 3-3).

The formula already has several steps and becomes increasingly complicated because each step is comprised of many different rules, as the following explanations from Hoffman & Smith (2013) illustrate. Potential deductions from adjusted gross income include traditional Individual Retirement Account contributions, moving expenses that are unreimbursed, college tuition and related fees, student loan interest, and alimony payments, among many others (p. 3-5-7). Individuals then have to compute both itemized deductions, which include medical expenses, state and local income taxes, charitable contributions, union dues, and real estate taxes, among

many others; or, they can choose to take a standard deduction if the standard deduction is greater than itemized deductions (p. 3-7). Finally, even the tax rate itself varies based on both income and filing status. The individual Federal income tax is a progressive system that taxes income at higher rates as income increases. Therefore, the Internal Revenue Service (IRS) has four different tax tables for four different filing statuses: single, head of household, married filing jointly or qualifying widower, and married filing separately. Each of these tables contains six different tax brackets that progressively tax income at different rates (p. A-2). This brief analysis barely scratches the surface of the complexities of the tax code, but will provide a basis for contrast in the following discussion of a flat tax.

Flat Tax

Definition:

To begin a discussion about the implications of a flat tax, one must begin by determining what qualifies as a flat tax. In “The Secret History of the U.S. Flat Tax,” Howard Gensler identifies key characteristics of flat-rate and progressive tax systems, namely that progressive systems have rising average tax rates whereas flat-rate tax systems have only one marginal tax rate. Gensler notes that when coupled with a credit or deduction, a flat-rate tax can have progressive characteristics. Because of this feature, Gensler argues that social and economic objectives, which are frequently furthered through the use of the tax code, can still be advocated using a flat tax.

Therefore, the key element of a flat tax is one marginal tax rate. In compliance with the specifications set forth by Gensler, for the purpose of this research, a flat tax is defined as a tax code with one marginal tax rate, up to two simple deductions, and up to three simple credits that completely replaces the current Federal income tax for individuals. These specifications fit

within the definition of a flat tax and, since little research in this area is already available, allows for simplicity and clarity as this research project initiates analysis of the topic. Therefore, the tax system this research is analyzing is illustrated below in Figure 2, which is in the same format as Figure 1.

Figure 2
Flat Tax Formula

$$\begin{array}{r}
 \text{Gross income} \\
 - \text{ Two simple deductions } \\
 \text{Taxable income} \\
 \times \text{ Single, uniform tax rate } \\
 \text{Tax on taxable income} \\
 - \text{ Three simple credits } \\
 \text{Tax due (or refund)}
 \end{array}$$

Note the key differences between the two systems. Not only are there fewer steps in the calculation of the tax, but each step is simplified. Instead of the abundance of potential provisions in each step of the current tax system, citizens are limited to two specified simple deductions and three specified simple credits. Additionally, as the key element of the flat tax, there is only one single, uniform tax rate.

This proposal is very similar to The New Flat Tax advocated by The Heritage Foundation in an article by J.D. Foster, Ph.D. (2011). The New Flat Tax in the article calls for a single tax rate, two credits, and three deductions for individuals. The New Flat Tax also enumerates the specific deductions and credits allowed. The two credits allowed are a credit for health insurance and an anti-poverty credit that is a continuation of the Earned Income Credit. The three deductions are tuition and higher education expenses, charitable contributions, and an optional deduction for home mortgage interest. Thus, the New Flat Tax is a more specific proposal than that being analyzed for this research since this research does not specify exactly which deductions and credits would be included. However, as with the New Flat Tax, the credits and

deductions in either proposal would be much more straightforward than the behemoth of a tax code Americans face today, which is part of the bigger picture of this research.

Brief Overview and History:

The last several decades boast many examples of a proposed flat tax in the United States. In addition to a list of relatively recent significant proposals, Lane Teller, in a publication from American University, notes several key statistics concerning the flat tax that ultimately drive its political nature. Teller finds that between the lawyers, accountants, and other resources used by both individuals and businesses to comply with the tax code, about six billion hours and over \$250 billion is spent each year. Moreover, it costs the government approximately \$11 billion per year just to collect taxes, which equates to approximately fifty cents for every one hundred dollars collected. The list of significant proposals begins in 1994 with the Freedom and Fairness Restoration Act, which was introduced four times between 1994 and 2001. Seven other chronological proposals, a majority of which have been introduced in Congress multiple times, follow before arriving at the two most recent proposals from 2010: the Tax Code Termination Act and the Bipartisan Tax Fairness and Simplification Act.

In parallel to the discussion about significant proposals of the flat tax being based upon bills introduced in Congress, its history is primarily a political one from its birth in the United States until now. In *The Failure of U.S. Tax Policy: Revenue and Politics*, Sheldon Pollack (1996) discusses the emergence of the flat tax and its effect on the 1996 presidential race. After Dick Armey made the flat tax prominent in 1995, Steve Forbes, a presidential candidate in 1996, became perhaps the flat tax's most recognizable advocate. Forbes' platform was to completely remove the income tax and replace it with a flat 17% rate. Though he never had a formal plan, Pollack states that "it was the flat tax that brought Forbes his fifteen minutes of fame as a

presidential contender.” Forbes’ focus on the flat tax gave him a boost in the polls and his advocacy for the program caused major newspapers to print stories about the flat tax and push the flat tax to the forefront of Republican primaries.

As one will likely remember, flat tax proposals were also a distinct issue during the more recent 2012 presidential campaign, particularly in the Republican primaries. In a 2011 article from *The Washington Post*, Perry Bacon and Karen Tumulty (2011) outline several Republican candidates’ flat tax proposals with emphasis on Rick Perry’s. Perry’s plan was to allow American citizens to choose between paying taxes at a flat 20% rate or based on the current tax code. Newt Gingrich also offered a similar flat tax proposal. The article notes that Perry’s proposal also retained the charitable contribution and home mortgage interest deductions. Moreover, to illustrate the simplicity of the flat tax, Perry utilized a visual aid, a “pocket-sized sample IRS form” that Americans could potentially use to file their taxes. The small size of the form indicates its simplicity and is a stark contrast to the stacks of complex pages included in many tax returns. Additionally, the article mentions that Perry’s proposals were consistently more conservative than Romney’s, illuminating the political aspects of the issue.

Perhaps the most memorable proponent of the flat tax during the 2012 presidential campaign, however, was Herman Cain with his 9-9-9 plan. In a *Los Angeles Times* article from the 2012 primary season, Kim Geiger (2011) both summarizes and heavily criticizes Herman Cain’s plan. The plan included flat income and sales tax component and came under fire for beginning to tax the 47% of filers who do not pay any income tax and eliminating the employer portion of the payroll tax, which in effect leaves individuals paying a larger percentage. Thus, the flat tax has been a historically polarizing, political issue.

To this point, the flat tax seems to be nothing more than a series of proposals that have not been able to gain traction. However, statistics show that a majority of Americans favor a flat tax. In a recent article, Emily Ekins (2014) summarizes a poll conducted by Reason-Rupe finding that 62% of American respondents supported a flat tax. Of the respondents, 33% were opposed to a flat tax. Interestingly, the poll also found that a majority of respondents in each political ideology supported a flat tax: 66% of Republicans, 68% of independents, and 52% of Democrats. Though these numbers are significant in their uniformity, the poll also found a political divide. Specifically, “Americans who say the less government the better and that the free market can better solve problems than a strong government” favored the flat tax 72% to 25%, a margin of almost 50 points, whereas “those who think government should be doing more and that we need a strong government to solve problems” favored the flat tax 51% to 45%, a margin of only 6 points. Therefore, even though a majority of respondents supported the idea of a flat tax, the survey still reveals its political side.

Intriguingly, few articles have been written about the impact of a flat tax on employment at Certified Public Accounting firms. A lone article is entitled “How a Flat Tax Would (Ahem) Kill Jobs” by Rick Newman (2011). Newman’s article analyzes the impact a flat tax would have on accounting employment from the standpoint of Rick Perry and Herman Cain’s proposals during their 2012 campaigns. Newman directly calls these proposals “job-killing,” noting that approximately 60% of taxpayers use “commercial preparers” when filing taxes. Moreover, IRS data estimates that there are about 800,000 workers in the tax preparation business and an official from the American Institute of Certified Public Accountants (AICPA) estimates that approximately 200,000 of these individuals are Certified Public Accountants, earning an average of \$60,000 per year according to the Department of Labor. Though not directly related to this

study, Newman also notes that employees at companies such as H&R Block stand to lose a lot should a flat tax become law.

Certified Public Accounting Firms

Though citizens are ultimately affected by and must comply with the complex tax code, the burden of understanding it does not always rest with them. Rather, many resort to specialized software such as TurboTax or to professional preparation services such as Certified Public Accounting firms. From relatively basic inputs, these technological and professional resources analyze the information to provide not only accurate results, but also the most favorable possible outcome for taxpayers. Thus, for many taxpayers, involvement with the tax code extends little beyond inputting information from documents supplied by employers or other parties into software or dropping off these papers at their tax preparer's office. This highlights the importance of trained professionals, namely Certified Public Accounting firms, in the process of tax compliance.

Time in general, especially the recent decade, has seen its share of jobs becoming irrelevant or unnecessary due to technological advancements. However, the issue of the flat tax's effect on employment in the accounting profession is interesting because it is not so much an issue of time and technological advancement as it is a group of legislators deciding it is time for an update to the tax code. Indeed, people do not argue that the tax code is inevitably headed for a flat tax in the same way they believe that society will continually become more technologically dependent. Accounting is not generally a profession seen as subject to political tides, but in this instance, it certainly could be.

An analysis of what may happen once a flat tax is enacted must begin with an understanding of the present environment of public accounting. Fortunately, several sources such

as professional publications and the American Institute of CPAs (AICPA) provide a look into this environment. Additionally, the public accounting profession is poised to endure several other major changes in the near future and is readily adapting in anticipation of these changes.

Structure of Firms:

As a leading organization in the accounting profession, the AICPA provides guidelines regarding the typical structure of Certified Public Accounting firms. In a website publication entitled "Positions in Public Accounting," the AICPA (2015) indicates that the United States has over 46,000 public accounting firms of vastly varying sizes. The publication also provides information about typical staffing levels and how employees progress through responsibilities over time within the firm. Employees with one to three years of experience are generally considered at the staff level and have various preparation and research duties under close supervision and collaboration with superiors. Employees with three to six years of experience are typically considered at the senior level, which contains the additional duty of reviewing the work of other staff members. Employees with over six years of experience may be promoted to manager status, which involves more advanced tax problem solving and review skills. The key difference between a manager and a senior is that manager designations are generally only given to those who could potentially become partners. In Certified Public Accounting, partners are at the top of the profession. The partner level is only reached by about two percent of CPA firm employees. Partners are owners of the firm and are thus entitled to portions of the firms' profits; achieving partner status is often financially lucrative. Though CPA firms can choose their own structures, the AICPA has found that most firms generally follow this staffing pattern.

Present Environment:

Accounting Today (2015) provides an annual ranking of the top one hundred firms in the United States both on a national and regional level. One element of this analysis is dissecting each firm's revenue and percentage of total revenue for different practice areas, specifically auditing and attestation, tax, consulting, and other services. In 2015, the analysis of the top one hundred firms includes approximately \$58.2 billion in revenue, over 17,000 partners, over 184,000 professionals, and a total of approximately 243,000 employees (p. 5). Therefore, this data is a significant representation of the public accounting industry.

The tax practice area's revenue share of the top one hundred firms is \$15.644 billion, which represents 34.47% of total revenue (Accounting Today, 2015, p. 5). It should be noted, however, that this figure encompasses a large practice area that is not limited to individual taxation, which is the main focus of this research; it also includes taxation for businesses, international tax, and other tax areas. Unfortunately, more detailed analysis of these figures is not available. However, it is clear that taxation has a prominent role in public accounting. Only the auditing and attestation practice area for the top one hundred firms has a higher percentage of total revenue at 38.34% (p. 5). Consulting, the next highest practice area, represents only 17.10% of total revenue (p. 5). Thus, assurance services and tax are the primary revenue sources for the firms, each contributing almost the same proportion to the firm's overall revenue.

As previously mentioned, the Accounting Today (2015) research also provides rankings on a regional level, allowing the opportunity to specifically analyze the Midwest. The Midwest is defined as Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota. The top ranked Midwest firm is BKD, headquartered in Springfield, Missouri. BKD generates annual revenues of \$445.8 million, 48% of which is from auditing and attestation and 31% from tax (p.

20). The Midwest rankings include twenty one firms that range in revenue from \$445.8 million to \$12.7 million (p. 20). Additionally, the proportion of tax revenue to total revenue ranges from a high of 55% to a low of 19% (p. 20). Though the enactment of a flat tax would affect the United States as a whole, the *Accounting Today* provides data that is also geographically relevant.

In 2014, the AICPA completed a Management of Accounting Practice survey—utilizing the acronym MAP for short—that provides deep insight into various aspects of public accounting, including the percentages of firm revenue derived from certain services (Drew, 2015). In this survey, services are more detailed than *Accounting Today*; tax services are broken down into two categories: individual and corporate/partnerships. The MAP survey presents all data relative to the total revenue of the firms. There are seven categories ranging from less than \$200,000 in revenue per year to over \$10 million in revenue per year by firm. The following table represents the percentage of revenue that individual tax comprises for each firm category.

Figure 3
Individual Tax as a Percentage of Firm Revenue

Firm revenue	% of revenue
< \$200,000	40.0%
\$200,000 - \$500,000	34.0%
\$500,000 - \$750,000	29.0%
\$750,000 - \$1,500,000	25.8%
\$1,500,000 - \$5,000,000	22.0%
\$5,000,000 - \$10,000,000	18.0%
> \$10,000,000	12.8%

This information is simple but powerful. According to Figure 3, individual tax comprises a wide range of revenue for firms, from a maximum of 40.0% to a minimum of 12.8%. This is a wide range, but is still in line with the 34.47% found in the *Accounting Today* rankings. Note once again, however, that the *Accounting Today* rankings were for tax in its entirety, not just

individual tax. Perhaps the most distinct observation of Figure 3 is how the percentage of revenue from individual tax changes as the firm size increases. The two variables are inversely correlated; as the size of the firm in terms of revenue increases, the percentage of revenue from individual tax decreases. Thus, based on this information, it appears that a dramatic decline in the need for individual tax preparation services would affect firms differently based on their size, with smaller firms being more negatively affected.

Future Developments:

Equally important to the current tax accounting environment is its future. The AICPA (2013) released a periodically produced report in 2013 entitled “Trends in the Supply of Accounting Graduates and the Demand for Public Accounting Recruits.” One part of this report includes what percentage of new graduates hired by CPA firms have been assigned to different practice areas since 2002. The four practice areas included are accounting/auditing, MIS/computers, taxation, and other. These practice areas are similar to the categories in the previously mentioned Accounting Today rankings and are relevant because taxation remains its own category. In 2012, the percentage of new accounting graduates hired by CPAs firms that were assigned to taxation was 23% (p. 23). Since 2002, this percentage has typically hovered around that area with the exception of 2004, when it dipped to 17%, and 2009, when it jumped to 35% (p. 23).

In looking at this study in conjunction with the revenue statistics from the *Accounting Today* rankings, one will notice that the percentages are relatively close, but their difference of about ten percent—23% of new hires being assigned to taxation and taxation comprising about 34% of total revenue—deserves a bit of an explanation. While one cannot say exactly why these numbers are different, there are two significant factors that could explain this difference. First,

the study from the AICPA is from 2012, whereas the *Accounting Today* rankings are from 2015. Thus, there is a bit of a timing difference. Second, firms can have unique fee structures and billing for different services based on relationships with clients, size of the clients, and complexity of the work; there is not necessarily perfect correspondence between the proportion of staff in a particular practice area and that practice area's revenue.

Anticipating Changes:

The public accounting profession is actively anticipating and responding to changes. In another article discussing the results of the MAP survey, Drew highlights several recent developments in the profession. First, the net client fees for all sizes of accounting firms grew from 2012 to 2013, indicating an upward trend. The survey analyzes seven different categories of revenue, and increases were typically between 4% and 8% for each category.

A more interesting trend, however, is what firms are doing with cash and why they are taking such actions. Drew indicates that firms are planning for upcoming partner retirements. Firms with 10 to 74 CPAs in particular are retaining earnings and building up cash balances to execute the buyout procedures in owners' agreements. Noting prudent actions and planning, Drew writes, "Firm leaders realize that insufficient cash flow and liquidity are forcing many firms to turn to the mergers-and-acquisitions market to finance buyouts of retiring partners. To keep internal succession as an option, firms are building up the necessary capital resources to fulfill buyout obligations defined in owners' agreements" (n.p.). Aside from owner retirements, Drew also mentions that large firms are building cash balances in anticipation of merger and acquisition activity. Smaller firms may also be retaining cash for smaller-scale acquisition activity or in anticipation of expanding workforces.

Regarding anticipating upcoming changes, the public accounting profession appears to be highly responsive to the profession's future and willing to take necessary steps to put firms in the best positions possible. Ownership changes are major events. Likewise, a significant simplification of the tax code is a major event. Therefore, based on this information, one can conclude that if firms were extremely concerned about the enactment of a flat tax, there would be more publicly available information about how firms are planning to respond to that change.

Structure of Research

This research is comprised of three main components: research from existing published sources, a survey, and interviews. As previously stated, there is little information already available regarding the topic of tax simplification, specifically a flat tax, and the flat tax's potential effects on Certified Public Accounting firms. Therefore, this research is designed as the beginning of a discussion about this topic from which future research may be built upon.

The first component is research from existing published resources. Much of this component has already been discussed. However, there are several additional sources utilized to expand or corroborate the results of the survey and interviews.

The second component is a survey. The survey is not designed to be analyzed for conclusive statistical data about a population. Rather, the survey is designed to provide a brief, direct contact with professionals regarding key elements of the research to either corroborate or refute outside sources and interviews. The survey, available in Appendix A, was sent to 150 Certified Public Accountants across the United States who work in Certified Public Accounting firms at the equivalent of either the partner or manager level. A survey was sent to three Certified Public Accountants in each state and none who work at the same firm. Respondents were randomly selected by looking up Certified Public Accounting firms in various cities online. In

order to be chosen, respondents had to have a valid e-mail address and the number of people employed at the firm had to be evident. As firm websites provide varying levels of information, this was an unforeseen challenge and the development of the survey list took a significantly longer time than anticipated. In the end, the response rate was approximately 21%; only 31 surveys were returned. While not a large enough sample to be able to draw conclusions about an entire population, as stated earlier, the purpose of the survey is to broaden the amount of contact for this research and to generate basic quantitative data that may be analyzed.

Of the 31 survey responses, 25 were the equivalent of partners and 6 were the equivalent of managers, or 81% and 19%, respectively. This is significant because an overwhelming majority of the survey responses came from Certified Public Accountants that have an actual ownership interest in the firms; they are not merely employees. The survey was sent to 111 subjects at the partner level and 39 subjects at the manager level, which partially explains why there are significantly more partner responses. Partner or owner level typically indicates longevity as well. Therefore, the survey is composed primarily of respondents that have likely been in the profession for a significant length of time and also have a vested interest in potential changes to the profession.

The third component is interviews of Certified Public Accountants. In total, I interviewed six Certified Public Accountants that work at either the supervisor, manager, or partner level at Certified Public Accounting firms with offices in the Joplin or Springfield area. These interviews were conducted from a list of predetermined questions and took place via a phone call or e-mail. As a participant in the interview, interviewees have been provided anonymity and will therefore be referred to as Subject A, Subject B, Subject C, Subject D, Subject E, and Subject F. Subject F's interview was conducted via e-mail and the rest were conducted via phone.

The purpose of the interviews is to generate qualitative information about the topic by giving subjects the chance to freely respond to various questions. The results from the survey can be used to corroborate the answers given in the interviews. Likewise, the comments from the interviews can provide more meaning to the survey responses.

Likelihood of a Flat Tax

Though this research attempts to analyze what would happen if a flat tax was enacted, the overall likelihood of a flat tax is too much of an important element of this research to overlook. As previously stated, the public opinion of a flat tax appears to be fairly high. However, interaction with Certified Public Accountants provides a much different perspective. Therefore, one of the first questions in each interview discussed how likely the Certified Public Accountant believed the enactment of a flat tax as defined for this research is within the next five years. As a follow-up, subjects were also asked whether or not they believed a major simplification of the tax code in a different form is likely within that same time frame. Additionally, respondents were asked whether or not they believe the flat tax has a greater chance of passing now than it has in the past.

Likelihood of Enactment:

Subject A believed that the enactment of a flat tax is extremely unlikely. Moreover, Subject A believed that there is unlikely to be any type of major simplification of the tax code. One striking comment from Subject A was that with 25 years of experience, Subject A has never actually seen the tax code get simpler.

Subject B gave a more subjective answer, highlighting that people like the idea of simplicity, but it would be very difficult to scrap what we have and start over entirely. However, Subject B would not be surprised to see some simplification of the tax code, but believes it will

be more gradual. Subject B also emphasized the political nature of the flat tax, indicating that its enactment depends heavily on the government in the next five years. Moreover, control of the government is typically cyclical and the flat tax is generally a Republican-driven initiative. This connects to the previous point about the overall political nature of the flat tax.

Subject C believed the enactment of a flat tax is very unlikely, but saw a better chance for some simplification. However, Subject C believed the flat tax has never had much of a chance.

Subject D believed the enactment of a flat tax is not likely at all. Additionally, Subject D was skeptical overall about major reform and believed the flat tax does not have much of any chance in the foreseeable future.

Subject E believed the enactment of a flat tax is not likely at all and does not believe it has ever had much of a chance.

Subject F also believed the enactment of a flat tax is unlikely. While Subject F believed that there is currently a movement toward tax reform of some kind, these issues typically come second to other governmental and societal issues as they arise. Additionally, given the large amount of government debt, a reduction in taxes that would likely be enacted by a major simplification of the tax code is unlikely. A less complicated tax system would also have to address the issue of debt.

Question 1 of the survey asked respondents to answer the following question: How likely do you believe the enactment of a flat tax is within the next five years in the United States? Respondents had six options to choose from along a scale of increasing likelihood. No option was exactly in the middle; even if it was just a slight lean in one direction, respondents were required to indicate at least some direction of likelihood. Results from this question are shown in Figure 4 below.

Figure 4
Question 1 Results

	Number of respondents	Percentage of respondents
Extremely likely	0	0%
Likely	0	0%
Probable, but more likely than unlikely	0	0%
Probable, but more unlikely than likely	6	19%
Unlikely	16	52%
Extremely unlikely	9	29%
<i>Total</i>	<i>31</i>	<i>100%</i>

Note that not a single respondent believes that the enactment of a flat tax is more likely than unlikely. While a majority of respondents did not doom the flat tax to the lowest possible level of probability, clearly none believe it is extremely likely. Moreover, none of the Certified Public Accountants in the interviews believed the flat tax was likely, either. Therefore, this question was asked of 37 different Certified Public Accountants and all of them had the same general answer: the enactment of a flat tax is unlikely. Thus, the surveys and the interviews corroborate each other. This is such a definitive answer to the likelihood of a flat tax that it deserves more attention, specifically as to why Certified Public Accountants think the flat tax does not have much of a chance of passing.

Key Reason Hindering Likelihood:

One of the most prominent reasons given for the low chances of the enactment of a flat tax is how the tax code is currently designed to serve special interests. Subject E summed up the issue nicely: “The function of the income tax code is no longer just to generate revenue. It’s now a form of social engineering by Congress and they won’t give that up.” Additionally, Subject A indicated that the special interests reduce the likelihood of a flat tax being enacted. Subject B also noted that the government uses the tax code to incentivize too many things to let go of them. Subject D noted that special interests play a role in the potential enactment of a flat tax. In other

words, the focus of the flat tax is typically on its simplicity. In focusing on this simplicity, it is easy to overlook what exactly is being simplified, which is many years of modifications to the tax code, each with a specific goal. While the current tax code may be overly complicated and frustrating, there is a lot more to changing it than arguing for simplicity.

Employment Number Effects of a Flat Tax

Though Certified Public Accountants clearly do not believe the enactment of a flat tax is likely, this research is designed to begin analyzing what may happen if a flat tax was enacted. Since little outside information is already available on this element of the research, conclusions on this aspect are based on the survey and interview results alone. Regarding this topic, the interview subjects were asked: If a flat tax was enacted, would the number of employees at your firm change?

Subject A believed that the number of employees at Subject A's firm would decrease because individual tax comprises a substantial part of overall firm revenue. Subject A assumed that with a simpler tax system, more people would complete their own tax returns and therefore the firm would see a drop off of clients. Subject A pointed out Millennials in particular, indicating that this particular generation is full of "do-it-yourselfers." However, Subject A qualified the statement by emphasizing that this depends on where exactly the flat tax would end up. Recall that when discussing the likelihood of a flat tax, Subject A noted that nothing has gotten simpler in 25 years of practice.

Subject B did not believe the number of employees at Subject B's firm would change because there are many other areas in which employees work. Subject B emphasized the firm's willingness to retrain employees should tasks become irrelevant. While Subject B admitted that a flat tax could stunt overall firm growth and the firm may not be able to bill as much to clients,

Subject B emphatically denied that job loss would occur. Thus, Subject B indicated a level of firm resiliency to the changing tax code.

Subject C did not have as much of a definitive answer as to whether or not the number of employees at the firm would change. Rather, Subject C simply indicated that the number of employees would probably change. Subject C's firm has several employees that only work on individual tax, therefore this would likely result in some job loss. In connection to this, Subject C believed more individuals would complete tax returns themselves.

Subject D believed the number of employees at Subject D's firm would change. The primary reason for this is the tax overall being easier to calculate. Subject D emphasized that a flat tax would change the practice and have various impacts, but did not go into specifics.

Subject E believed that the number of employees at Subject E's firm would have to change. Subject E believed that over half of the firm's staff would no longer be employed because individual tax comprises a large portion of the firm's business.

Subject F believed that in high-level analysis, in theory there would be less individual tax work and therefore fewer staff would be required at the firm.

Therefore, while most interviewees believed that some job loss would result, the overall comments are not nearly as definitive as the likelihood of the flat tax. Two questions on the survey augment this discussion regarding a general change and an estimate of the percentage of employees that would change.

Question 2 of the survey asked respondents to complete this statement: If a flat tax was enacted in the United States, the number of people employed at my firm (the entire firm, not just my office) would... This statement was followed by five options along a scale of various degrees. However, unlike Question 1, respondents were allowed to choose an answer in the

middle for this question since it is possible respondents do not believe there would be a major change in the number of employees. The results of this question are presented below in Figure 5.

Figure 5
Question 2 Results

	Number of respondents	Percentage of respondents
Significantly increase.	0	0%
Increase.	1	3%
Stay about the same.	13	42%
Decrease.	14	45%
Significantly decrease.	3	10%
<i>Total</i>	<i>31</i>	<i>100%</i>

Only one respondent believed the number of employees at his or her firm would increase by any degree. Given the overall impressions from the interviews, this response is likely an outlier. However, the split between those who believe employment would remain approximately the same and those who believe employment would decrease is larger than the interviews indicated. While only one interviewee, Subject B, believed the number of employees would not change, 42% of survey respondents felt the same way. All other interviewees believed that employment would decrease to some degree and a combined 55% of survey respondents concurred. Therefore, it appears that the flat tax's potential effect on the employment at firms is subjective to the particular firm.

Question 3 of the survey then asked respondents: By what percentage do you estimate employment at your firm would change based on your answer to question 2? Ignore a positive or negative sign to indicate direction. The results of Question 3 are provided in Figure 6 below.

Figure 6
Question 3 Results

	Number of respondents	Percentage of respondents
1% - 5%	7	23%
6% - 10%	3	10%
11% - 15%	0	0%
16% - 20%	2	6%
20% - 25%	5	16%
Over 25%	4	13%
I estimated it would stay about the same.	10	32%
<i>Total</i>	<i>31</i>	<i>100%</i>

Before beginning analysis of the results of this question, note that 10 respondents indicated a belief that employment would stay about the same with the passage of a flat tax. However, in Question 2, 13 respondents actually indicated a belief that employment would stay the same with the passage of a flat tax, indicating an inconsistency. Of the three respondents who answered “Stay about the same” on Question 2 but indicated a percentage change on Question 3, two estimated the change to be between 1% and 5% and one estimated the change to be between 6% and 10%.

For the respondents that indicated a percentage, the results of Question 3 do not converge in one particular area. However, more information can be gleaned, particularly about the subjectivity of the questions, by performing cross-sectional analysis between Question 2 and Question 3. For example, 14 respondents answered “Decrease” on Question 2. These respondents provided the following estimated percentage changes in Question 3: two indicated 1%-5%, two indicated 6%-10%, zero indicated 11%-15%, two indicated 16%-20%, four indicated 20%-25%, and two indicated over 25%. Given that “Significantly decrease,” a more drastic option, was an available answer on Question 2, the fact that respondents interpreted “Decrease” as anywhere between 1% and over 25% indicates that Question 2 was perhaps overly subjective and should have been more clearly defined. The three respondents who answered

“Significantly decrease” on Question 2, however, had more converged responses; one indicated a change of 20%-25% and two indicated a change of 25%. Therefore, respondents consistently interpreted “Significantly decrease” as at least 20%, which, at one-fifth of a firm’s staff, appears to be a reasonable interpretation. Because of these inconsistencies and subjectivity, Question 3 should be relied upon more heavily than Question 2 for conclusions since Question 3 provides more concrete information.

Differences Based on Firm Size:

As previously stated, information from published resources indicates that as a firm grows larger, individual tax comprises a smaller portion of overall firm revenue. Through extension, one could hypothesize that the enactment of a flat tax would have a greater effect on smaller firms. Interviewees were asked about this issue.

Subject A agreed that as a firm grows larger, individual tax comprises a smaller portion of overall firm revenue. Additionally, Subject A agreed that the enactment of a flat tax would affect smaller firms more than larger firms.

Subject B agreed that as a firm grows larger, individual tax comprises a smaller portion of overall firm revenue. Subject B indicated that as firms get larger, firms tend to take on bigger projects such as audits. Therefore, Subject B believed that a flat tax would have a bigger impact on smaller firms than bigger firms, but noted that the flat tax could have a major impact on a particular segment of a large firm, though the firm itself would likely survive.

Subject C also agreed that individual tax comprises a smaller portion of firm revenue as the firm grows larger. Moreover, Subject C indicated that this holds true within the network of Certified Public Accounting firms to which the firm that employs Subject C belongs. Subject C

indicated that it holds true that a flat tax would affect smaller firms more prominently than bigger firms.

Subjects D and E also agreed that individual tax comprises a smaller portion of firm revenue as the firm grows larger. Subject E believed that a flat tax would drastically affect smaller firms much more than larger firms. Subject E believed firms would have to leverage much more work because client billings would decrease.

In summary, interviewees were unanimous in agreement that individual tax comprises a smaller portion of the overall firm as firms grow larger and that a flat tax would affect smaller Certified Public Accounting firms much more than larger firms.

Other Considerations:

Regarding the number of employees at a firm, several interviewees brought up issues related to hiring and employment that firms are currently facing, and that, when considered concurrently with the enactment of a flat tax, may lessen the employment ramifications of a flat tax. Specifically, interviewees considered the difficulty of finding qualified candidates and the increasing age and retirement rate of current Certified Public Accountants to be relevant to this discussion.

Regarding qualified candidates, Subject A emphasized that it is difficult to find good help in the profession right now. Two factors contribute to this: hiring in local job markets as opposed to bigger cities and the fact that tax preparation experience is rare. Subject B, which is located in a different job market than Subject A, also noted that it is difficult to find good people right now. Subject D also emphasized that Subject D's firm places heavy emphasis on recruiting, training, and fostering talented people that are tremendous assets for the business. Therefore, Subject D's firm will make an effort to both retain and retrain employees. On that note, when firms find

people that are a good fit and of great value to the firm, it is likely that firms will take reasonable steps to be able to retain that employee.

Regarding overall age and retirement in the profession, Subject A noted that Baby Boomer retirements are creating a net job loss in the Certified Public Accounting profession right now. Subject C also noted that there are many professionals retiring in the profession right now and that employment reduction in the Certified Public Accounting profession may be more attributable to attrition than people losing their jobs because of a flat tax.

The Certified Public Accounting profession is a dynamic industry that both anticipates and reacts to changes. Therefore, these asides keep the bigger picture in mind; ultimately, firms will have to make decisions, but there are other factors besides services not being needed anymore that contribute to this decision. Additionally, the timing of the enactment of a flat tax relative to the rate of retirement of current professionals could be a significant factor in the overall changes to the Certified Public Accounting profession.

Employment Responsibility Effects of a Flat Tax

Related to the change in the number of employees at firms should a flat tax be enacted is how Certified Public Accountants see the responsibilities of employees potentially changing. Therefore, another interview question asked interviewees to elaborate on whether or not current responsibilities of some employees of the firm would no longer be necessary.

Subjects A and C believed that the current job of some employees of the firm would no longer be necessary. This aligns well with Subject A's belief that employment at the firm would decrease with the enactment of a flat tax.

Subject B believed that the current job responsibilities of some employees would still be necessary to a degree, just not in the same quantity. Recall that Subject B did not believe the

number of employees at Subject B's firm would change with the enactment of a flat tax. Subject B believed there would be fewer preparers and reviewers within the firm, but emphasized that all employees at the firm would work on other tasks as well.

Subject D believed that some current responsibilities would no longer be necessary because the firm has some employees that work mostly on individual tax.

Subject E emphasized that there is no employee at the firm that solely works on individual tax. Other activities such as 401(k) audits and corporate returns would still be necessary. Subject E believed that the tasks within a Certified Public Accounting firm would be consolidated into fewer people.

Subject F emphasized that whether or not responsibilities would be necessary depends on how the flat tax is structured. However, Subject F admitted that there would likely not be a need for as many tax preparers.

Question 4 of the survey asked respondents to indicate whether or not they believed the following statement is true or false: If a flat tax was enacted, the current job responsibilities of some current employees at my firm would no longer be necessary. Of the responses, 61% believed this statement is true and the other 39% believed the statement is false. No unique insights are provided by comparing the results of Question 4 with the results of Question 1. While the totals for the two options are fairly close, a majority of respondents indicated that there would likely be a shift of responsibilities within Certified Public Accounting firms.

Other Displacement Considerations

As the Certified Public Accounting profession is a significant portion of the overall accounting profession, an important consideration of this research is how the enactment of a flat tax could affect the accounting profession—those employed at Certified Public Accounting firms

and those employed elsewhere—as a whole. Therefore, an additional interview question asked interviewees where they believed the employees whose responsibilities would no longer be necessary would ultimately find themselves. Essentially, if the responsibilities of employees are no longer necessary, there are four main places to which they could be displaced: remaining employed at their current Certified Public Accounting firm with different responsibilities, finding work at another Certified Public Accounting firm with different responsibilities, finding work elsewhere within the accounting field, and having to find work outside of the accounting field. As the options progress, the overall effect on the accounting field becomes more drastic.

Recall that Subject B believed there would not be a reduction in employment at the firm, so Subject B naturally indicated that employees would be able to remain employed at their current firm, but with different responsibilities. However, Subject B indicated this may not be the case for all firms. Subject B works at a mid-size firm and noted that smaller firms and also bigger firms may face more drastic changes. Subject B believed that bigger firms could face more drastic changes because bigger firms are more likely to be segmented and have employees that focus on one area, whereas mid-size firms are more likely to have individuals that work in a variety of areas. Subject B also indicated that if a flat tax truly was as simple as it is made out to be, people could possibly be displaced from public accounting, but these people would likely be able to find work in private accounting and thus not be permanently displaced from the accounting profession entirely.

Subject C believed that some people would be able to remain employed at their present firms, but again brought up how retirements may factor into this. However, Subject C also indicated that some people would probably be permanently displaced from the accounting profession.

Subject D, as stated earlier, sees talented employees as tremendous assets to the firm and would therefore like to retain as many as possible within the firm. However, Subject D noted that it will ultimately come down to a business decision as to whether or not the firm can financially retain all of the employees. Subject D also emphasized that no firm wants to be in this situation. Regarding permanent displacement from the Certified Public Accounting field, Subject D noted that it stands to reason that some people would be displaced from the field if a flat tax was enacted.

Subject E emphatically believed that the passage of a flat tax would permanently displace some people from working in Certified Public Accounting firms. In fact, Subject E believed that over 50% of Certified Public Accountants would be looking for jobs. Additionally, Subject E believed that the passage of a flat tax would permanently displace some people from working in the accounting field.

Subject F emphasized that the industry is dynamic and full of change. Subject F has been in the profession for 21 years and has continuously developed new skills and learned about new products, services, and industries. Therefore, Subject F indicated that based on past experience, Subject F's firm would "provide other opportunities to develop new deliverables for clients and we would be able to retain the majority of our existing staff." Regarding professionals being displaced into other Certified Public Accounting firms, Subject F made a logical point that if there is not work at the professional's current firm, it is unlikely that there will be many options at other Certified Public Accounting firms, either. Subject F also emphasized that public accounting allows professionals to obtain a lot of experience in many industries and that employees of Certified Public Accounting firms often receive corporate offers because the corporate world "value[s] the type of experience and background our staff has obtained."

Therefore, Subject F is confident that staff at Subject F's firm would be able to find work elsewhere. However, Subject F's comments are based primarily on a particular firm and Subject F indicates that based on the structure of a flat tax, it is possible that some people could be permanently displaced from public accounting or displaced from the accounting profession overall.

Question 5 of the survey asked respondents to complete the following statement with one of five answer choices: I believe that a majority of those whose responsibilities would no longer be necessary as indicated in question 4 would... The results for Question 5 are shown below in Figure 7.

Figure 7
Question 5 Results

	Number of respondents	Percentage of respondents
Be able to remain employed at my firm, but with different responsibilities.	8	26%
Be able to find work at another firm, but with different responsibilities.	0	0%
Be able to find work elsewhere in the accounting field.	5	16%
Have to find work outside of the accounting field.	8	26%
I answered "False" for question 4.	10	32%
<i>Total</i>	<i>31</i>	<i>100%</i>

Like the previous two survey questions, several respondents displayed an inconsistency between Question 4 and Question 5; twelve respondents rated Question 4 as false, but only ten respondents indicated this action on Question 5. Both of these respondents indicated on Question 5 that they believed employees would be able to remain employed at the same firm, but with different responsibilities. Therefore, while inconsistent, both respondents indicate the lowest possible change for employees.

Among the other responses, there is not a decisive answer. However, a combined 42% of respondents indicated that employees would have to either find work elsewhere in the accounting field or have to find work outside of the accounting field. Since both of these options indicate an exit from a Certified Public Accounting firm, this means that those who believe a change will occur think it will notably affect Certified Public Accounting firms.

Conclusions and Overall Reflection

The most definitive conclusion of this research is that Certified Public Accountants do not believe a flat tax as defined by this research will be enacted soon. While this research also analyzes what could theoretically occur should a flat tax be enacted, the doubtful response to the flat tax's enactment is a major point. A flat tax would theoretically impact the Certified Public Accounting profession, but this must be considered in light of the overall likelihood of a flat tax.

Given the variation of responses about the potential change in the number of people employed in the Certified Public Accounting profession, how the number of people employed at Certified Public Accounting firms would change is not conclusive. However, the number of people employed at Certified Public Accounting firms would likely either stay the same or decrease; the flat tax has little chance of becoming a boon for employment at Certified Public Accounting Firms. Moreover, while not conclusive as to the exact change in employment, this research concludes that the flat tax would have a greater effect on smaller Certified Public Accounting Firms than on larger Certified Public Accounting firms.

Looking beyond the numbers, there was also variation among responses about how responsibilities of employees in the Certified Public Accounting profession would change. Therefore, the exact change regarding this element of the research is inconclusive as well since

some respondents predicted a drastic drop in employment while others emphatically praised current professionals and their abilities to find work.

This research was not able to conclude exactly what would happen to the Certified Public Accounting profession if a flat tax was enacted. However, as part of the overall discussion, this research generated several key points to which current professionals and aspiring students should keep in mind when analyzing the Certified Public Accounting profession.

First and foremost, the enactment of a flat tax cannot be separated from the current environment of Certified Public Accounting. For example, several interviewees emphasized difficulty in finding qualified candidates right now and that there is a net job loss in the Certified Public Accounting profession because of Baby Boomers retiring. While this research was approached hoping to develop a simple cause and effect relationship, allowing interviewees to expand on answers showed that a flat tax cannot be isolated, which, since a goal of this research is to develop practical planning information for professionals and students, brings these overall conclusions closer to reality instead of only theory.

Second, as an extension to the first point, many Certified Public Accounting firms see tremendous value in employees and do not approach tax simplification entirely by numbers. In particular, Subject B mentioned the firm's willingness to retrain in light of difficulty in finding qualified candidates. Additionally, Subject F seemed proud to predict "that our staff would be able to get employment in the corporate world," which highlights a strong investment in firm employees. Therefore, it follows that Certified Public Accounting firms would likely show resiliency to the extent possible if a flat tax was enacted, and if firms were forced to make strategic staffing changes, because firms tend to value employees.

In light of this, however, there are also strategic moves and skills that current professionals and students can make and build to ready themselves for potential changes in the accounting profession. All six interviewees emphasized the importance of some form of well-roundedness. Many found value in experience with other accounting functions besides tax such as bookkeeping, audits, and valuations, and also indicated that furthering technological skills are of utmost importance. In addition, several interviewees mentioned the importance of remembering other services that Certified Public Accounting firms provide and indicated that there are many things that would not change with the flat tax. In addition, this research shows that Certified Public Accounting firms readily anticipate changes, and several interviewees saw the enactment of a flat tax as an opportunity to expand and diversify other firm services for clients.

This study opens the door to future research. As previously stated, this research was designed to begin the discussion on this topic and to serve as a starting point for future analysis. First, the sample size in this research was limited as only 31 respondents returned the survey. Future research could include many more test subjects. Additionally, the interviews were limited to Certified Public Accountants in the Joplin and Springfield area. This issue is a national issue and could benefit from in-depth interviews around the country. Also, subjects concurred that firm size has a significant impact on this issue. Therefore, in-depth analysis about the relationship between firm size and the effects of a flat tax could yield more conclusive and interesting results. While this research serves a valuable purpose, it also provides a guide upon which future research can expand.

In conclusion, the context of the flat tax is the key to its overall effect on Certified Public Accounting firms. While no definitive conclusions can be drawn regarding exactly what would

happen to employment levels at Certified Public Accounting firms if a flat tax was enacted, this research serves two important purposes. First, this research provides both quantitative and qualitative data about Certified Public Accountants' opinions of the flat tax that is not readily available elsewhere. Second, this research has pointed to the fact that the context of the flat tax—particularly that firms are structured differently and find value in employees—is of utmost importance; a direct cause and effect relationship does not necessarily exist.

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Appendix A
List of Survey Questions

For the purpose of this survey, a flat tax is defined as a tax code with one rate, up to two simple deductions, and three simple credits that completely replaces the current Federal income tax for *individuals*. Please check one of the answers for each question.

1. How likely do you believe the enactment of a flat tax is in the next five years in the United States?

- Extremely likely
- Likely
- Probable, but more likely than unlikely
- Probable, but more unlikely than likely
- Unlikely
- Extremely unlikely

2. If a flat tax was enacted in the United States, the number of people employed at my Certified Public Accounting firm (the entire firm, not just my office) would:

- Significantly increase
- Increase
- Stay about the same
- Decrease
- Significantly decrease

3. Ignoring a positive or negative sign to indicate an increase or decrease, by what percentage do you estimate employment would change based on your answer to question #2?

- I estimate it would stay about the same.
- 1% - 5%
- 6% - 10%
- 11% - 15%
- 16% - 20%
- 20% - 25%
- Over 25%

4. If a flat tax was enacted, the current job responsibilities of some current employees of my Certified Public Accounting firm would no longer be necessary.

- True
- False

5. I believe that a majority of those whose job responsibilities would no longer be necessary as indicated in question #4 would:

- Be able to remain employed at my firm, but with different responsibilities.
- Be able to find work at another firm, but with different responsibilities.
- Be able to find work elsewhere in the accounting field.
- Have to find work outside of the accounting field.
- I answered "False" on question #4.

Optional: Please provide any relevant additional comments.