THE MESOCRATIC PARTY | POLICY WHITE PAPER

The 12.5% Plan

A Unified Flat Tax for Federal Income and Capital Gains

One rate. No loopholes. No brackets. No games.

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Executive Summary

The Mesocratic Party proposes replacing the current seven-bracket federal income tax system and the three-tier capital gains tax system with a single, unified flat tax rate of 12.5% on all individual income — earned and investment alike.

No brackets. No loopholes. No deductions. No special rates for special people. One number, applied equally to every American.

This proposal is not based on ideology. It is based on math. We analyzed six years of IRS data (2017–2022) to determine what the federal government actually collects from individual income taxes as a percentage of reported income. We then asked: what single flat rate, applied to an expanded tax base with no deductions, would generate equivalent revenue while giving every American a tax cut?

The answer is 12.5%.

12.5% of everything you earn. That's the entire tax code.

Key findings of this paper:

- The average effective federal income tax rate across all taxpayers from 2017–2022 was approximately 14.0%, based on adjusted gross income (AGI).
- AGI is a reduced number — it reflects income after adjustments and before deductions. Eliminating all deductions and loopholes expands the taxable base by an estimated $1.5–$3.0 trillion annually.
- A flat rate of 12.5% applied to this expanded base generates revenue in line with current collections ($2.0–$2.2 trillion), while eliminating the compliance burden of the current 7,000-page tax code.
- Applying the same 12.5% rate to capital gains unifies the tax treatment of earned and investment income, eliminating the carried interest loophole and other preferential treatment.
- The result: every American pays the same rate, every dollar is treated the same, and the IRS shrinks.

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1. The Problem with the Current System

1.1 Complexity as a Feature, Not a Bug

The United States Tax Code (Title 26 of the U.S. Code) exceeds 4 million words. The associated regulations add millions more. The IRS itself estimates that American taxpayers and businesses spend over 6.5 billion hours per year on federal tax compliance. The total economic cost of this compliance burden has been estimated at $400–$500 billion annually.

This complexity is not accidental. Every deduction, credit, exclusion, and special rate exists because someone lobbied for it. The tax code has become a mechanism for distributing economic favors, not for fairly collecting revenue.

1.2 The Seven-Bracket Illusion

The current federal income tax system uses seven marginal tax rates: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. These rates create the appearance of progressivity — the idea that those who earn more pay a higher percentage. In reality, the system is riddled with mechanisms that allow high-income taxpayers to reduce their effective rates far below their marginal rates.

According to IRS data for tax year 2022:

- The statutory top rate is 37%, but the average effective rate for the top 1% of taxpayers was 23.1%.
- The average effective rate for all taxpayers was just 14.5% — less than half of the median marginal bracket.
- The bottom 50% of taxpayers paid an average effective rate of 3.7%.

The gap between statutory rates and effective rates represents the cost of complexity: deductions, credits, loopholes, and preferential treatment that primarily benefit those with the resources to exploit them.

1.3 Capital Gains: A Separate and Unequal System

Long-term capital gains (assets held for more than one year) are taxed at preferential rates of 0%, 15%, or 20%, plus a potential 3.8% Net Investment Income Tax (NIIT) for high earners. Short-term capital gains are taxed as ordinary income.

This dual system creates several distortions:

- It incentivizes the reclassification of ordinary income as capital gains (the “carried interest” loophole used by hedge fund managers and private equity firms).
- It taxes labor at higher rates than investment, disadvantaging working Americans relative to asset holders.
- It adds enormous complexity to the tax code and enables sophisticated tax planning strategies that are only available to the wealthy.

2. The Data: What America Actually Pays

The foundation of the 12.5% Plan is empirical, not ideological. We examined six years of IRS Statistics of Income data to determine what the federal government actually collects from individual income taxpayers relative to their reported income.

2.1 Federal Income Tax: Reported AGI, Taxes Paid, and Effective Rates

The following table presents aggregate data from IRS Statistics of Income reports, as compiled and published by the Tax Foundation. All figures represent calendar-year tax return data.

Tax Year	Returns Filed (M)	Total AGI ($ Trillions)	Total Tax Paid ($ Trillions)	Avg. Rate	Top 1% Avg. Rate
2017	141.2	$10.9	$1.60	14.6%	26.8%
2018	144.3	$11.6	$1.54	13.3%	25.4%
2019	148.3	$11.9	$1.58	13.3%	25.6%
2020	157.5	$12.5	$1.70	13.6%	26.0%
2021	153.6	$14.7	$2.18	14.9%	25.9%
2022	153.8	$14.8	$2.13	14.5%	23.1%
Avg.	—	$12.7	$1.79	14.0%	25.5%

Sources: IRS Statistics of Income, Individual Income Tax Rates and Tax Shares; Tax Foundation, "Summary of the Latest Federal Income Tax Data" (2018–2025 editions). Average rate = Total Tax Paid ÷ Total AGI.

Key Observations

- The six-year average effective tax rate across all taxpayers is approximately 14.0%.
- This rate dropped significantly in 2018 following the Tax Cuts and Jobs Act (TCJA), which lowered rates and nearly doubled the standard deduction.
- Even the top 1% of earners pay an average effective rate of ~25.5% — well below their statutory marginal rate of 37%.
- The gap between the average rate (14.0%) and the top 1% rate (25.5%) represents the progressivity that deductions and credits provide under the current system.

2.2 The Deduction Gap: AGI vs. True Income

A critical point: Adjusted Gross Income (AGI) is not gross income. AGI is already a reduced figure. It represents total income after subtracting certain adjustments (retirement contributions, student loan interest, HSA contributions, etc.) but before applying the standard deduction or itemized deductions.

The difference between total personal income and reported AGI represents income that never enters the tax calculation. According to data from the Bureau of Economic Analysis (BEA):

Year	BEA Personal Income ($ T)	IRS Reported AGI ($ T)	Gap ($ T)	Gap %
2017	$16.8	$10.9	$5.9	35%
2018	$17.6	$11.6	$6.0	34%
2019	$18.4	$11.9	$6.5	35%
2020	$19.6	$12.5	$7.1	36%
2021	$21.3	$14.7	$6.6	31%
2022	$21.8	$14.8	$7.0	32%

Sources: BEA NIPA Table 2.1 (Personal Income and Its Disposition); IRS SOI. Note: BEA personal income includes government transfers, employer benefits, and other items not reported as AGI. The gap includes both non-taxable income components and income reduced through above-the-line adjustments.

Not all of this gap represents income that could or should be taxed. BEA personal income includes government transfer payments (Social Security, Medicaid, etc.), employer contributions to health insurance and retirement plans, and imputed income. However, a substantial portion of the gap represents income that is sheltered from taxation through above-the-line adjustments, exclusions, and deferrals.

Conservative estimates suggest that eliminating major individual tax deductions and adjustments (while preserving the standard deduction for returns that currently don't itemize) would expand the taxable base by approximately $1.5 to $3.0 trillion annually. CBO analysis confirms that in 2017, total itemized deductions were $1.4 trillion, and eliminating them would have increased aggregate taxable income by approximately $925 billion. Additional base broadening comes from eliminating above-the-line adjustments and exclusions.

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3. The Math: Why 12.5% Works

3.1 Revenue Calculation

The central question: can a 12.5% flat rate, applied to a broadened tax base, generate revenue equivalent to current collections?

Scenario A: Conservative Base Expansion ($1.5T)

Assumes elimination of major itemized deductions only (SALT, mortgage interest, charitable), retention of some above-the-line adjustments.

- Expanded tax base: $14.8T (2022 AGI) + $1.5T = $16.3T
- Revenue at 12.5%: $16.3T × 12.5% = $2.04 trillion
- Actual 2022 collections: $2.13 trillion
- Shortfall: approximately $90 billion (4.2%)

Scenario B: Moderate Base Expansion ($2.2T)

Assumes elimination of all itemized deductions plus select above-the-line adjustments (excluding retirement contributions).

- Expanded tax base: $14.8T + $2.2T = $17.0T
- Revenue at 12.5%: $17.0T × 12.5% = $2.13 trillion
- Actual 2022 collections: $2.13 trillion
- Result: Revenue neutral

Scenario C: Full Base Expansion ($3.0T)

Assumes elimination of all deductions, adjustments, and exclusions (the true "no loopholes" scenario).

- Expanded tax base: $14.8T + $3.0T = $17.8T
- Revenue at 12.5%: $17.8T × 12.5% = $2.23 trillion
- Actual 2022 collections: $2.13 trillion
- Surplus: approximately $100 billion (4.7%)

Under moderate assumptions about base broadening, a flat rate of 12.5% is revenue-neutral. Under aggressive but defensible assumptions, it generates a surplus.

3.2 The Revenue Equivalence Table

The following table shows the revenue generated at 12.5% across different base-expansion assumptions, compared to actual collections:

Scenario	Base Expansion	Tax Base	Revenue @12.5%	vs. Actual
A: Conservative	+$1.5T	$16.3T	$2.04T	-$0.09T
B: Moderate	+$2.2T	$17.0T	$2.13T	Neutral
C: Full	+$3.0T	$17.8T	$2.23T	+$0.10T

Baseline: 2022 IRS data. Actual 2022 individual income tax collections: $2.13 trillion. Base expansion estimates derived from CBO, Tax Policy Center, and IRS SOI data on total deductions and adjustments.

3.3 Capital Gains Unification

Under the current system, long-term capital gains are taxed at preferential rates (0%, 15%, or 20% + 3.8% NIIT). Annual federal revenue from capital gains taxes fluctuates with market conditions but has ranged from approximately $200–$400 billion in recent years.

The 12.5% Plan treats capital gains identically to earned income:

- Short-term capital gains: currently taxed as ordinary income (up to 37%). Under the 12.5% Plan: 12.5%. This represents a significant reduction for all taxpayers.
- Long-term capital gains: currently taxed at 15–23.8% for most relevant taxpayers. Under the 12.5% Plan: 12.5%. This represents a reduction for most taxpayers, particularly those in the 20% + 3.8% NIIT bracket.

- The carried interest loophole is eliminated entirely, because there is no longer a preferential rate to exploit.

Revenue impact: the reduction in the capital gains rate from ~16–17% effective to 12.5% would reduce capital gains tax revenue. However, economic research consistently shows that lower capital gains rates increase realizations (taxpayers sell assets more frequently when the tax cost is lower). The Congressional Budget Office and the Joint Committee on Taxation have acknowledged this behavioral response in their scoring of capital gains rate changes. We project that increased realizations would offset a substantial portion of the rate reduction, resulting in a modest net revenue loss of $30–60 billion annually from the capital gains component.

3.4 Net Revenue Position

Combining the income tax and capital gains analyses:

Component	Revenue Impact
Income tax at 12.5% (Scenario B)	Revenue neutral
Capital gains at 12.5%	-$30B to -$60B
Compliance savings (reduced IRS cost)	+$10B to +$20B
Economic growth effect (dynamic scoring)	+$20B to +$80B (est.)
NET POSITION	-$50B to +$40B

Revenue estimates are based on 2022 baseline data with conservative dynamic scoring assumptions. Compliance savings based on IRS budget data and GAO estimates of tax compliance costs. Dynamic scoring range reflects CBO methodology.

Under conservative assumptions, the 12.5% Plan may produce a modest annual revenue shortfall of approximately $50 billion — roughly 2.3% of individual income tax collections and less than 1% of total federal revenue. Under moderate dynamic scoring assumptions (accounting for the economic stimulus of a dramatically simpler tax code and lower capital gains rates), the plan approaches or achieves revenue neutrality.

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4. Who Benefits: Impact by Income Group

The 12.5% Plan affects taxpayers differently depending on their income level. Here is a representative analysis:

Income Group	Current Avg. Rate	12.5% Plan Rate	Change	Direction	Share of Tax Paid
Bottom 50%	3.7%	12.5%	+8.8 pts	INCREASE ↑	Significant
50th–75th %ile	~8–10%	12.5%	+2.5–4.5 pts	INCREASE ↑	Moderate
75th–90th	~12–14%	12.5%	-1.5 to +0.5	NEUTRAL	Neutral

Income Group	Current Avg. Rate	12.5% Plan Rate	Change	Direction	Share of Tax Paid
%ile			pts	↔	
Top 10%	~18–20%	12.5%	-5.5 to -7.5 pts	DECREASE ↓	Significant
Top 1%	23.1%	12.5%	-10.6 pts	DECREASE ↓	Major

Current rates from IRS SOI 2022 data. Note: current effective rates for lower-income groups include the effect of credits (EITC, CTC) which substantially reduce or eliminate tax liability.

4.1 Addressing the Progressivity Concern

The most significant objection to a flat tax is that it is regressive relative to the current system: lower-income taxpayers would pay a higher effective rate, while upper-income taxpayers would pay a lower rate.

The Mesocratic Party acknowledges this directly. We believe in transparency, not in hiding uncomfortable trade-offs behind political rhetoric. Here is how we address this concern:

1. Standard exemption threshold. The 12.5% Plan includes a standard personal exemption of $20,000 per individual ($40,000 per married couple). Income below this threshold is not taxed. This ensures that no American living at or near the poverty line pays federal income tax. The effective rate for a single earner making $40,000 would be 6.25%, not 12.5%.

2. The Earned Income Tax Credit survives. The 12.5% Plan preserves the Earned Income Tax Credit (EITC) as the primary mechanism for ensuring that working families at the bottom of the income distribution are not burdened by the flat rate. The EITC has bipartisan support and is the most efficient anti-poverty tool in the tax code.

3. The trade-off is simplicity and fairness. Under the current system, the wealthy pay lower effective rates than their statutory rates suggest, because they can afford accountants, attorneys, and financial planners to exploit deductions and loopholes. Under the 12.5% Plan, there is nothing to exploit. A billionaire and a teacher both pay 12.5% on every dollar above the exemption. No games.

4. The top 1% lose their deductions. While the top 1% would see their rate drop from ~23% to 12.5%, they would simultaneously lose all deductions. Currently, the top 1% claims an average of $147,000+ in itemized deductions per return. Eliminating these deductions significantly offsets the rate reduction. The actual tax reduction for top earners is smaller than the headline rate change suggests.

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5. Capital Gains: One Rate for All Income

5.1 The Investment Stimulus Effect

One of the most powerful features of the 12.5% Plan is the unified treatment of capital gains. Under the current system, long-term capital gains are taxed at 15–23.8% for most taxpayers. Under the 12.5% Plan, that rate drops to 12.5%.

This has significant economic implications:

- **Increased liquidity:** Lower capital gains rates reduce the "lock-in effect" — the tendency of investors to hold assets longer than economically optimal to defer taxes. This increases market liquidity and improves capital allocation.
- **Startup and small business formation:** Entrepreneurs and early-stage investors face lower taxes on successful exits, improving the expected return on risk-taking.
- **Eliminated loopholes:** The carried interest loophole ceases to exist because there is no longer a preferential capital gains rate. Fund managers pay the same 12.5% as everyone else.
- **Simplified compliance:** No more tracking holding periods, NIIT calculations, or qualified dividend categorizations. Income is income.

5.2 International Competitiveness

Ireland's famous corporate tax rate of 12.5% has been credited with attracting massive foreign direct investment and establishing Ireland as a global technology hub. While the 12.5% Plan applies to individual income rather than corporate income, the symbolic alignment is powerful: the United States would be signaling that it is open for investment, competitive globally, and serious about simplification.

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6. Implementation

6.1 What the 12.5% Plan Eliminates

- All seven individual income tax brackets (replaced by a single 12.5% rate)
- All itemized deductions (SALT, mortgage interest, charitable contributions, medical expenses, etc.)
- The Alternative Minimum Tax (AMT)
- The Net Investment Income Tax (NIIT / 3.8% surtax)
- Preferential capital gains rates (0%, 15%, 20%)
- The carried interest loophole
- The Qualified Business Income (QBI) deduction
- Most above-the-line adjustments

6.2 What the 12.5% Plan Preserves

- The Earned Income Tax Credit (EITC)
- The Child Tax Credit (CTC)

- A personal exemption of $20,000 per individual / $40,000 per married couple
- Tax-deferred retirement accounts (401(k), IRA) — contributions are still pre-tax; distributions are taxed at 12.5%
- Employer-provided health insurance exclusion (to avoid disrupting employer markets)

6.3 The New Form 1040

Under the 12.5% Plan, the individual tax return could be reduced to a single page:

1. Report total income from all sources (wages, salaries, investments, business income, capital gains, retirement distributions).
2. Subtract personal exemption ($20,000 single / $40,000 joint).
3. Multiply the result by 12.5%.
4. Subtract applicable credits (EITC, CTC).
5. That's your tax. Pay it or receive your refund.

The IRS could process this return automatically for the vast majority of taxpayers using existing W-2 and 1099 data, potentially enabling a return-free filing system.

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7. How the Parties Compare on Tax Reform

	Republican	Mesocratic	Democrat
Rate structure	7 brackets (10–37%)	Flat 12.5%	7+ brackets (add higher brackets)
Capital gains	Preferential rates (0/15/20%)	12.5% (same as income)	Raise to ordinary income rates
Deductions	Preserve most + raise SALT	Eliminate all	Expand/restore pre-TCJA
Carried interest	Preserve	Eliminated (no pref. rate)	Tax as ordinary income
Complexity	High (retain current code)	Minimal (single rate)	Higher (add new brackets, credits)
Philosophical basis	Lower rates stimulate growth	Simplicity + fairness = growth	Higher earners should pay more

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8. Conclusion

The 12.5% Plan is not a thought experiment. It is a data-driven proposal, grounded in six years of IRS and BEA data, designed to replace the most complex tax system in the developed world with the simplest one.

The math is straightforward:

- The federal government collects approximately 14% of AGI in individual income taxes.
- AGI is a reduced figure that excludes trillions in income sheltered by deductions and adjustments.
- Eliminating those shelters and applying a flat 12.5% rate to the broadened base generates equivalent revenue.
- Unifying the capital gains rate at 12.5% stimulates investment, eliminates loopholes, and treats all income equally.
- A $20,000/$40,000 personal exemption protects low-income Americans, and the EITC ensures working families are not burdened.

We didn't invent a number. We looked at what the country already collects, made it honest, and dropped it a point. The math did the talking.

The Mesocratic Party invites independent economists, policy analysts, and the American public to scrutinize this proposal. Every data point in this paper is sourced from public federal data. Every calculation is reproducible. That's the point.

Transparency isn't a talking point. It's the policy.

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