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FEB 1 8 2005

Mark Kaizen, Chair
President's Advisory Panel on Federal Tax Reform
c/o United States Department of Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Re: Federal Tax Reform

Dear Mr. Kaizen:

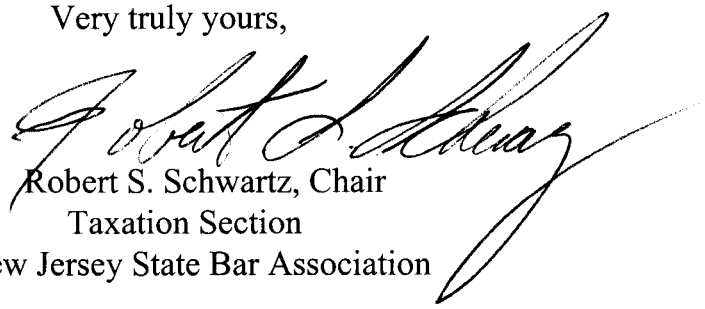
I have witnessed the evolution of businesses' response to changes in the tax code beginning with the 1981 ERTA, and also businesses' adaptation to various forms of business entities offering various advantages depending upon the line of business and governance and management arrangements deemed best advisable by the owners. That evolution points plainly to the following: eligible closely held businesses prefer pass-through income tax treatment; publicly traded corporations are necessarily taxed in and of themselves.

My recommendation to the panel is that the Federal income tax laws and employment tax laws be revised so as to apply the same income and employment taxation laws to all closely-held legal entities that do not choose to be taxed as "C" corporations. These entities are partnerships, S corporations and limited liability companies, and a few others far less widespread. The changes suggested cover areas such as the tax basis of owner interests, eligible owners and fringe benefit taxation of owners.

If the panel's recommendations make moot these suggestions, such as for example, the income tax is entirely eliminated in favor of a sales-type tax, then the employment tax aspects of pass-through entities would still remain to be harmonized, so as to encourage and support business growth.

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Very truly yours,



Robert S. Schwartz, Chair
Taxation Section
New Jersey State Bar Association

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