

PRESIDENT'S ADVISORY
BOARD
ON FEDERAL TAX REFORM

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The President's Advisory Panel on Tax Reform
1440 New York Avenue NW
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Dear Sir:

I would like to offer some tax reform ideas. I think key reform objectives should be to make sure the tax base is as broad as possible and that all income is taxed alike. It might be easiest at first to keep the current income tax system in place while changing the parallel Alternative Minimum Tax (AMT) in the following ways:

For purposes of the AMT computation, include the value of the following benefits paid for by employers as AMT gross income: (1) health insurance, (2) disability insurance, (3) life insurance, (4) 401-K matching contributions and profit sharing payments, and (5) the employer's share of Social Security and Medicare taxes. I include the employer's share of Social Security and Medicare taxes because most economists believe that the employee effectively pays it in the form of lower wages than probably would be paid if the tax did not exist. We should add back deductions taken for mortgage interest and charitable contributions. 85% of social security benefits should also be included in the AMT income base. I would not include tax exempt bond interest in AMT income because the investor has already, in effect, paid the tax by accepting a lower return than could have been earned from a taxable bond of similar maturity and credit

quality. There should be a basic exemption of, perhaps, \$50,000 (indexed for inflation in the future) and a tax rate of no more than 25% **including Social Security and Medicare taxes paid by both the employee and the employer.**

It would also be useful to establish an Alternative Maximum Tax of 35% of gross income with no exemptions but again including Social Security and Medicare taxes paid by both the employee and the employer. This proposed integration of payroll and income taxes would help to equalize the tax treatment of income from wages and income from capital. The Alternative Maximum Tax would insure a reasonable marginal income tax rate for people who qualify for it and would implicitly quantify what level of federal taxation (as a percentage of gross income) Congress and the Executive branch think constitutes a "fair share" to be paid by upper income taxpayers.

Estates should also have the option of paying the proposed Alternative Maximum Tax (on the gross estate less debts and expenses) in lieu of the current estate tax structure, while the basic exemption should be raised to \$4-\$5 million.

In summary, reconfiguring the AMT in the manner outlined above would produce the following benefits:

1. It would materially broaden the definition of income.
2. It would effectively integrate the income and payroll tax.
3. It would establish a reasonable "fair share" maximum tax for high income taxpayers.

Tax Reform Commends by Barry Carol

With the proliferation of inexpensive and easy to use tax preparation software in recent years, there should not be any unduly burdensome compliance issues as compared to the current system.

Yours truly,

Barry Carol

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