

PRESIDENT'S ADVISORY
BOARD
ON FEDERAL TAX REFORM

2005 FEB 36 P 2: 24

Submitter's Name: **Allen Buckley**

Submission Date: **March 3, 2005**

Submitter's Category: **Individual**

Contact Information: **Phone:** (404) 962-1042

Fax: (404) 962-1236

Address: 1201 West Peachtree Street

Suite 3700

Atlanta, Georgia 30309

Email: allen.buckley@smithmoorelaw.com

Allen Buckley
5192 Forest View Court
Mableton, GA 30126

March 3, 2005

The President's Advisory Panel on
Federal Tax Reform
1440 New York Avenue NW
Suite 2100
Washington, DC 20220

Re: Tax Reform

Dear Sirs and/or Madams:

I am writing to supply comments with respect to possible changes to the tax federal system.

By profession, I am an employee benefits and tax attorney. I am also a CPA. A copy of my resume is enclosed.

In 2004, I was the Libertarian Party's candidate for U.S. Senate in Georgia. The primary thrust of my campaign was fiscal responsibility. Copies of the financial materials from my website are enclosed. My campaign's website was www.buckleyforsentate.com. I believe that the site is still working.

Allen Buckley

If you look at the enclosed materials, you will see that I am very concerned about the financial condition of our country. To me, tax cuts without corresponding spending cuts amounts to fiscal irresponsibility. (I realize that a reasonable finite amount of deficits is not debilitating. However, given the tremendous amount of existing debt, I believe that the best policy is to run a balanced budget each year, absent an emergency situation.

The income tax proposal provided in the enclosed materials is designed to annually balance the budget by utilization of a flexible tax rate ("x") that is tied to spending. (Social Security would be excluded from the equation.) The system would allow current deductions for charitable contributions, home mortgage interest and trade or business expenses. Retirement plan deductions could also be permitted. Dividends would be taxed as ordinary income. Taxation of Social Security benefits would be greatly simplified under a recovery of basis method. I believe that the Internal Revenue Code §179 expensing limit needs to be restored to a more reasonable amount, such as \$25,000. Personal exemptions and the greater of the standard deduction or itemized deductions (without any phase-outs) would reduce income. The net would then be offset by a personal deduction -- \$10,000 for a single person -- to help the poor and the people on the "lower end" of the middle class. Then, a common tax rate would apply to \$500,000 of taxable income, with such amount to be indexed for inflation. A 39 percent rate would apply to taxable income in excess of \$500,000. A deficit could be run in a true emergency situation. The details of my proposal, including indexing of the cost basis of capital assets, can be found in the enclosed materials.

As mentioned above, I realize that, from an economic perspective, the budget need not be balanced each year. However, if you analyze CBO's budget forecast under the assumption that

Allen Buckley

recent tax cuts will not be made permanent, interest expense is budgeted to be 39 percent of non-entitlement government expenses in 2013. Given the tremendous debt load that presently exists, I think that we need to balance the budget unless we have an emergency situation. (An emergency situation will arise.)

Any tax system that is implemented needs to preserve the middle class. Historically, systems have collapsed due to class problems. Consider the French Revolution and the Russian Revolution. The revenue-neutral Fair Tax proposal (discussed below) would hit the middle class hard.

As part of my campaign, I thoroughly studied the "Fair Tax" proposal. In my campaign, I called it a sham. Included in the enclosed materials are press releases that discuss the Fair Tax proposal. (These releases were picked up by some newspapers throughout the country.) Finally, also enclosed is a summary of the tax impact on nineteen (19) different taxpayers/families under: (a) the current system; (b) the Fair Tax; (c) the revenue-neutral Fair Tax; and (d) my proposal.

I believe that individuals need to understand how the income tax system applies to them. I think that the alternate minimum tax ("AMT") needs to be repealed. It is a complex tax system within a complex tax system. No one likes it. If there are preferences that are too good, then they should be eliminated. Unfortunately, I believe that the passive loss rules are necessary. I see no reason, however, why short-term capital gains and losses should not be considered ordinary gains and losses, thus simplifying the calculations of long-term capital gain and loss.

Allen Buckley

Also enclosed are materials relating to my debt-free proposal to solve Social Security's problems. I have already forwarded these materials to Senator Johnny Isakson. Johnny informed me that he would forward these materials to the White House. Please note that I utilized an eight percent (8%) interest rate in producing the numbers. (Many retirement plans utilize this rate in calculating anticipated investment returns.) The benefit cut would likely be in the 8-10 percent range if the national referendum was against funding. The match percent would be approximately dollar-for-dollar (on the first 2 percent contributed) if the referendum was in favor of funding, and approximately 67 cents if the referendum was against funding.

Finally, enclosed is a draft article that I'm working on relating to changes to 401(k) rules in the near future. Specifically, beginning next year, 401(k) plan participants will be able to elect to apply Roth (after-tax) treatment to elective deferral contributions. As the article notes, the uncertainty surrounding the tax system will make decision-making next-to-impossible. Thus, the sooner your project is completed, the better.

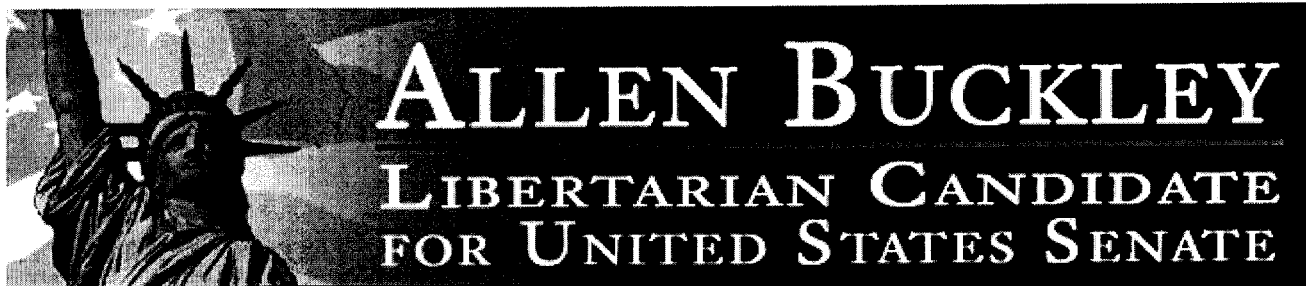
Obviously, your job is enormous in both scope and importance. I hope that you will be able to craft a system that will work for future generations, as the current system is not structured to do so.

Please let me know if I can be of any help.

Sincerely,

A handwritten signature in cursive script that reads "Allen Buckley".

Allen Buckley



HOME - CANDIDACY

SIGNIFICANT POINTS

DIFFERENCES BETWEEN
ALLEN BUCKLEY AND
HIS OPPONENTS

PRIMARY OBJECTIVES

PRIMARY PROBLEMS

A VOTE FOR ALLEN
BUCKLEY MEANS ...

BACKGROUND &
EDUCATION

CONTRIBUTIONS,
FEEDBACK, & SUPPORT

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DOWNSIZING
GOVERNMENT

EDUCATION

SOCIAL SECURITY &
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OTHER ISSUES

PRESS RELEASES &
COVERAGE

Views and Solutions: The Deficit & Taxes

A balanced federal budget is a MUST, absent an emergency situation, and the ongoing war on terrorism would not qualify as an emergency situation.

Comments: The federal government is being run as if the country will cease to exist in the very near future. The Bush Administration is trading tomorrow's potential prosperity for its agenda. (Many other administrations have done the same thing.) That's shortsighted, and its not right. A country that is truly being run "for the ages" will not have deficits like those that now exist in the United States.

Approximately \$7 Trillion (i.e. \$7,000,000,000,000) is now owed to creditors, including the Social Security Administration. **For 2003, exclusive of Social Security, the deficit equaled 46% of the total tax revenues of the federal government. For 2004, this percentage is budgeted to be 52%.** Interest on the debt is now the 3rd largest annual expense of the general fund of the federal government. Close to One Trillion Dollars of additional debt will be added in the 2002-2004 time frame. As demographics change for the worse and interest rates increase, the problem will become very significant. ***Directly or indirectly, virtually all investments are tied to the stability of the U.S. government.*** "In their most recent poll, members of the National Association of Business Economists described the federal deficit as the biggest problem facing America's economy. A bipartisan coalition of three economic think tanks--The Committee for Economic Development, the Concord Coalition and the Centre on Budget and Policy Priorities--recently declared that, without a change in course, the next decade might be the 'most fiscally irresponsible' in the country's history. . . . Contrary to the Bush team's rhetoric, America does not have a small, temporary fiscal problem. It has a large and growing one. . . . The real reason to fret about America's fiscal outlook is that this self-delusion shows little signs of changing. . . . The Democratic presidential candidates are just as keen to spill red ink as Mr. Bush, though on different priorities. They would roll back some or all of the tax cuts, but then go on to spend much, or all, of the recouped revenues on health care. The real debate in Washington is still about where to direct the red ink, rather than how to reduce it." (Source: *The Economist*--"A Flood of Red Ink," November 8, 2003.) Based on the deficits of the federal government (including Social Security and Medicare), the International Monetary Fund recently described the state of the U.S. government as "perilous" in the long run.

According to the Congressional Budget Office (CBO), the deficit for the fiscal year ended September 30, 2004 was \$413 Billion. Total nondefense discretionary spending for that year was \$436 Billion. The \$413 Billion was net of Social Security's surplus of approximately \$150 Billion. Accordingly, even with Social Security's surplus, our government is now funding essentially only entitlements and defense with the tax revenues being produced. Debt is used to fund virtually all of the nondefense discretionary expenses of the federal government. In its September 2004 report, CBO stated: "Funding provided for nondefense discretionary programs -- which includes budget authority for discretionary

activities other than defense as well as obligation limitations for certain transportation programs -- rose by 6 percent in 2004, up from a growth rate of 4.9 percent the previous year. However, both of those rates are significantly lower than the double-digit growth rates experienced in 2001 and 2002."

In a speech to the National Press Club in Washington, DC on September 17, 2003, David M. Walker, Comptroller General of the United States, said: "While we may be in a financial hole today, what about our future fiscal outlook? After all, if it is positive then we don't need to be as concerned. Unfortunately, it is not positive under a 'status quo' or 'business as usual' scenario. . . . Specifically, GAO's long-range budget simulations show that this nation faces a large and growing structural deficit due primarily to known demographic trends and rising health care costs. In less than 10 years, due primarily to the retirement of the baby boom generation, the United States will be hit by a huge demographic tidal wave that is not expected to ever recede! This is unprecedented in the history of our nation. . . . (T)he consensus opinion at a recent meeting of prominent economists representing a wide variety of ideological viewpoints was that, as I stated in my speech during that meeting, 'we cannot simply grow our way out of this problem!' In addition, we need to get started sooner rather than later so the miracle of compounding can start working for us rather than against us, as it is now. . . . As a result, the 'status quo' scenario and 'stay the course' approaches in connection with the deficit and fiscal matters are simply not viable options. Tough choices will have to be made by elected officials in order to address the nation's large and growing fiscal gap. The ultimate alternatives to definitive and timely action are not only unattractive, they are arguably infeasible. Specifically, raising taxes to levels far in excess of what the American people have ever supported before, cutting total federal spending by unthinkable amounts, or further mortgaging the future of our children and grandchildren to an extent that our economy, our competitive posture and the quality of life for Americans would be seriously threatened."

Georgia Governor Sonny Perdue recently said (on January 14, 2004, to the Georgia Legislature) the following concerning Georgia's budget deficit situation: "You don't drive full-speed toward a cliff, hoping that someone will build a bridge before you get there." However, that is exactly what the Bush Administration and the Congress are doing.

The U.S. is not financially prepared for any emergency situation, such as a conventional world war, a depression or a major epidemic. Our system finances such events with debt. (Note: The U.S. has been involved in 2 world wars and has experienced the Great Depression in the past 90 years.) We are now "tapped out," making our ability to deal with any such problem very difficult.

"... America needs to prune its budget deficit. However, it feels even less reason than usual to do so. Normally, when a government budget deficit swells so fast (to 4.6% of GDP this year, from a surplus of 2.4% of GDP in 2000) and its currency is falling, investors would demand higher bond yields to compensate them for the increased risk. That penalty gives governments both a warning and an incentive to borrow less. But Asian governments are devouring American Treasury Bonds with little regard for the usual risk-return characteristics. As a result, bond yields are being held artificially low, subsidizing America's borrowing spree. ... This has allowed the Bush Administration to point misleadingly to low bond yields as evidence that its budget deficit is not harming the economy, and to think that cutting the deficit is less urgent. President George Bush's plan, to halve the deficit over 5 years is based on unrealistic assumptions and fantasy accounting A fiscal stimulus was justified when the American economy was on the brink of a deep recession in 2001, but now that the economy is booming again, borrowing needs to be cut." (Source: *The Economist*, February 7th-13th, 2004, "Let the Dollar Drop.") When the Bush Administration talks about cutting the deficit in half, it means the *annual* deficit, not the massive accumulated deficit.

On May 6, 2004, Alan Greenspan, Chairman of the Federal Reserve, said the following regarding the deficit situation: "Our fiscal prospects are, in my judgment, a significant obstacle to long-term stability because the budget deficit is not readily subject to correction by market forces that stabilize other imbalances, ... We have legislated commitments to our senior citizens that, given the inevitable retirement of our huge baby-boom generation, will create significant fiscal challenges in the years ahead, ..."

Donald Ratajczak, Regents Professor of Economics Emeritus at Georgia State University, recently said the following: "... [T]he President's desire to make those tax injections permanent is the equivalent of having the doctor continue to give you medicine even after you are well. It is bad policy and should be resisted, or are we so greedy for what comes to us individually that we no longer care what is needed collectively?" (Source: *The Atlanta Journal-Constitution*, April 18, 2004, "Next Fed Move Involves Tricky Calculations.")

In this era of historically low interest rates, interest expense, at \$321 Billion, is now 24% of the total expenditures of the Federal government, exclusive of Social Security and Medicare. The interest amount is expected to more than double by the year 2013—event without implementation of the Bush Administration's proposal to make the tax cuts permanent. At that point, over thirty-nine percent (39%) of all government expenditures of the general fund—i.e., outside Medicare and Social Security, will be interest expense. Permanency of the tax cuts without corresponding reductions in government spending will make this percentage figure much worse. We get NOTHING in return for paying interest expense. Once the debt is there, the interest expense remains, annually, unless and until the debt is repaid. And, our demographics are changing such that we'll have a smaller working population in the near future at a time when the burdens on Medicare and Social Security will be greatest. So, repaying it is unlikely once the baby-boomers start retiring—which begins in about 7 years.

The Congressional Budget Office report entitled "The Budget and Economic Outlook: Fiscal years 2005 to 2014" provides the following: "... if all of the tax provisions that are set to expire over the next 10 years (except some related to the alternative minimum tax) were extended, the budget outlook for 2014 would change from a surplus of \$13 billion to a deficit of \$443 billion. Debt held by the public at the end of that year would climb to 48% of GDP and the 10-year deficit would total \$4.1 trillion." Currently, the ratio of public debt to GDP is 36%. In 2013, debts owed to Social Security and Medicare will be at all-time highs. Without permanency to the 2001 and 2003 tax cuts (the Bush Administration has recommended permanency), adding these debt totals to the public debt figure results in a total debt-to-GDP ratio of 72%. Making the 2001 and 2003 tax cuts permanent would increase this ratio to 84%. By way of comparison, the ratio of public debt to GDP was approximately 60% in 1954. (At that time, Social Security was in its infancy and Medicare did not exist.) (In 1954, adjusted for inflation, the incremental tax rate on taxable income in excess of: (a) \$41,305 was 30%; (b) \$55,075 was 34%; (c) \$110,147 was 50%; and (d) \$302,910 was 72%. The highest tax rate was 91%.) What this means is that if the Bush Administration has its way, and nothing is done about Social Security and Medicare (and no realistic solutions have been recommended for Medicare), the U.S. will be *suffocating* from debt in the year 2013. At that point, absent changes, Medicare and Social Security will be dominating the budget. Defense will be a must. Thus, the only realistic options will be massive tax increases (comparable to the rates in existence in 1954), massive reductions in government services, printing of money (which would be disastrous for savings), substantial immigration (and taxation of the immigrants) or a combination of these options. If any major problem occurred at that time (e.g. an epidemic or a conventional war), given the demographics that will exist (absent mass immigration), the economy could be destroyed.

And what is the Bush Administration doing to "head off" this oncoming storm?

Taking us towards port, where the storm can be weathered? No, just the opposite. The federal budget deficit for 2004 is expected to be \$422 Billion, the largest deficit ever. That breaks down to approximately \$3,300 per full-time worker. Last year, it was \$375 Billion, or approximately \$3,000 per full-time worker. Note that both of these figures are net of Social Security surpluses, meaning the actual deficits are greater.

One other upcoming financial problem, that is not a federal issue, needs to be considered. Virtually all state and local government pension funds are "unfunded," meaning that, similar to Social Security, there is no money held in trust. This means that when the baby-boomers start retiring, and the federal financial strains will be massive, the state and local governments will need to raise taxes to pay their pensions. So, the state and local problems will exacerbate the financial strains when the demographics will be working against us.

See: **Why the "Fair Tax" is not the Answer**

See: **Why Deficits Matter**

See: **How Deficits Impact Individuals**

See: **U.S. Tax and Expenditures Summary**

See: **Testimony of Alan Greenspan**

Suggested Solution: A 10/x/39 income tax system should be created, whereby the first \$10,000 of taxable income is tax-exempt (a slightly higher amount for married persons filing joint returns), the next \$490,000 is taxed at whatever rate is necessary to balance the budget (i.e. "x" percentage—the "common rate") and taxable income in excess of \$500,000 is taxed at 39%. (Taxable income would be computed after personal exemptions and the standard deduction or itemized deductions.) The tax payments would cover all annual expenses, and would pay off the existing debt due in each year over 30 years in equal installments. (The government could borrow in an emergency situation, but a war such as the war in Iraq would not qualify as an emergency situation.) Long-term capital gains would be taxed at a 20% rate. After 2004, individuals should receive basis adjustments to capital assets (i.e. increases) to correspond with the growth of the money supply. The earned income credit refundable amount would not be different than that provided under current law. Social Security benefits should be included in income after an individual has recouped his or her investment, provided that an individual may elect to recover his or her "basis" in any manner chosen. Dividends would be taxed as ordinary income, as they were prior to 2003. The alternative minimum tax (AMT) would be eliminated for all items except intangible drilling costs in excess of basis or, alternatively, completely eliminated along with elimination of deductibility of intangible drilling costs in excess of basis. The phase-out of itemized deductions and personal exemptions would be eliminated. The tax shelter rules should be strengthened for individuals and entities. ***This income tax system would tie spending to tax rates, thus eliminating the "disconnect" that presently exists and making the politicians directly accountable for spending.*** The estate and gift tax system should be *fixed* with a higher exemption amount (e.g. \$2.5M) and a flat reasonable rate, such as 40%. We get what we pay for—no more and no less.

See: **Comparison of 10/x/39 Proposal to Current System with real life examples, including "Fair Tax" and Revenue-Neutral Fair Tax example.**

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See: **Comparison of 10/x/39 Proposal to Current System with real life examples, including "Fair Tax" and Revenue-Neutral Fair Tax example.**

ALLEN BUCKLEY
5192 Forest View Court
Mableton, Georgia 30126
(770) 948-5679

EXPERIENCE

ERISA and tax partner with Smith Moore LLP in Atlanta, Georgia (Of counsel prior to 2004); ERISA and tax partner with Troutman Sanders LLP in Atlanta, Georgia from January 2000 through June 2001 (originally hired as an associate in October 1995); ERISA and tax associate with Booth, Wade & Campbell in Atlanta from January 1993 through September 1995; ERISA and tax associate with Hurt, Richardson, Garner, Todd & Cadenhead in Atlanta from September 1989 through December 1992. Areas of emphasis: employee benefits; executive compensation; ERISA fiduciary matters; ERISA litigation; tax matters. Principal duties: consultation of clients; researching and analyzing issues; writing/drafting memorandums, briefs, appeals, and private letter ruling requests; representation of clients before the IRS, DOL, and in court; drafting and amending qualified and nonqualified deferred compensation plans.

Tax attorney employed by Georgia-Pacific Corporation in Atlanta, Georgia from December of 1987 through August of 1988. Areas of emphasis: international tax, taxation of joint ventures, and employee compensation. Principal duties: implementation of a foreign sales corporation (including drafting of various contracts); discussion of audit issues with IRS agents; analysis of potential targets in due diligence investigations; researching and writing memorandums and appeals concerning audit issues.

Tax consultant employed by Touche Ross & Company (now Deloitte & Touche) in Atlanta, Georgia from June of 1985 through November of 1987. Principal duties: researching and writing petitions, protests and memorandums for internal and external purposes; consultation of clients on various tax issues; preparing and reviewing tax returns; and valuing closely held corporations.

EDUCATION

LL.M. in Taxation, University of Florida, May 1989, Class Rank: 3 of 57
J.D., University of Georgia, May 1985, Class Rank: 97 of 249
B.A. in Accounting, Kent State University, May 1982, GPA: 3.6/4.0,
Accounting GPA: 3.8/4.0

ACHIEVEMENTS

Member of the State Bar of Georgia
AV Martindale-Hubbell rating
Certified Public Accountant, State of Georgia
Touche Ross Exceptional Achievement Award
Article used by the Treasury Department to substantially repeal the same desk rule (i.e., by issuing Revenue Ruling 2000-27)

PERSONAL

Born in 1960. Interests: history, comedy, politics, exercise and sports.

Articles Written by Allen Buckley

USERRA Implications to 401(k) Plans and Matching Contributions in the Autumn 2003 edition of *Journal of Pension Benefits*

A Case for Inapplicability of Code Section 457(f) to Defined Benefit SERPs in the June 16, 2003 edition of *Pension & Benefits Week*

Season of Scandal: The Sarbanes-Oxley Act and the Implementation of Corporate Reforms by the SEC, September 2002 (with Kent Auberry and Matt Cunningham)

Defined Contribution Plan Complexities of USERRA in the Summer 2002 edition of *Journal of Pension Benefits*

Eligible Individual Account Plans and ERISA's Fiduciary Duties in the Autumn 2001 edition of *Journal of Pension Benefits*

401(k) Plan Loans and Participant Bankruptcy in the Summer 2001 edition of *Journal of Pension Benefits*

Accrued Benefits of Missing Participants in Non-Terminating Retirement Plans (with George Prothro) in the Spring 2001 edition of *Journal of Pension Benefits*

S Corporation ESOPs in Dispositive Sales and Reorganization Transactions (with Lynda M. Crouse and Greg Kniesel) in the January/February 2001 edition of *Valuation Strategies*

The Same Desk Rule After Revenue Ruling 2000-27 in the September 5, 2000 edition of *Pension & Benefits Week*

Why the Same Desk Rule Should Not be Applied to Cash Asset Sales in the November/December 1999 edition of *Journal of Taxation of Employee Benefits*

Employee Leasing Rules Present Problems in the September 3, 1999 edition of *Tax Management Compensation Planning Journal*

Funding Options for Self-Insured Medical Plans: Which Is Best? (with Christina M. Maistrellis) in the January/February 1999 edition of *Journal of Taxation of Employee Benefits*,

ESOPs for S Corporations: A good Deal for a Profitable Company in the November/December 1998 edition of *Journal of Asset Protection*

ESOPs for S Corporations: Real Value Depends on Profitability in the May/June 1998 edition of *Journal of Taxation of Employee Benefits*


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Press Release

Source: Buckley For Senate

Top Stories

Allen Buckley, Libertarian Candidate for U.S. Senate, Calls Fair Tax a Sham

Tuesday August 3, 1:58 pm ET

BUCKLEY FOR SENATE

ATLANTA, Aug. 3 /PRNewswire/ – Allen Buckley, the Libertarian Party's candidate for U.S. Senate, has called the so-called Fair Tax bill (H.R. 25), a "sham." The bill, co-sponsored by his Republican opponent, Johnny Isakson, would cause the deficit to explode, shut down the new housing market (and industries flowing thereto) and doubly tax retired persons.

The Fair Tax would replace the income tax, estate and gift taxes and payroll taxes with one sales tax system applicable to sales of goods and services.

Backers of the bill say that the price of goods and services would decrease by 20-25 percent, which would roughly equal the advertised tax rate of 23 percent. However, under the bill, the tax rate is 29.9 percent, thus causing a good with a sales price of \$1 to bear a 30 cent tax.

The bill is allegedly "revenue neutral," meaning that the tax revenue to the federal government from the proposed tax would equal the lost revenue from the eliminated income, payroll and estate and gift taxes. However, according to a letter of Joint Committee on Taxation Chief of Staff Lindy Paul dated April 7, 2000, in order to be "revenue neutral," a rate of 59.5 percent would need to apply in the first five years of applicability. The 59.5 percent rate does not take into account how businesses would recoup the foregone tax benefits of depreciation deductions that were included in calculations performed to value capital assets. It also (conservatively) assumes that the rate of evasion that exists under the current tax system would apply.

A study done by William G. Gale of The Brookings Institute in 1999 estimated that, largely due to increased evasion and improper economic assumptions, the revenue neutral rate for such a sales tax would need to exceed 100 percent. Mr. Gale informed Mr. Buckley that: "A major problem with the bill is that prices are assumed to remain constant for government revenue purposes, but to decrease for consumer purchasing purposes."

Based on the Joint Committee on Taxation letter, the proposal would produce approximately one-half of the revenue produced by the current tax system, causing the already enormous deficit to balloon. Buckley said: "In my opinion, to

- [Greenspan Cautions on Baby Boomer Benefits](#) - Associated Press (1:45 pm)
- [Economy Grows at Slower Pace Than Expected](#) - Associated Press (11:51 am)
- [Stocks Up Despite Sluggish GDP Reading](#) - Associated Press (1:17 pm)
- [HP-Apple Partnership Yields New iPod](#) - Associated Press (1:08 pm)

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propose this bill and call it revenue-neutral is fiscal irresponsibility. The people of Georgia deserve more from their leaders."

Backers of the Fair Tax proposal suggest that the price of goods would decrease by 20-25 percent. Mr. Buckley believes that it is very unlikely that such a reduction would occur. Any significant reduction would need to presume a 7.65 percent reduction in wages due to foregone payroll taxes.

Buckley believes that virtually all retired persons and many (perhaps most) middle class persons would pay more tax under a true "revenue neutral" tax rate of 59.5 percent or higher. He also said that the tax would discourage some people from buying big ticket items, while encouraging other people to make "big ticket" purchases outside the country, thus potentially hurting many retailers. In this regard, Buckley notes that reimportation of "small ticket" drugs from Canada is now commonplace.

The tax would also apply to purchases by state and local governments, as well as to wage payments made to state and local government employees. Thus, state and local taxes would rise if H.R. 25 were enacted.

Additionally, the tax is administered by the cash-strapped states. Currently, states do not tax services. Buckley believes that the states would begin taxing services under H.R. 25.

The tax does nothing to solve the massive problems of Medicare and Social Security. Furthermore, like the current income tax system, there is no connection between the tax rate and spending.

Buckley said: "We absolutely do need a simplified tax system for individuals that ties tax rates to spending to annually balance the budget. This is the only way that Congress will reduce spending. If enacted, the Fair Tax would vastly increase the deficit. Our country cannot afford any more debt absent an emergency situation." (As provided in Mr. Buckley's website, including Medicare and Social Security, the unfunded liabilities of the U.S. government total approximately \$42 Trillion, or about \$330,000 per full-time worker.)

Buckley said: "I've calculated the winners and losers under the revenue neutral rate provided by the Joint Committee on Taxation, and in my opinion the biggest potential winners would be most wealthy persons and self-employed persons, while the biggest potential losers are single retired persons and single middle class and upper middle class persons, the home building industry, and suppliers to the home building industry. The proposal is also terrible in a recession, as it discourages spending."

Under the bill, apartment rentals and new home sales would be subject to the tax, but sales of homes in existence prior to 2005 would be exempt. Thus, a new \$400,000 home would cost \$519,600 with the tax (\$638,000 under the true revenue-neutral 59.5 percent rate), whereas an identical existing home would continue to cost \$400,000. Also, the gross profit to a lender on a home loan would be subject to the tax. Buckley said: "I don't see the new home industry as being able to survive. In the unlikely event that it did, the tax burden on the middle class would be multiples greater than the burden that presently exists."

To solve the country's massive financial problems, Mr. Buckley proposes a simplified income tax system with a higher exemption to help the poor and middle class, and a "common tax rate" that virtually everyone pays that is tied to spending to annually balance the budget, pay off some of the debt and induce Congress to shrink the size of the federal government. For Medicare, he proposes a national referendum to allow the people to decide whether the current benefits system should be retained with current tax increases to fund the benefits or the current

benefits percentage (of the General Fund) retained with benefit reductions. He recommends that the current Social Security surpluses be invested in traditional pension assets (instead of being loaned to the federal government), and matching contributions be added for people entering the workforce hereafter to make up for Social Security's impending shortfall.

Mr. Buckley, who is an employee benefits and tax attorney and a CPA, will be on the ballot in November.

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Source: Buckley For Senate

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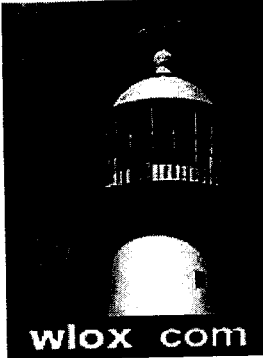
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Allen Buckley's Response to John Linder's Fair Tax 'Solution'

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Below is a disclosure issued by U.S. Congressman John Linder, as edited to include responses and comments by Allen Buckley.

The Problem with the Current Tax Code:

I. We spend 7 billion man-hours each year filling out IRS forms. We spend at least that much calculating the tax implications of a business decision. We lose 18% of our economy making "tax decisions" instead of "economic decisions." The Director of the Congressional Budget Office (CBO) believes that it currently costs us about \$500 Billion to comply with the code and remit \$2 Trillion. Studies show that it costs the average small business \$724 to collect, comply with the code and remit \$100 to the federal government.

II. We have \$5 to \$6 Trillion in overseas accounts because it is cheaper to borrow at 6% than repatriate dollars at 35%. Additionally, individuals shelter wealth in offshore accounts costing the U.S. an estimated \$100 to \$250 Billion each year.

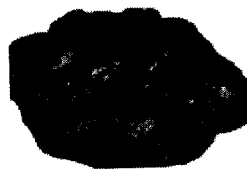
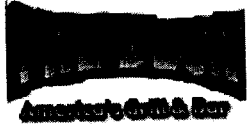
III. Just three activities -- pornography, illicit drugs and illegal labor -- constitute a \$1 Trillion economy that is untaxed.

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V. The Alternative Minimum Tax (AMT) was passed in 1969 to ensure that those high income taxpayers, who have no tax liability due to



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their legal use of deductions and credits, would still be forced to pay some taxes. Within 6 years, over 35 million Americans will be subject to the AMT.

VI. We spend over \$30 Billion per year on the Earned Income Tax Credit (EITC), which is intended to refund the payroll tax burden of low income workers. It is estimated that nearly a third of that amount is fraud.

The Solution: All of the above goes away if we stop taxing income and start taxing consumption.

HR 25 repeals all taxes on income and abolishes the IRS. Gone are personal and corporate income taxes, payroll and self-employment taxes, capital gains, AMT, EITC, gift and estate taxes. They would be replaced by a single retail sales tax. Out of every dollar you spend on personal consumption -- 23 cents goes to the federal government.

I. The Fair Tax is fair. It contains a rebate for every household, which would totally rebate the tax consequences of spending up to the poverty line. This rebate mechanism ensures that every household could buy necessities untaxed. It totally untaxes the poor. All Americans receive equal, fair treatment.

Allen Buckley (AB) Response: The fairness of any tax system is debatable. Generally, poor people who work don't pay income tax now (but they do pay Social Security tax), and many of them receive the earned income credit as a "refundable" credit. Thus, some poor people would benefit from the Fair Tax, while others would experience a cash flow reduction.

II. The Fair Tax is simple. The Fair Tax eliminates 55,000 pages of federal tax rules and replaces them with a 134-page law.

AB Response: Agreed, the Fair Tax would be relatively simple.

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IV. The Fair Tax creates transparency within the Tax Code. The Fair Tax eliminates the hidden tax component from the prices of goods. According to a Harvard study, the current tax component in our price system averages 22 percent, meaning that those spending all they

earn lose 22 percent of their purchasing power to the current system. The only mechanism businesses have to pay payroll taxes, income taxes, or compliance costs is price. Consumers pay those costs. By abolishing the IRS and abolishing the income paradigm in favor of a consumption paradigm we let the market drive the tax component out of the price system. Knowing how much we pay in federal taxes on every purchase would make all Americans more aware of the cost of government. The next tax increase will not be able to be sold with the argument that it only applies to the top 2 percent of Americans. The reason for any future tax increase must necessarily be so compelling that all of America would be willing to pay it.

AB Response: As mentioned above, the IRS would not be abolished. It is doubtful that a cost reduction near 22 percent would be recognized on domestically manufactured goods, unless employees experience a 7.65 percent pay cut - i.e. their share of the FICA tax. Furthermore, there would be no price reduction with respect to imported oil and imported goods. In this regard, the trade deficit is massive. New homes (but not existing homes) would bear a 29.9 percent tax, while the manufacturing costs, primarily raw materials and labor (much of which, in the Atlanta metropolitan area, is illegal labor with respect to which no FICA tax is paid), would decrease by an insubstantial amount. The Fair Tax would not make Americans any more aware of the costs that they pay for government than the current system. Most Americans would dislike any tax system that carries a heavy tax burden.

V. The Fair Tax is border neutral. Under a national sales tax, imported goods and domestically produced goods would receive the same U.S. tax treatment at the checkout counter. Moreover, our exports would go abroad unburdened by any tax component in the price system.

AB Response: Imported goods would not go down in price at all. Due to the tax, a 29.9 percent increase would be experienced. Our trade deficit is massive primarily due to labor cost differential, and the Fair Tax would do little to alleviate this problem. (The average manufacturing cost per hour in China is approximately 70 cents.)

VI. The Fair Tax is industry neutral. There is not a good reason that our neighbor who builds a bookstore, hires our kids, votes in our elections and supports our community should be placed at a 7 percent disadvantage against Amazon.com. Governors have a keen interest in this due to the loss of tens of billions of dollars in revenue to Internet and catalog sales. A national system would collect that. Nor is there a good reason why I, as a dentist, didn't have to collect a sales tax in Georgia while my neighbor, the retailer, did. The first principle of government ought to be neutrality. Services would be taxed the same as goods.

AB Response: The Fair Tax would not change Constitutional law, and it could not compel Amazon to collect state sales and use tax in states where Amazon has no legal presence or "nexus." Thus, there would be no change in present law or results in that regard. Virtually all of the states truly are "cash-strapped," and they most certainly would begin

taxing services. (Florida attempted to do so several years ago.)

VII. The Fair Tax would solve our Social Security problem. All of the arguments about private accounts saving Social Security miss an important point -- we will increase the number of retirees in the next 30 years by 100 percent and increase the number of workers supporting them by 15 percent. That system will only survive by dramatically reducing benefits, increasing taxes or increasing the number paying into it. Under the Fair Tax, Social Security benefits will be paid out of the general sales tax revenues. The sales tax will be collected from 300 million Americans and 40 million visitors to our shores. Revenues to Social Security and Medicare will double, as we expect the size of the economy to double, in 15 years.

AB Response: The Fair Tax would make Social Security's problems and the deficit much worse. The Fair Tax carries a 29.9 percent rate. In 2000, the nonpartisan Joint Committee on Taxation stated that the "revenue-neutral" rate for the Fair Tax would be 59.5 percent. Thus, government revenues would be approximately cut in half, and the annual deficit would approximately triple. (The Fair Tax replaces the income tax on individuals and corporations, the estate and gift tax and payroll (FICA) taxes.) The debts and unfunded liabilities of the U.S. government now total \$42 Trillion, which breaks down to \$330,000 per full-time worker. Excluding Social Security, we are now spending more than \$3 for every \$2 of tax revenue. The nonpartisan financial leaders of our country are warning of an imminent financial crisis - former Federal Reserve Bank Chairman Paul Volcker recently stated that he believes that there is a 75 percent chance that it will hit within 5 years. Adoption of the Fair Tax would only accelerate the onset of a crisis. Enactment would amount to pure fiscal irresponsibility. Adoption of the Fair Tax would have little impact on the economy's ability to double or not double within 15 years.

VIII. The Fair Tax has manageable transition costs. The only transition rule would allow retailers to use inventory on hand on December 31 as a credit against collecting taxes on sales in the New Year. This is based on the principle that things should be taxed only once and goods produced before the transition would already have the current tax embedded in them. U.S. businesses have about \$1.4 Trillion in inventory on hand at any given time. Not collecting taxes on that inventory would cost the Treasury about \$350 Billion. Compare that to any estimates of transition costs just trying to bring some private investment into Social Security alone.

AB Response: No comment.

IX. The Fair Tax would efficiently tax the underground economy. This alone would increase revenues by over \$200 Billion.

AB Response: The Fair Tax would better tax the underground economy than the current system. However, as mentioned in the (nonpartisan) Joint Committee on Taxation memo on the Fair Tax, the evasion rate greatly increases under a sales tax when the rate exceeds 10 percent. At 29.9 percent (or the revenue-neutral 59.5

percent), the rate of evasion (and the costs of trying to prevent evasion -- to be incurred by the IRS) would be substantial.

X. Beyond the above arguments, what will the new paradigm do in our present economy? Passing the Fair Tax does several things that will directly affect the economy.

1. The monies saved on compliance costs will immediately be put to efficient and profitable use. We will create millions of new jobs.
2. Our GDP will grow by \$180 Billion per year because we would no longer make "tax decisions."
3. Eliminating the income tax will bring long-term interest rates down to municipal bond rates, ultimately reducing interest rates by 30 percent. That is good for corporate profits and the market.
4. If all the world's investors could invest in our markets with no tax consequences, values would rise. With no tax on capital or labor, foreign domiciled international firms would build their next plant in America. We would be the world's "tax haven" and the \$6 Trillion offshore would come home, increasing values in our markets and creating jobs.
5. Having no complicated depreciation schedules, AMT, credits and deductions to confuse investors, and no tax or compliance costs, would force a whole new look at corporate accounting. Only three numbers have meaning: earnings, expenses and dividends. Nothing to hide behind. It will be easier for shareholders to evaluate and monitor the companies they own.
6. Deficits spook the market. Instead of a 20 percent decline in collections over the last three years, we would have had increased revenues in 11 of the last 12 quarters.
7. Add to the above a 26% increase in exports in the first year, as well as a 78% increase in capital investment. Capital investment increases lead to increases in productivity and then increases in real wages. We also will have a 10.5% increase in economic growth in the first year.

AB Response: The individual income tax should be greatly simplified to place minimal burden on individuals. It should also be changed so that people of average intelligence can understand it. (Under the Fair Tax, an annual return is required and additional returns are required when a good is purchased and the seller does not withhold the tax.) Adoption of the Fair Tax will not result in creation of millions of new jobs. It is difficult to see how our GDP would grow by \$180 Billion per year. Source? Elimination of the income tax would not bring interest rates down to municipal bond rates. Adoption of the Fair Tax would have little impact (i.e. no significant impact) on a foreign company's desire to build a plant in the U.S. Corporate accounting would exist as it always has existed, regardless of the tax system. The AMT should be repealed -- it is a tax system within a tax system. Depreciation schedules are not complicated. The Fair Tax would cause the annual federal budget deficit to approximately triple -- thus really spooking the market. I don't understand where the 26 percent increase in exports, the 78 percent increase in capital investment and the 10.5 percent increase in economic growth figures come from -- what study was commissioned (and how much was paid) to get these figures?

XI. How does the Fair Tax compare to other fundamental tax reform ideas? The Fair Tax is decidedly simpler and fairer than flat tax


proposals. The U.S. instituted a flat tax in 1913. Since then, it has been amended over and over, resulting in the very plan we are working to correct today. In 1986, we eliminated most deductions and drastically lowered tax rates to only two levels. We have amended the code over 6,000 times since then. We have walked the flat tax path before, to no avail, and it simply does not make sense to implement the same mistake again. Also, by keeping the payroll tax and corporate tax in place, the flat tax proposals fail to remove the tax component from the price system. Other sales tax proposals leave in place the payroll tax - the largest hidden tax component in the prices of our goods and services. The Fair Tax would completely eliminate these hidden taxes, allowing competition to bring prices down an average of 20-30 percent and increasing the transparency of the tax system.

AB Response: I have never met anyone who liked to pay taxes. Few people like the IRS. The grass is always greener on the other side of the hill. The Fair Tax would accelerate the onset of the financial crises that the nonpartisan financial leaders of our country have been warning us about in recent years. It's not worth it. We should greatly simplify the individual income tax system and we should be balancing the budget annually. I advocate a greatly simplified system with a higher exemption to help the poor and people on the lower end of the middle class and a common rate to \$500,000 of taxable income that is tied to spending, to annually balance the budget.

CONTACT: Allen Buckley of Buckley For Senate, +1-404-962-1042

Web site: <http://www.buckleyforsenate.org/>

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Libertarian Candidate for U.S. Senate Blasts Fair Tax (Again)

BUCKLEY FOR SENATE

October 12, 2004. Allen Buckley, the Libertarian Party's candidate for U.S. Senate in Georgia, has blasted the so-called Fair Tax bill (H.R. 25), calling it a "sham." The bill, co-sponsored by his Republican opponent, Johnny Isakson, would cause the deficit to explode, shut down the new housing market (and industries flowing thereto) and doubly tax retired persons.

The Fair Tax would replace the income tax, estate and gift taxes and payroll taxes with one sales tax system applicable to sales of goods and services.

Backers of the bill say that the price of goods and services would decrease by 20-25 percent, which would roughly equal the advertised tax rate of 23 percent. However, under the bill, the tax rate is 29.9 percent, thus causing a good with a sales price of \$1 to bear a 30 cent tax.

The bill is allegedly "revenue neutral," meaning that the tax revenue to the federal government from the proposed tax would equal the lost revenue from the eliminated income, payroll and estate and gift taxes. However, according to a letter of Joint Committee on Taxation (JCT) Chief of Staff Lindy Paull dated April 7, 2000, in order to be "revenue neutral," a rate of 59.5 percent would need to apply in the first five years of applicability. The 59.5 percent rate does not take into account how businesses would

recoup the foregone tax benefits of depreciation deductions that were included in calculations performed to value capital assets. It also (conservatively) assumes that the rate of evasion that exists under the current tax system would apply.

A study done by William G. Gale of The Brookings Institute in 1999 estimated that, largely due to increased evasion and improper economic assumptions, the revenue neutral rate for such a sales tax would need to exceed 100 percent. Mr. Gale informed Mr. Buckley that: "A major problem with the bill is that prices are assumed to remain constant for government revenue purposes, but to decrease for consumer purchasing purposes."

Based on the JCT letter, the proposal would produce approximately one-half of the revenue produced by the current tax system, causing the already enormous deficit to balloon. The Fair Tax would produce approximately 50.25% (i.e. 29.9/59.5) of the revenue of the current system. (This percentage will have changed a little because the JCT study was performed in 2000.) According to the Congressional Budget Office, for 2004, total revenues are budgeted at \$1,871 Billion and total expenses are budgeted at \$2,293 Billion. Backing out "other" revenues of \$147 Billion leaves \$1,724 Billion. Multiplying \$1,724 Billion by 50.25% and then adding back \$147 Billion produces \$1,013 Billion, meaning the deficit would be \$1,280 Billion. This amount is more than triple the current deficit of \$422 Billion. While some lower income persons would spend more under the proposal, the deficit would still be roughly triple the current deficit. Buckley said: "The nonpartisan financial experts of our country believe that our country is headed for an

economic crisis. Adoption of the Fair Tax would only accelerate the onset. The Fair Tax proposal is pure fiscal irresponsibility.”

Backers of the Fair Tax proposal suggest that the price of goods would decrease by 20-25 percent. Mr. Buckley believes that it is very unlikely that such a reduction would occur. Any significant reduction would need to presume a 7.65 percent reduction in wages due to foregone payroll taxes. Furthermore, the cost of many goods, such as (imported) oil, would increase by 29.9 percent. Thus, the cost of gasoline would increase by almost sixty (60) cents per gallon. Also consider the goods imported from China and other countries. There are no “embedded costs” in such imports. In this regard, the trade deficit is massive.

On a radio program, John Linder recently said that a study performed for the backers of the bill found that an average reduction of 22 percent would be anticipated. On his website, Mr. Linder states: “...[A]ll workers pay 8% in payroll taxes and other taxes are hidden in every item we buy, *costing us up to 20% more* when we pay for the item at the checkout counter...” Given that the sponsoring Republicans have told people that the “revenue neutral” rate would be 29.9 percent, while the JCT said the revenue neutral rate would be essentially double that rate (i.e. 59.5 percent), could anyone believe the alleged 20-25 percent reduction?

Buckley believes that virtually all retired persons and many (perhaps most) middle class persons would pay more tax under a true “revenue neutral” tax rate of 59.5 percent or higher. He also said that the tax would discourage some people from buying big ticket

items, while encouraging other people to make “big ticket” purchases outside the country, thus potentially hurting many retailers. In this regard, Buckley notes that reimportation of “small ticket” drugs from Canada is now commonplace.

Under the bill, apartment rentals and new home sales would be subject to the tax, but sales of homes in existence prior to 2005 would be exempt. Thus, a new \$400,000 home would cost \$519,600 with the tax (\$638,000 under the true revenue-neutral 59.5 percent rate), whereas an identical existing home would continue to cost \$400,000. While some insignificant cost reductions would likely occur due to elimination of the FICA tax and the income tax, such reductions would be very small relative to the tax. Also, the gross profit to a lender on a home loan would be subjected to the tax. Buckley said: “I don’t see the new home industry as being able to survive. In the unlikely event that it did, the tax burden on the middle class would be multiples greater than the burden that presently exists.”

The tax would also apply to purchases by state and local governments, as well as to wage payments made to state and local government employees. Thus, state and local taxes would rise if H.R. 25 were enacted.

Additionally, the tax is administered by the cash-strapped states. Currently, states do not tax services. Buckley believes that the states would begin taxing services under H.R. 25.

Aside from the financial detriment (i.e. deficit expansion), the killer impact on the new homes industry (and industries flowing thereto) and the negative impacts on retired persons and the middle class, the tax applies to unemployed persons.

The tax does nothing to solve the massive problems of Medicare and Social Security. Furthermore, like the current income tax system, there is no connection between the tax rate and spending.

Buckley said: "We absolutely do need a simplified tax system for individuals that ties tax rates to spending to annually balance the budget. This is the only way that Congress will reduce spending. If enacted, the Fair Tax would vastly increase the deficit. Our country cannot afford any more debt absent an emergency situation." (As provided in Mr. Buckley's website, including Medicare and Social Security, the unfunded liabilities of the U.S. government total approximately \$42 Trillion, or about \$330,000 per full-time worker.)

Buckley said: "I've calculated the winners and losers under the revenue neutral rate provided by the Joint Committee on Taxation, and in my opinion the biggest potential winners would be most wealthy persons and self-employed persons, while the biggest potential losers are single retired persons and single middle class and upper middle class persons, the home building industry, and suppliers to the home building industry. However, because of the deficit expansion, we'd all lose. The proposal is also terrible in a recession, as it discourages spending. Even under the 29.9 percent rate, most retired persons will pay substantially more tax than they pay under the current system."

To solve the country's massive financial problems, Mr. Buckley proposes a simplified income tax system with a higher exemption to help the poor and middle class, and a "common tax rate" that virtually everyone pays that is tied to spending to annually balance the budget, pay off some of the debt and induce Congress to shrink the size of the federal government. He recommends that the current Social Security surpluses be invested in traditional pension assets (instead of being loaned to the federal government), and matching contributions be added for people entering the workforce hereafter to make up for Social Security's impending shortfall.

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PRESS RELEASE

Allen Buckley's Response to John Linder's Fair Tax 'Solution'

Buckley for Senate LLC

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AB Response: As mentioned above, the IRS would not be abolished. It is doubtful that a cost reduction near 22 percent would be recognized on domestically manufactured goods, unless employees experience a 7.65 percent pay cut - i.e. their share of the FICA tax. Furthermore, there would be no price reduction with respect to imported oil and imported goods. In this regard, the trade deficit is massive. New homes (but not existing homes) would bear a 29.9 percent tax, while the manufacturing costs, primarily raw materials and labor (much of which, in the Atlanta metropolitan area, is illegal labor with respect to which no FICA tax is paid), would decrease by an insubstantial amount. The Fair Tax would not make Americans any more aware of the costs that they pay for government than the current system. Most Americans would dislike any tax system that carries a heavy tax burden.

V. The Fair Tax is border neutral. Under a national sales tax, imported goods and domestically produced goods would receive the same U.S. tax treatment at the checkout counter. Moreover, our exports would go abroad unburdened by any tax component in the price system.

AB Response: Imported goods would not go down in price at all. Due to the tax, a 29.9 percent increase would be experienced. Our trade deficit is massive primarily due to labor cost differential, and the Fair Tax would do little to alleviate this problem. (The average manufacturing cost per hour in China is approximately 70 cents.)

VI. The Fair Tax is industry neutral. There is not a good reason that our neighbor who builds a bookstore, hires our kids, votes in our elections and supports our community should be placed at a 7 percent disadvantage against Amazon.com. Governors have a keen interest in this due to the loss of tens of billions of dollars in revenue to Internet and catalog sales. A national system would collect that. Nor is there a good reason why I, as a dentist, didn't have to collect a sales tax in Georgia while my neighbor, the retailer, did. The first principle of government ought to be neutrality. Services would be taxed the same as goods.

AB Response: The Fair Tax would not change Constitutional law, and it could not compel Amazon to collect state sales and use tax in states where Amazon has no legal presence or "nexus." Thus, there would be no change in present law or results in that regard. Virtually all of the states truly are "cash-strapped," and they most certainly would begin taxing services. (Florida attempted to do so several years ago.)

VII. The Fair Tax would solve our Social Security problem. All of the arguments about private accounts saving Social Security miss an important point -- we will increase the number of retirees in the next 30 years by 100 percent and increase the number of workers supporting them by 15 percent. That system will only survive by dramatically reducing benefits, increasing taxes or increasing the number paying into it. Under the Fair Tax, Social Security benefits will be paid out of the general sales tax revenues. The sales tax will be collected from 300 million Americans and 40 million visitors to our shores. Revenues to Social Security and Medicare will double, as we expect the size of the economy to double, in 15 years.

AB Response: The Fair Tax would make Social Security's problems and the deficit much worse. The Fair Tax carries a 29.9 percent rate. In 2000, the nonpartisan Joint Committee on Taxation stated that the "revenue-neutral" rate for the Fair Tax would be 59.5 percent. Thus, government revenues would be approximately cut in half, and the annual deficit would approximately triple. (The Fair Tax replaces the income tax on individuals and corporations, the estate and gift tax and payroll (FICA) taxes.) The debts and unfunded liabilities of the U.S. government now total \$42 Trillion, which breaks down to \$330,000 per full-time worker. Excluding Social Security, we are now spending more than \$3 for every \$2 of tax revenue. The nonpartisan financial leaders of our country are warning of an imminent financial crisis - former Federal Reserve Bank Chairman Paul Volcker recently stated that he believes that there is a 75 percent chance that it will hit within 5 years. Adoption of the Fair Tax would only accelerate the onset of a crisis. Enactment would amount to pure fiscal irresponsibility. Adoption of the Fair Tax would have little impact on the economy's ability to double or not double within 15 years.

VIII. The Fair Tax has manageable transition costs. The only transition rule would allow retailers to use inventory on hand on December 31 as a credit against collecting taxes on sales in the New Year. This is based on the principle that things should be taxed only once and goods produced before the transition would already have the current tax embedded in them. U.S. businesses have about \$1.4 Trillion in inventory on hand at any given time. Not collecting taxes on that inventory would cost the Treasury about \$350 Billion. Compare that to any estimates of transition costs just trying to bring some private investment into Social Security alone.

AB Response: No comment.

IX. The Fair Tax would efficiently tax the underground economy. This alone would increase revenues by over \$200 Billion.

AB Response: The Fair Tax would better tax the underground economy than the current system. However, as mentioned in the (nonpartisan) Joint Committee on Taxation memo on the Fair Tax, the evasion rate greatly increases under a sales tax when the rate exceeds 10 percent. At 29.9 percent (or the revenue-neutral 59.5 percent), the rate of evasion (and the costs of trying to prevent evasion -- to be incurred by the IRS) would be substantial.

X. Beyond the above arguments, what will the new paradigm do in our present economy? Passing the Fair Tax does several things that will directly affect the economy.

1. The monies saved on compliance costs will immediately be put to efficient and profitable use. We will create millions of new jobs.

2. Our GDP will grow by \$180 Billion per year because we would no longer make "tax decisions."

3. Eliminating the income tax will bring long-term interest rates down to municipal bond rates, ultimately reducing interest rates by 30 percent. That is good for corporate profits and the market.

4. If all the world's investors could invest in our markets with no tax consequences, values would rise. With no tax on capital or labor, foreign domiciled international firms would build their next plant in America. We would be the world's "tax haven" and the \$6 Trillion offshore would come home, increasing values in our markets and creating jobs.

5. Having no complicated depreciation schedules, AMT, credits and deductions to confuse investors, and no tax or compliance costs, would force a whole new look at corporate accounting. Only three numbers have meaning: earnings, expenses and dividends. Nothing to hide behind. It will be easier for shareholders to evaluate and monitor the companies they own.

6. Deficits spook the market. Instead of a 20 percent decline in collections over the last three years, we would have had increased revenues in 11 of the last 12 quarters.

7. Add to the above a 26% increase in exports in the first year, as well as a 78% increase in capital investment. Capital investment increases lead to increases in productivity and then increases in real wages.

We also will have a 10.5% increase in economic growth in the first year.

AB Response: The individual income tax should be greatly simplified to place minimal burden on individuals. It should also be changed so that people of average intelligence can understand it. (Under the Fair Tax, an annual return is required and additional returns are required when a good is purchased and the seller does not withhold the tax.) Adoption of the Fair Tax will not result in creation of millions of new jobs. It is difficult to see how our GDP would grow by \$180 Billion per year. Source? Elimination of the income tax would not bring interest rates down to municipal bond rates. Adoption of the Fair Tax would have little impact (i.e. no significant impact) on a foreign company's desire to build a plant in the U.S. Corporate accounting would exist as it always has existed, regardless of the tax system. The AMT should be repealed -- it is a tax system within a tax system. Depreciation schedules are not complicated. The Fair Tax would cause the annual federal budget deficit to approximately triple -- thus really spooking the market. I don't understand where the 26 percent increase in exports, the 78 percent increase in capital investment and the 10.5 percent increase in economic growth figures come from -- what study was commissioned (and how much was paid) to get these figures?

XI. How does the Fair Tax compare to other fundamental tax reform ideas? The Fair Tax is decidedly simpler and fairer than flat tax proposals. The U.S. instituted a flat tax in 1913. Since then, it has been amended over and over, resulting in the very plan we are working to correct today. In 1986, we eliminated most deductions and drastically lowered tax rates to only two levels. We have amended the code over 6,000 times since then. We have walked the flat tax path before, to no avail, and it simply does not make sense to implement the same mistake again. Also, by keeping the payroll tax and corporate tax in place, the flat tax proposals fail to remove the tax component from the price system. Other sales tax proposals leave in place the payroll tax - the largest hidden tax component in the prices of our goods and services. The Fair Tax would completely eliminate these hidden taxes, allowing competition to bring prices down an average of 20-30 percent and increasing the transparency of the tax system.

AB Response: I have never met anyone who liked to pay taxes. Few people like the IRS. The grass is always greener on the other side of the hill. The Fair Tax would accelerate the onset of the financial crises that the nonpartisan financial leaders of our country have been warning us about in recent years. It's not worth it. We should greatly simplify the individual income tax system and we should be balancing the budget annually. I advocate a greatly simplified system with a higher exemption to help the poor and people on the lower end of the middle class and a common rate to \$500,000 of taxable income that is tied to spending, to annually balance the budget.

SOURCE Buckley For Senate

11/01/2004

CONTACT: Allen Buckley of Buckley For Senate, +1-404-962-1042

Web site: <http://www.buckleyforsenate.org>

AB Proposal v. Current System v. HR 25 v. HR 25-59.5% – Summary

Comparison of AB Proposal to Current System:

1. Very, very wealthy pay more.
2. Poor pay the same or less.
3. Lower end of the middle class pays the same or less
4. Upper end of middle class pay slightly more and in one case, 24% more
5. Retired persons generally pay less
6. Wealthy pay about the same

Note: All of this assumes – revenue neutral

SAMPLE TAX CALCULATIONS

NOTE: H.R. 25 Proposals Conservatively Assume a 20% Price Reduction on Goods and Services*

1.	Young single employed person; \$50,000 of income; no significant itemized deductions	Current System (2003): H.R. 25: (H.R. 25-59.5% rate) AB Proposal	11,191 6,499 12,933 12,519
2.	Middle-age married couple; 2 kids; employee income of \$50,000; no significant itemized deductions. ¹	Current System (2003): H.R. 25: (H.R. 25-59.5% rate) AB Proposal	7,724 2,643 5,260 8,226
3.	Single employed person; \$50,000 of income; itemized deductions of \$12,000 ¹	Current System (2003) H.R. 25: (H.R. 25-59.5% rate) AB Proposal	9,379 6,933 13,796 10,562
4.	Middle-age married couple; 2 kids; employee income of \$50,000; itemized deductions of \$12,000 ¹	Current System (2003) H.R. 25: (H.R. 25-59.5% rate) AB Proposal	6,669 2,817 5,605 7,551
5.	Retired single person; \$15,000 of Social Security income; \$12,000 of pension income ¹	Current System (2003) H.R. 25 (H.R. 25-59.5% rate) AB Proposal	303 3,602 7,169 0
6.	Retired married couple; \$15,000 of Social Security income; \$12,000 of pension income ¹	Current System (2003) H.R. 25 (H.R. 25-59.5% rate) AB Proposal	0 891 1,773 0
7.	Middle-aged employed single person; \$100,000 of income; \$25,000 of itemized deductions ^{1,2}	Current System (2003): H.R. 25: (H.R. 25-59.5% rate) AB Proposal	18,522 16,706 33,244 20,184
8.	Middle-aged couple; 2 kids; \$100,000 of employee income; \$25,000 of itemized deductions ^{1, 2}	Current System (2003): H.R. 25: (H.R. 25-59.5% rate) AB Proposal	14,424 13,163 26,195 17,174

9.	Retired single person; \$18,000 of Social Security income and \$20,000 of other income (all but \$3,000 of which is spent)	Current System (2003): H.R. 25: (H.R. 25-59.5% rate) AB Proposal	1,304 5,276 10,499 283
10.	Retired married couple; \$18,000 of Social Security income and \$20,000 of other income (all but \$3,000 of which is spent)	Current System (2003) H.R. 25: (H.R. 25-59.5% rate) AB Proposal	251 2,745 5,462 0
11.	Single middle-aged person with employee income of \$1,000,000 and \$40,000 of itemized deductions; \$50,000 of above the line deductions and \$50,000 of LTCG and \$20,000 of dividends; purchases \$214,000 of taxable goods and services (i.e. 20% of gross income)	Current System (2003): H.R. 25: (H.R. 25-59.5% rate) AB Proposal	339,595 61,202 121,791 332,718
12.	Married couple with employee income of \$1,000,000; \$40,000 of itemized deductions; \$50,000 of above-the-line deductions and \$50,000 of LTCG and \$20,000 of dividends ² ; purchases \$214,000 of taxable goods and services (i.e. 20% of gross income)	Current System (2003) H.R. 25: (H.R. 25-59.5% rate) AB Proposal	328,784 56,517 112,467 327,648
13.	Self-employed single person; \$50,000 of net income; \$14,000 of itemized deductions ¹	Current System (2003): H.R. 25: (H.R. 25-59.5% rate) AB Proposal	11,741 6,367 12,672 12,813
14.	Self-employed single person with \$500,000 of net income; \$60,000 of LTCG and dividends; \$50,000 of itemized deductions and \$25,000 of "above-the-line" deductions ² ; \$100,000 of taxable goods and services purchased	Current System (2003) H.R. 25: (H.R. 25-59.5% rate) AB Proposal	159,481 21,136 42,061 145,905
15.	Single employed person with employee income of \$16,000 and no deductions ¹	Current System (2003): H.R. 25: (H.R. 25-59.5% rate) AB Proposal	2,108 1,044 2,077 1,224

16. Married couple with 2 kids; with employee income of \$20,000 and no deductions ¹	Current System (2003): (1,348) H.R. 25: 0 (H.R. 25-59.5% rate) 0 AB Proposal (1,348)
17. Single employed person with \$30,000 of income and no deductions ¹	Current System (2003): 5,275 H.R. 25: 3,131 (H.R. 25-59.5% rate) 6,230 AB Proposal 5,589
18. Single employed person with \$25,000 of income and no deductions ¹	Current System (2003): 4,142 H.R. 25: 2,205 (H.R. 25-59.5% rate) 4,389 AB Proposal 3,856
19. Married person filing jointly with \$5,000,000 of salary, \$1,000,000 of dividends, \$1,000,000 of LTCG and \$100,000 of itemized deductions; spends \$250,000 on taxable goods and services	Current System (2003): 2,018,206 H.R. 25: 67,281 (H.R. 25-59.5% rate) 133,887 AB Proposal 2,441,000

¹..... All assumptions assume no new home purchases. Assumed 20% price reduction with no usage reduction (conservative).

* AB believes that few goods, if any, would experience a 20% price reduction. In this regard, there are no "embedded" U.S. tax costs in imported goods, such as oil and Chinese-manufactured goods.

¹ Assumes that all disposable income (as calculated under present system) is spent, but no more; HR25 assumptions presume the same purchases at a 20% discount. Note: Many lower income persons would increase purchasing with the next savings, and this economic activity would help offset the detriment to the new homes industry.

² Assumes \$13,000 of gross income is saved via a 401(k) plan.

¹ Assumes that all disposable income (as calculated under present system) is spent, but no more; HR25 assumptions presume the same purchases at a 20% discount. Note: Many lower income persons would increase purchasing with the next savings, and this economic activity would help offset the detriment to the new homes industry.

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HOME - CANDIDACY

SIGNIFICANT POINTS

DIFFERENCES BETWEEN
ALLEN BUCKLEY AND
HIS OPPONENTS

PRIMARY OBJECTIVES

PRIMARY PROBLEMS

A VOTE FOR ALLEN
BUCKLEY MEANS ...BACKGROUND &
EDUCATIONCONTRIBUTIONS,
FEEDBACK, & SUPPORT

PRESS CONTACT

VIEWS & SOLUTIONS

THE DEFICIT & TAXES

DOWNSIZING
GOVERNMENT

EDUCATION

SOCIAL SECURITY &
MEDICARE

NATIONAL SECURITY

THE ECONOMY &
FOREIGN COMPETITIONTHE ENVIRONMENT &
ENERGY

OTHER ISSUES

PRESS RELEASES &
COVERAGE

Views and Solutions: Social Security & Medicare

The problems of Social Security and Medicare need to be resolved, NOW, primarily through a national referendum.

Comments: The federal government is being run as if the country will cease to exist in the very near future. The current Social Security and Medicare systems are "pay as you go" systems (i.e. working people fund the benefits of current retirees) and, as such, they are not actuarially sound. However, they should be actuarially sound. Due to the time value of money, we need to deal with these soon-to-be potentially *major* problems now. (By taking immediate action, we can prevent them from becoming major problems.) Primarily due to the "baby boom" and increased longevity, these programs are headed toward financial disaster. The General Accounting Office of the U.S. government (GAO) has recently said the following, primarily about the Social Security situation: "By 2018, Social Security's tax income is projected to be insufficient to pay currently scheduled benefits. . . . If you look ahead in the federal budget, Social Security together with the rapidly growing health programs (Medicare and Medicaid) will dominate the federal government's future fiscal outlook. Absent reform, the nation will ultimately have to choose between persistent, escalating federal deficits, significant tax increases, and/or dramatic budget cuts of unprecedented magnitude. . . . Early action to change Social Security would yield the highest fiscal dividends for the federal budget and would provide a longer period for prospective beneficiaries to make adjustments in their own planning. . . . Unfortunately, the window of opportunity to address the entitlement challenge is narrowing. As the baby boom generation retires and those entitled to benefits grow, the difficulties of reform will be compounded. Accordingly, it remains more important than ever to deal with these issues over the next several years." (Source: Letter from David M. Walker, Comptroller General of the U.S., to Senators Craig and Grassley, dated July 29, 2003.) As difficult of an equation as Social Security may present, the problem is minor in comparison to the difficulties presented by Medicare. "Medicare presents a much greater, more complex and more urgent challenge than does Social Security." (Source: GAO's "Analysis of a Trust Fund Exhaustion Scenario Illustrating the Difficult Choices and the Need for Early Action," dated July 29, 2003.) "The unfunded liabilities of Medicare, according to the latest generational accounting figures from economists Jagadeesh Gokhale and Kent Smetters, now amount to \$35.5 trillion. That's five times the \$7.2 trillion unfunded liability of Social Security." (Source: "Health Care A Bet-the-Country-Sized Problem," by Scott Burns, United Press Syndicate, August 7, 2003, *Houston Chronicle*.) However, the U.S. Department of Health and Human Services recently estimated the net Medicare deficit to be approximately \$28 Trillion. Assuming the \$28 Trillion figure is correct, adding \$11 Trillion for the federal budget deficit and the Social Security deficit, and miscellaneous unfunded liabilities of \$3 Trillion, the per-person debt amount is approximately \$144,000. **Broken down by individuals who work full-time, the figure is approximately \$330,000 each.**

A majority of physicians and other health care providers are under-compensated for services that they provide to Medicare patients. For many providers, a large

percentage of their patients are Medicare patients. Thus, they have no choice but to take the patients and perform the services at below-market (and often well below market) rates. Some providers have chosen to reject Medicare patients. (The recently enacted Medicare Act will help deal with this problem.)

Notwithstanding the foregoing financial problems, Congress and the Bush Administration recently expanded Medicare to cover prescription drugs and make other changes at a cost of over \$530 Billion over the next 10 years. (As enacted, Congress believed that the price tag was \$395 Billion.) "At a price-tag of \$400 billion over the next ten years (and far more thereafter), the plan dramatically expands an already unfavorable scheme just before the baby-boom generation starts to retire. As so often with Mr. Bush's budgeting, America's long-term fiscal health is being mortgaged for short-term political gain. As one conservative Republican put it this week, the Medicare bill will prove 'an extremely expensive way to buy votes.'" (Source: *The Economist*—"Grandma's Little Helper," November 22, 2003.)

Possible Solutions: Given our demographics, the situation is very difficult. Tax increases could solve most or perhaps all of the problems, but tax increases reduce personal income, spending ability and savings ability. To start, we need to consider only those options to deal with the situation that are fair to taxpayers of all ages. A possibility with respect to Medicare would be to reduce the Medicare tax rate for people who do things necessary to be healthy, such as eating healthy, not smoking and exercising. Cafeteria plan benefits could be expanded to permit funding of post-retiree medical benefits. More obvious possibilities exist with respect to benefit decreases. Examples include: (a) reductions in both Social Security benefits and Medicare benefits to account for longer life expectancies, including possibly pushing back retirement age in a reasonable manner; (b) reduction to or elimination of cost of living adjustments for Social Security; and (c) increases to deductibles and/or premiums and/or co-pays for Medicare recipients. Again, whatever is done needs to be done fairly, with respect to people of all ages, utilizing reasonable actuarial factors.

Physicians and other providers should be compensated close to PPO market value for services rendered. However, a uniform percentage of reimbursement should apply, which would result in reduced reimbursement rates for some providers. The changes should close the gap on reimbursement rates to at least within 85-90% of the ordinary PPO rates for the services performed. The recently enacted Medicare Act helped deal with this problem.

In conjunction with the previously-discussed expenditure reduction possibilities, one of the things that will need to be considered with respect to both the Medicare and Social Security problems is a tax increase. The GAO report states that an increase in the Social Security tax rate from 6.2% to 7.16% would solve most of the problems. In contrast, a 13% reduction to Social Security benefits should also solve Social Security's problems. According to the Congressional Budget Office, an increase in the Medicare tax rate from 1.45% (2.9% when employer matched) to approximately 2.45% (4.9% when employer matched) would solve the Medicare Part A problems. (Note that other reports have shown that a greater tax increase would be necessary.) If such is the case, and Medicare Parts B, C and (new) D could be funded from the general fund (an expensive and very unlikely scenario, given the current and past borrowing to merely pay for Part B), such tax increases could solve the problems. Query whether this option is the best solution to the problems? If tax increases will not be undertaken and benefits will be reduced, fairness to citizens of all age groups (based on what they have paid and will pay) needs to apply to any reduction. If, and to the extent that, tax rates are to be increased, then the surplus taxes that are raised (Social Security currently runs a surplus, but the surplus is loaned to the general fund) should be saved and invested by professional money managers in traditional investments to supply future benefits to payers of the additional tax. Money managers need to be paid based on success, with higher payments

for higher returns, and relatively low payments for low returns. (Even if taxes are not raised, surplus assets that presently exist need to be invested by professional money managers, instead of being invested in T-Bills.)

Concerning Social Security, the American Academy of Actuaries (AAA) recently reported in "Social Security Reform: Solutions Inside the Box" that investing the surplus Social Security funds (that will exist through 2018) in traditional equity investments would solve 36-50% of the problem. Thus, if the AAA is correct, and 50% of the problem can be solved through investment in equities, the necessary benefit reduction would be 6.5% and, alternatively, the necessary tax increase would be .48% (to 6.68% instead of 7.16%). However, this solution works to this degree only if action is taken immediately.

Medicare spending is anticipated to more than double by 2013.

Coverage of prescription drugs by Medicare (as provided in the recently-enacted Medicare Act) would have been fine if such was done in a more effective manner, as part of a fiscally and actuarially sound amendment of Medicare. But, such was not the case. "The \$400 billion figure applies merely to the next decade. As the baby-boom generation starts to retire, the costs will balloon; the 20-year figure could reach \$2 trillion, according to the CBO . . . Post-Medicare 'reform,' (Bush's) rhetoric is a sham." (Source: *The Economist*-"The Biggest Turkey of All?" November 29, 2003.) A better change would have been to require the drug companies to charge no more than the costs charged to other developed countries such as Canada, while providing catastrophic coverage that was funded through a very small tax increase or a small Medicare Part B premium and/or co-pay increase and/or a Part A deductible increase. Pressure should be placed on drug companies to reduce prices charged Medicare recipients. The rates charged to other industrialized nations (including Canada, Germany and France) should be available to American consumers. In other words, reimportation is ridiculous, and the entire world, not just U.S. citizens, should pay for the R&D expenditures and profits of the drug companies.

Although many persons wish to terminate Social Security, or, alternatively, allow "opt-outs," unfortunately such possibilities do not appear to be feasible because: (a) Social Security is a "pay as you go" system and there is no trust fund of assets accumulated to pay benefits; and (b) the demographics of the U.S. do not permit a "freeze" or termination of the System because all workers' tax payments will be necessary to fund the benefits of the baby-boomers. However, consideration needs to be given to selling non-essential government real property, other than the national parks, over a period of many years to reduce the tax rate.

Another possibility with respect to Social Security would be to allow the current 6.2% system to continue to exist, with the expectation of insolvency and a 24% benefit reduction starting in 2053, coupled with: (a) a dollar-for-dollar matching contribution program payable from the General Fund on the first 2% of contributions to an IRA, 401(k) plan, etc., by younger workers (born after 1985) who choose to participate; (b) investment of the current Social Security surpluses (that are expected to run through 2019) in traditional pension assets; and (c) establishment of a fund that is invested in traditional pension assets and funded each year pro rata (with inflation increases) as necessary to pay Social Security the amount due to Social Security from the General Fund from the time that the current surpluses and their earnings expire through 2052. The matching contributions would produce a benefit which equals 150% of the foregone 24% benefit for an average worker, based on historical pension equities returns. A pro rata match would be available to individuals retiring prior to 2053 with a life expectancy lasting beyond 2052. Matching benefits could not be received prior to retirement or disability, and a withdrawal of the individual's elective deferral contributions would result in a forfeiture of the matching contributions. Elective deferral contributions made to produce matching contributions would be tax-

deductible. (A dollar-for-dollar match on 2% of compensation should approximately make up the 24% reduction for an average worker.)

Consideration should be given to allowing Social Security payees to opt-out of benefits in exchange for proportionately increased benefits for a future beneficiary or beneficiaries, such as a child or children.

See: **Why Deficits Matter**

See: **U.S. Tax and Expenditures Summary**

See: **Why Social Security Opt-Outs Aren't Feasible**

See: **Testimony of Alan Greenspan**

See: **CATO Institute Article on Social Security**

Suggested Solutions: The gravity of these matters is **ENORMOUS**. Medicare Part D (prescription drugs) should be repealed, and instead the Department of Health and Human Services (HHS) should negotiate with drug companies to supply American seniors with prescription drugs at the prices that are charged to Canadian and western European seniors. A catastrophic drug benefit should exist, and it should be funded through a Medicare Part A and Part B benefit reduction. The 2005 percentage of the General Fund budget that relates to Medicare coverage other than Part A should be retained as the percentage of future budgets that apply to all aspects of Medicare other than Part A, with future deductibles, premiums and coinsurance adjusted accordingly. In the event of an emergency that necessitated running a deficit for a year, the percentage would be adjusted downward, but the spending amount would not be reduced. Coinsurance should be added to Part A, to be adjusted annually to correspond to Part A tax revenue. Individuals should be given the right to establish tax-free Medicare accounts ("MA"s) to fund future Medicare payments, with contributions thereto being tax-subsidized for lower income and middle income taxpayers, and distributions there from to pay post-retirement medical expenses (that are not covered by Medicare due to deductibles, premiums or coinsurance) being tax-free. Tax subsidies would phase-out as adjusted gross income increases. MA benefits would be non-assignable except upon death, and transfers at death would be completely tax-free. Any pre-retirement (Medicare age) distributions would come first from earnings (i.e. be taxable) and would be subject to the current 10% excise tax applicable to premature distributions from IRAs, pension plans, etc. An individual could choose to retain his or her MA upon becoming Medicare-eligible or, alternatively, pay his or her account to Medicare in exchange for proportionately greater coverage than the "standard" coverage that is provided to a person without an MA. HHS would issue annual statements, similar to statements now supplied by SSA with respect to Social Security, that provide maximum contributions to the individual's MA. The maximum MA contribution for any person for any year would equal the amount actuarially necessary to produce the coverage available under the 2004 Medicare system. Statements would also estimate future Medicare deductibles, premiums and coinsurance amounts in future and present dollar terms, while explaining how the Medicare system works, so that people can plan accordingly. (Prior to August 28, 2004, I had proposed that a national referendum be held to decide whether to keep the current system and immediately raise taxes to annually fund the system, or the current benefits percentage of the budget be retained [as provided above] with commensurate benefit reductions. I changed my recommended solution to this problem because: (a) given the complexities of Medicare, many people would have difficulty understanding the issues presented if a national referendum was held; and (b) the revised proposal allows for individual choice.)

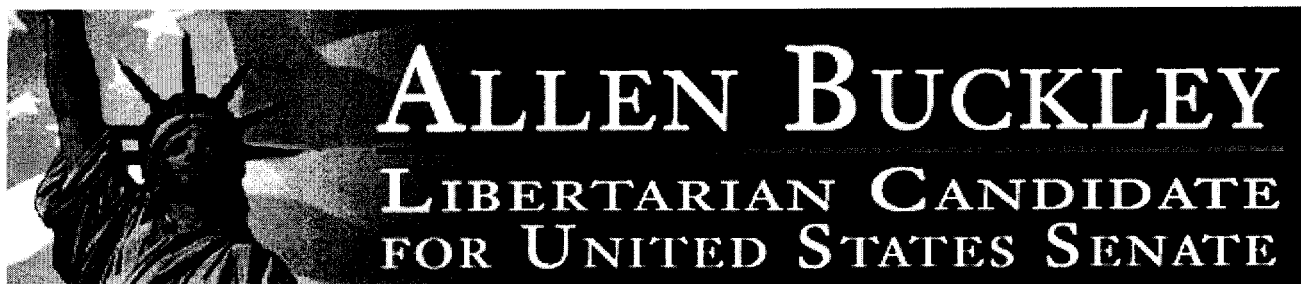
For Social Security, matching contributions should be added for younger workers (born after 1985), to produce approximately 150% of the permanent reduction that is expected in 2053. The matching contributions would be payable from the General Fund and would be applied to the first 2% of contributions to an IRA, 401(k) plan, etc. Contributions made to produce matching contributions would be tax-deductible for income tax purposes. The maximum compensation eligible to be matched and the maximum compensation eligible for the 2% tax deductible deferral would be an average worker's compensation, provided that a person earning below an average worker's compensation could elect to receive the match on his/her employee deferral contribution made to a 401(k) plan, etc. Distributions would be subject to income tax. Phased-in matching contributions would be available to persons born prior to 1986, but anticipated to live beyond 2052. Matching contributions and their earnings would be forfeited in the event of withdrawal, prior to retirement or disability, of the contributions that produced the matching contributions. The people should decide (through a national referendum) whether a fund should be created, to be funded annually from the General Fund revenues beginning immediately, to prevent a benefit reduction once the current surpluses and their earnings are consumed in (presumably) the 2020s. If the vote was against the fund, then benefit reductions should apply pro rata to all persons beginning immediately, with a 3-year phase-in. If applicable, the benefit reduction would likely be approximately 8 percent. (Assuming the vote was to fund, a 24% benefit reduction would occur in 2053, subject to the matching provisions. In that event, the matching contributions would be dollar-for-dollar.) Surplus assets that exist in the Social Security Trust Fund in any year should be invested in traditional pension assets, provided that individuals should be given the option to invest their shares, and an individual so electing would receive commensurate benefit adjustments based on investment returns. If the referendum vote was against funding, then the matching contributions would be proportionately reduced. The normal retirement age would be pushed back one year for persons born after 1985.

Other possible solutions exist (particularly for Social Security), and I am constantly analyzing this matter for a better solution or set of solutions.

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HOME - CANDIDACY

SIGNIFICANT POINTS

DIFFERENCES BETWEEN
ALLEN BUCKLEY AND
HIS OPPONENTS

PRIMARY OBJECTIVES

PRIMARY PROBLEMS

A VOTE FOR ALLEN
BUCKLEY MEANS ...

BACKGROUND &
EDUCATION

CONTRIBUTIONS,
FEEDBACK, & SUPPORT

PRESS CONTACT

IEWS & SOLUTIONS

THE DEFICIT & TAXES

DOWNSIZING
GOVERNMENT

EDUCATION

SOCIAL SECURITY &
MEDICARE

NATIONAL SECURITY

THE ECONOMY &
FOREIGN COMPETITION

THE ENVIRONMENT &
ENERGY

OTHER ISSUES

PRESS RELEASES &
COVERAGE

Views and Solutions: The Economy & Foreign Competition

The economy will fluctuate regardless of substantially all governmental actions, and, absent a depression, the only significant tools that the federal government can and should use to impact the economy are interest rates and business capital-inducing incentives, such as Internal Revenue Code §179 capital goods expensing and a variant of the former investment tax credit. We need to create better incentives to keep jobs in the U.S.

Comments and Suggested Solutions: The 2003 Tax Act will do little to help the economy, because very little of the benefits thereof go to people whose spending would help the economy—i.e. lower and middle income taxpayers. (Of course, what turns an economy around cannot be accurately quantified.) A refundable 10% credit on U.S.-manufactured machinery and equipment utilized in manufacturing and/or distribution in the U.S. and for U.S.-manufactured software that is consumed in the U.S., with a 7-year 200% recapture tax (with the recapture tax applying if the item purchased is disposed of or moved overseas), for goods purchased or ordered for short-term delivery during a 6-month window of opportunity, would very likely get the economy going when it is down. Once the economy gets going, most of it should continue going after the 6-month period expires. Golden opportunity missed in the late 1990s with respect to interest rates by the Federal Reserve Bank. (They could have been increased to reduce capital and real estate spending, such that loosening of rates this century would have reduced both the prosperity of the late 1990s and the lack of prosperity experienced so far this decade.) Many organizations are either tax-exempt or have a net operating loss (NOL) carryforward, such that tax deductions (Section 179 and accelerated depreciation offered by the 2003 Tax Act) provide no benefit to them whatsoever.

Given supply and demand, the weak dollar, near record-low interest rates of recent years and the liberal depreciation and capital expense write-off provisions of the Internal Revenue Code that were added by the 2001 and 2003 Tax Acts, the economy has recovered. Given expiration of the capital expense depreciation (50% in the first year - for large companies) and write-off provisions (up to \$100,000 - for small businesses), on December 31st 2004 and December 31st 2005, respectively, coupled with increasing interest rates, a recession is almost certain to occur in 2006.

We introduced capitalism to countries with much lower cost structures than the U.S. The result has been cheaper goods and loss of jobs. While it is great to have cheaper goods, the costs of lost jobs are greater than the benefits of cheaper goods.

Given that it will be very difficult to find replacement jobs, we need to find better ways of keeping jobs in the U.S., such as the 10% credit described above. Otherwise, aside from the people who actually lose their jobs, we will all soon feel the "trickle up" of lost jobs, including reduced retail sales, reduced stock market returns and an increase in crime. Unlike the U.S., many countries have no minimum wage laws, no child labor laws, no overtime laws, weak or no

environmental laws and no work safety laws. Thus, U.S. companies and citizens are at a competitive disadvantage. Some things need to be done to level the playing field. Tariffs could lead to a trade war, which would have pros and cons. Tariffs should be imposed on Chinese goods to cause the prices of Chinese goods to be what they would have been but for attachment. "... China needs to allow its currency to move upwards, not just to help the rest of the world, but also to rebalance its own overheating economy." (Source: *The Economist*, February 7th - 13th, 2004, "Let the Dollar Drop").

Foreign wages (and similar payments for foreign services in the nature of compensation) should be nondeductible to the extent that the ratio of foreign labor costs to total labor costs exceeds the ratio of foreign revenue to total revenue. For example, a business that used half foreign labor and sold one-quarter of its goods overseas (and sold three-quarters in the U.S.) could deduct only half of its foreign labor costs on its U.S. income tax return. (The maximum income tax rate on corporations is 35%. Assuming a net state income tax rate of 4%, such a change would make [nondeductible] foreign labor 64% more expensive for profitable companies in the highest bracket, thus helping to narrow the cost gap. Note that the technical means of accomplishing this change of tax law could vary based on company structure.) A significant excise tax (e.g. 50%) should be applied to any increase of such nondeductible expenditures over a 3-year base average.

A possible strong incentive to retain manufacturing jobs would be reduction of the minimum wage by 50% with respect to manufacturing jobs, if the employer agrees to share at least one-half of the manufacturing wage profit ("MWP") with the manufacturing laborers. At least one-half of any gain from the sale of the ownership interests of the business or its manufacturing assets would also need to be shared with the manufacturing employees, and all such gain would be long-term capital gain to such workers. MWP would be calculated by allowing deductions for all direct costs of manufacturing, allocable overhead costs, and wages of the manufacturing workers, and by limiting expenses to arm's length amounts and requiring that sales be recorded at arm's length amounts. Also, compensation of any management person or sales person would be deductible in computing MWP, but would be limited to the average wage of a manufacturing laborer, and family members would be treated as one person for this purpose. Expand the earned income credit ("EIC") for those employees who work full-time for the entire year, to cause their compensation to reach minimum wage compensation if and to the extent the 50% profit sharing doesn't cause the compensation to reach such amount, provided that the IRS would be reimbursed the EIC amount plus interest (at an above-market rate) by the business to the extent of 15% of the entity's accumulated MWP (25% for accumulated MWP in excess of \$1 Million). Any unpaid EIC plus interest would be paid to the IRS from sales proceeds upon a sale of the business or its assets. Employees would remain eligible for the ordinary EIC, but the business would not need to pay or reimburse the IRS for such amounts.

Automation is reducing manufacturing jobs worldwide. The U.S. needs to get as many of the new era manufacturing plants as possible. By taking steps to keep jobs and factories in the U.S. now, we will increase the likelihood that a substantial number of those new plants will be located in the U.S.

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THE UPCOMING 401(k) DILEMMA

Beginning in 2006, participants in 401(k) plans will generally be allowed to elect to treat their 401(k) deferrals as Roth after-tax contributions. Individuals will need to decide whether to continue the traditional 401(k) route of tax deferral or pay taxes currently in exchange for complete exemption from taxation upon distribution.

In statutory form, 401(k) plans have been permitted since 1978. The popularity of these plans grew incredibly during the 1990s. Today, they are the prevalent tax-qualified deferred compensation plan.

Roth IRAs are a relatively recent phenomenon. Internal Revenue Code Section 408A was added in 1997 to specifically allow after-tax (Roth) IRA contributions that grow tax-free and then permit the owner to withdraw the contributions plus earnings free of all federal tax.

After-tax contributions to 401(k) plans have been permitted for years. Typically, these contributions have been called "thrift" contributions. While thrift contributions may be withdrawn tax-free, any earnings on the contributions are subject to income tax upon distribution. In contrast, a future Roth 401(k) distribution (i.e. including earnings) will be completely free of tax.

Contributions to a 401(k) plan are called "elective deferrals." Currently, they reduce an employee's taxable income (W-2) for the year. Similarly, a self-employed individual's 401(k)

contributions are tax-deductible for income tax purposes. However, elective deferrals by employees and self-employed persons are subject to FICA (Social Security and Medicare) tax.

The Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") added Code Section 402A, to be effective in taxable years beginning after 2005. Section 402A permits the Roth election with respect to a 401(k) elective deferral. By making a Roth 401(k) election, an employee's contributions for the year will be subject to both income and FICA tax.

On March 2, 2005, the Treasury Department issued proposed regulations relating to the new Roth 401(k) option. Probably most significant is a provision of the regulations that states that the Roth/traditional decision must be made at the time the election to defer is made. The election to defer must be made before the compensation is payable. Accordingly, for plans that will permit Roth 401(k) contributions on January 1, 2006, systems will need to be put in place by January 1, 2006, and participants will need to make their initial decisions beginning in January of 2006.

Until very recently, significant tax rate bracket differences have usually existed for any given tax year. Thus, executives have utilized "nonqualified" elective deferral plans, so as to defer compensation (plus earnings) until retirement, when they would presumably be subject to tax at a lower rate. However, the brackets have been compressed and the rates lowered in recent years, thus reducing the tax benefits of a traditional nonqualified elective deferral plan. (The highest tax bracket is now 35 percent, and it applies to taxable income in excess of \$319,100.) If

the tax laws don't change (an unlikely assumption), the foregoing changes will impact non-executives who defer compensation through a 401(k) plan in a similar manner.

The question for the typical participant will soon be: traditional 401(k) elective deferral or Roth after-tax elective deferral? What the right decision is for any individual will depend on a number of unknown factors, including the future investment returns of the deferrals, the future inflation rate, the future personal income and expense expectations of the employee and the future tax system of the U.S. An assumption can be made that the investment returns and the inflation rate will be the same under either choice. Thus, the decision will likely need to turn on the individual's personal income and expense expectations and the future tax system of the U.S.

Few people can estimate their future income stream at retirement. People in hourly jobs who have worked in the same position for many years and who don't expect to make any significant career moves are in the best position to guesstimate their future income from non-401(k) sources at retirement. In this regard, the older the person is, the greater the person's likelihood of being able to correctly estimate non-401(k) sources of income. In contrast, a professional person who is young and tends to change positions relatively frequently will have a relatively difficult time estimating future retirement income from non-401(k) sources. Even those individuals who can predict their anticipated non-401(k) plan income stream at retirement with a reasonable degree of comfort will have a difficult time budgeting for future expenses. In this regard, no one knows exactly what the future holds.

Consider the current financial situation of the U.S. and its implication to future retirees. The debts and the present value of the unfunded liabilities of the U.S. government now total \$42 Trillion, which breaks down to about \$330,000 per full-time worker. The Bush Administration has recently proposed attempting to solve Social Security's problems. However, in the Medicare Modernization Act of 2003, Congress greatly expanded Medicare by adding Part D, relating to prescription drugs. (The cost of new Part D has been estimated to cost more than double the entire cost of fixing Social Security.) In order for the country to survive and flourish economically, it is almost certain that Medicare's benefits will need to be cut. If Medicare benefits are cut, seniors will be required to pay for more of their medical costs. Many professional asset managers believe that the financial problems of the government, including the existing debts that are held by Far East banks and other creditors, are now holding back the stock market. Thus, seniors can have their Medicare with diminished market returns or take Medicare reductions and look for better market returns to help them pay their medical bills.

The financial problems of the U.S. government lead to the second variable factor in the pre-tax/post-tax decision: the future tax system of the U.S. Net of Social Security's surplus, the deficit for the fiscal year ended September 30, 2004 was \$413 Billion. Without Social Security, the deficit was over \$550 Billion, and it exceeded fifty percent (50%) of the total non-Social Security federal tax revenue. The dollar has been losing value as of late due to the accumulated budget deficit and the trade deficit. Something has to give. But what?

The Bush Administration recently announced plans to revamp the U.S. tax system in a "revenue neutral" manner. A committee has been formed to analyze current problems and

propose solutions. Thus, any changes can be anticipated to produce the same amount of revenue as the current system. (Absent spending cuts, the same annual deficits will exist.) Some proposals that have been floated include the possibility of a national sales tax (i.e. the "Fair Tax") to replace (or possibly supplement) the current income tax system. The question then becomes: How does one make a Roth/traditional 401(k) decision when: (a) the tax system could be greatly modified in the future; and (b) if the tax system is not greatly modified, greater tax rates are likely because of the massive deficits situation?

All other things equal, due to the time value of money, it is better to defer paying tax. But, how can anyone make a logical choice, given the foregoing considerations?

If a national sales tax was implemented in the future to completely replace the current tax system (an unlikely result, given that the Joint Committee on Taxation has said that a tax rate of almost 60% would be necessary to be revenue neutral), then those persons electing the traditional 401(k) pre-tax treatment would come out ahead, unless some sort of tax equalizer was added to benefit persons who had previously elected Roth 401(k) treatment. Great political pressure would likely exist to create such an equalizer.

What if a national sales tax was adopted in addition to the income tax (thus making the U.S. tax system similar to the Canadian system)? Would income tax rates be decreased in the future? If so, by how much? Would the reduction be enough to justify making a traditional 401(k) deferral? If the income tax is retained, will the budgetary pressures and the weakness of

the dollar necessitate an across the board increase in tax rates? If so, the Roth 401(k) becomes the best current option.

No one expects certainty in tax laws, as it is a given that they are always changing. However, in the past, when making projections for clients, CPAs have been able to “run the numbers” utilizing the tax laws in effect at the time of the analysis. This traditional assumption (i.e. that the tax laws will remain constant since no one can tell what the future holds) can no longer be applied as a reasonable assumption. The problem is: No one knows what should be assumed in its place.

One can only hope that the national debate on tax law changes is completed relatively soon. However, given the fireworks surrounding Social Security, it very likely is wishful thinking to anticipate significant federal tax changes within a couple of years.

Allen Buckley is a partner with the law firm of Smith Moore LLP in Atlanta, Georgia. His practice emphasizes employee benefits and tax matters. He can be reached at (404) 962-1042 or allen.buckley@smithmoorelaw.com.