

PRESIDENT'S ADVISORY
PANEL
ON FEDERAL TAX REFORM

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Why we need to replace the current
tax system...

submitted by Rosemary R. Poole

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submitted as an Individual

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1. Headaches, unnecessary complexity and burdens that taxpayers (individuals and businesses) face because of existing system:

The current revenue-based income tax, which used to be fairly "simple," since its induction around 1914, has now become extremely complex and even highly accomplished CPAs cannot keep up with the tax code and its daily, byzantine changes. There are far too many forms, and unless a taxpayer just uses a plain 1040 form, it is not easy to take into account all the many questions and numbers one has to deal with in all the subsequent forms. Plus, the taxpayers of today have more complex financial issues to deal with (such as stock income, property income, business property depreciation, etc.) than the taxpayers of a generation or more back had to deal with. Not only are there so many "forms" and "schedules" to deal with (that are mind-boggling on their own) but it is expensive to have to pay someone to prepare your tax for you! I'm somewhat fortunate in that I have a tax preparer who charges \$75 to do my taxes. And even that was "expensive" for me (since I earn, all told, a little over \$18,000 a year -- and that's holding down two jobs!). When I contacted H&R Block to do some "shopping," I was shocked to find that to prepare my somewhat simple tax form would cost me \$180; and if I had a schedule or other forms to file, those would cost me extra per form!. It's also very hard to find the storage space to hold on to seven years' worth of receipts. A lot of people, particularly poor people, or retired people, in the low to middle income bracket, can now afford less housing space and to find a place to keep these "papers," (in case of an audit!) . We have way too much paperwork in our lives, even less time to sift through it all and less space to store it all. WHO CARES what happened one, two, or seven years ago in my financial life!! It's all water under the bridge.

It's also annoying to have to take time out from one's busy schedule to "gather the papers," and drive to a place to have someone either do the tax preparation for you, or to have to take the time and do the tax papers yourself. I also find it very intrusive that some government agency has to know how much I make!! What is important for the government to have is tax revenue to run the country and protect the citizens and the borders. Taxes are very necessary **but** they need to be collected on a fairer and broader base. **Taxes should be collected on goods and services that people buy and use. An income-based revenue is not sufficient...we need to have a sales revenue based system!**

2.) Aspects of the tax system that are unfair: Taxpayers in the lower economic bracket and the lower end of the middle income group get hit the hardest and pay the most (22% to 35% or more). Our current tax system is one of the reasons that people are finding it so difficult to get ahead these days. (It's NOT the higher utility and food costs, necessarily, it's the taxes that are killing off the lower and middle income groups!). "Uncle Sam" has his hands in our pocket before we get a chance to take home and enjoy the fruits of our earnings. It's extremely discouraging and kills incentive. A better way would be to pay tax when buying something or using a service. Psychologically it's a happier deal to pay your tax this way. **Everybody is in a pretty good frame of mind when they're buying**

something. It sure beats "Uncle Sam" from grabbing his share of your hard-earned income before you get to cash it at the bank.

The present tax system punishes people who have an incentive to earn more. It eats up what capital gains, bonuses, are earned, and hurts the economy. When people earn a salary or make money on a sale, windfall, or investment, people will usually spend this money, or they will save it, so it helps the economy all around. If people have some savings or a lot of savings, they will usually use that first to help through times of financial downturn than seek the public assistance avenues. The present tax system grinds the economy to slow-mode. Also, there are many people who are not paying their fair share--the criminal element (drug and pornography dealers--big money business there!), illegal aliens, and the wealthy (who are able to take advantage of tax loopholes or offshore investing).

A flat tax still would not alleviate us from the current woes; outside of providing a simple tax form to use, it still gets only a portion of the population. A flat tax would not collect as much or more as the replacement with a national sales tax would!

Here is a small example of how much money the government could garner in revenue from a sales based tax replacement:

From THIS WEEK Magazine, Talking Points column, Sept. 17, 2004:

Enticed by MP3 players, cell phones, designer handbags, and other expensive goodies, 12- to 19- year olds spent \$175 billion last year--\$53 billion more than in 1997.

And teenagers and their lavish spending habits today are just another portion of economic federal sales tax opportunity. Collection of sales tax revenue would cost far less and be much simpler to collect than an income based revenue. Retail businesses would collect the tax from the consumer, just as state sales tax systems do and the federal tax collected would simply be an additional line on the current sales tax reporting form. The size and cost of running the current Internal Revenue Service is approximately estimated to run a whopping \$250 billion, more than the cost of any other government agency (the CIA and FBI for example). By streamlining the administration for collecting the federal sales tax, a tremendous slice of "fat" would be cut off and used for other, more useful spending purposes (or really put a big dent in that Federal Deficit)--a nice gift for not only the present generation of hard-working Americans but the children and grandchildren and generations to come.

3. Goals that your panel should try to achieve as it evaluates the existing tax system and recommends options for tax reform: The existing tax system has to go! We need to have it replaced by a much fairier and more just system. The best system I would urge you to consider is the one put forth (in much detail to cover every aspect of social and economic and business planning, I might add) by the **Americans for Fair Tax** organization. These can be viewed at their website at: www.fairtax.org.

* Consumption is a more reliable source of revenue than an income based revenue..

* Fair Tax would protect low-income and lower middle-income families and individuals--poverty level people would pay in to the system when they purchased a good or service but would receive a monthly rebate check. They would, in reality, be paying into the system (think of it as a cash flow basis) but would be totally reimbursed each month. The

rich and the criminal element would be paying their far share, since everyone at one time or another buys stuff and services!

*The current embedded taxes in products would be cut and therefore purchasing power for them would be improved, plus it would give our businesses a more competitive edge with overseas trading.

*Fair Tax would make every one equal and would spur the economy to new heights. It would eliminate the "punitive measures," and unfair fines that are currently assessed with the present revenue system.

*Fair Tax would be beneficial to all charities since people's money would be freed up (from withholding and alternative minimum taxes), and we all know how generous the American public is when it comes to charities now. Just think what it will be like when the people have more money in hand to GIVE!

*History has proven that countries who have collected revenue with a consumption tax rather than an income tax, fared much better and thrived.. We should learn from and return to this type of taxation.

I urge you to **please** consider replacing the burdensome curse of the present income tax system with a federal sales tax system. To do this will be the most important and positive step that any panel or government agency has done since the framing of the Constitution.

*Respectfully submitted,
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