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PRESIDENT'S ADVISORY BOARD
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To The President's Advisory Panel on Tax Reform - Comments@taxreformpanel.gov

Gentlemen:

I understand the panel wants input on from citizens, so here is my input:

I am a retired business executive who passed the CPA examination 30+ years ago, but I haven't practiced as a CPA. In the last 30 years, I have always hired someone to prepare my tax returns. The Federal Income Tax Code is an incredibly complex, illogical mess of political special favors and social engineering that hardly any one can figure out, conclusively, including the IRS. (A classic case of a "risky scheme", if there ever was one.) Whether negotiating a private or corporate business deal, the income tax issues usually trump/compromise many of the legitimate business issues.

A vast army of tax accountants, lawyers and IRS employees administer the tax code and reduces, not increases, the productivity of our society. The tax code is complex and so is the myriad of complicated filing forms necessary for compliance (The main reason I don't prepare mine).

The Code penalizes success and rewards no one (unless one qualifies for the "earned income credit"). As an individual, income realized is subjected to taxation. If a loss is incurred, then only a maximum of \$3,000 loss is permitted to be recognized in a given year. That is further conditioned by the loss being recognized must be against the same class of income, e.g. earned, passive or portfolio, or it must be carried forward, but only for a few years.

As the AGI increases, then the permitted personal deductions on schedule B are reduced, which is similar to other "penalty" methods for being more successful, economically. The Alternative Minimum Tax (ATM) is a sleeper tax that "bites" more and more filers with a tax that is complex to compute/understand in making personal investment decisions, and penalizes those who do.

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Those who are part of the "underground" cash economy avoid detection and taxation completely, yet enjoy the benefits of our society the rest pays for.

Corporate and non corporate taxes drives companies to seek off shore tax shelters locations and/or biases transfer pricing decisions for multinational companies. US taxes result in higher export pricing, which limits our competitiveness. Selling below our costs violates international trade treaties.

Every time the stated goal of reform is "simplification", a multitude of pages are added to the Code and it becomes even more complicated.

WHAT SHOULD BE THE GOALS FOR THE PANEL TO ACHIEVE IN EVALUATING THE EXISTING SYSTEM

I believe the goal should be a SIMPLE/EFFECTIVE system of taxation, FAIR to all, EASY to understand/administer, REWARDS desired citizen behavior and raises the funds necessary to run a government responsive to the needs of its citizens. The functions/services of government should be in compliance with the CONSTITUTION, where the Federal government does what it should do and the State and Local governments do what they should do.

I believe such a system is best met with a SALES TAX not an INCOME TAX. This Federal sales tax should on new end user sales only (Exempt food and medical). There should be no other Federal taxes. No Capital Gain Tax. No FICA Tax. Only a simple national sales tax.

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The sales tax collection system is already functioning for states and local taxing authorities. What is more fair than for a person who spends more pays more in taxes (exempt food and medical) and those who save/invest more are not penalized by having their savings/investment gains taxed. No Federal tax return should be required. There are people who struggle economically at the lower end of the income scale (almost everyone does at one or more points in their life). Is it fair for all to have to file an income tax return (have to pay for said filing) so that those with less earned income can claim an "earned income credit"? Wouldn't it be better to send a monthly payment (prebate) to all social security cardholders (big families get more) equivalent to what the "national sales tax" would be on that first level of income defined as the "poverty" level?

FAIR TAX legislation (HR25 and S1493) addresses the above issues well. Here is my view of them:

1. The tax proposal would eliminate all Federal income taxes (Individual and Corporate), replacing them with a national sales tax on all new purchases [end users of finished products] (no tax on used purchases and food and medical exempted). Products exported would not be taxed, but imported products would when sold at retail. The FICA tax is eliminated, with the sales tax funding Social Security as well?
2. A 23% sales tax would make the "reform" revenue neutral" (meaning the same tax revenue to the Federal government will be generated by the Fair Tax as compared with the current tax code). A study by Dr. Dale Jorgenson of Harvard University has shown that the general price level change at retail wouldn't be much, if any, from existing prices. Actually, the revenue to the Fed may be higher with the Fair Tax, since it collects from the "underground" economy, which doesn't pay anything now.

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a. This method of Federal taxation would stop the free ride for the "underground economy" such as illegal drug trade and other aspects of the cash and carry trade that doesn't come up on the "radar" screen resulting in the filing of a Form 1040.

b. Corporations would lower their prices so the same after tax income would be realized, as under the present taxation system. What businesses end up with now is after tax income. Due to competitive pressures, they would lower their prices by the amount of taxes paid before the Fair Tax went into affect.

i. Such a price reduction, especially on exported products, would make us more competitive in the export markets, and not give the appearances of "dumping" or "subsidizing" our exports, which is illegal with most of our treaties.

ii. With no Federal corporate income tax, International companies would want to locate their companies in the USA instead of many companies currently doing business in the USA moving their operations "off Shore" or biasing their inter company transfer pricing to benefit a more favorable host country. Also, a massive number of jobs would probably be created in the USA and many of those recently "exported jobs" would be brought home.

3. A monthly payment (prebate) would go out to registered households in an amount equal to what the sales tax would be on whatever the poverty level is deemed to be in effect for that year. Therefore, no one below the poverty level pays any unreimbursed Federal sales tax. And if they chose to consume less, they can keep the prebate.

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4. The lower IRS staffing and much of the tax preparation and tax advisory industry would be relocated into more productive pursuits in our economy. The method of collecting the Federal sales tax would function much like it does today when we buy something where state and local sale taxes are assessed. The Retailer would simply remit to the Federal Treasury, as they remit to other taxing authorities now. A fee would be paid to the businesses collecting the funds.

I could go on and on but, in essence, the Fair Tax idea would move us to rewarding our citizens for doing "successful" things instead of penalizing said behavior! Those who consume, pay the taxes. No Federal income tax return or payroll withholding return (Individual or Corporate) is ever filed with the Fed so an army is not needed to plan/prepare/read/audit tax returns. The "prebate" paid to all negates having to identify who is below the "poverty" level (a big paper trail no longer needed).

Explore WWW.FAIRTAX.ORG web site for more details.

Those who vote for it will be giving up their "power" to give special favors, but be a true patriot!. Those against it will call it a "risky scheme". It is not a risky scheme. They are the "risky scheme". I do not see any holes in the logic and I can easily get real excited about the very positive benefits to our country for enacting it. It is far superior to other tax proposals, such as the Flat Tax, which is still better than the existing taxation system. I truly believe the FAIR TAX legislation to be a FAIR TAX! Hopefully, the political process of enactment will not bastardize it. Common sense should prevail! My hope is that this president's advisory panel will give this proposal it's conceptual support and recommend it to the President. Thanks for reading my commentary.

