

PRESIDENT'S ADVISORY
PANEL
ON FEDERAL TAX REFORM

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22 Southampton Parish Road
Landenberg, PA 19350
March 17, 2005

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

Dear Panel Members:

To Simplify the federal income tax, one needs to **think outside the box**.

Separate the collection of income tax from the long list of subsidies now built into the current income tax system. Realize that with current computer data bases and electronic transfer of funds there are better ways to subsidize things or to encourage actions than include these in an income tax collection system.

Eliminate the need for most tax payers to submit any personnel income tax forms by setting one low tax rate (say 15%) for the first \$250,000 of income. A rate so low that no deductions or exemptions are needed. There would be no standard deduction and no exemptions and most credits would be eliminated. The current rules on capital gains on the sale of your home would remain.

Use the federal income tax to redistribute income by

- 1) **Tax income over \$250,000 per year at very progressive rates**, so that incomes over \$10 million per year are tax at 75%. The only allowable deduction would be for charitable gifts that exceed \$25,000 dollars each year. There would be no special tax rates for capital gains or dividends.
- 2) **Subsidize those with low incomes** by issuing monthly or quarterly payment to them.
- 3) **Subsidize children** by issuing monthly or quarterly payment for each child.

Initiating a value-added tax (or sales tax) for the remaining income needed to run the federal government

How this concept of the income tax would work

The following would be taxed at a 15% rate **BEFORE** distribution –

- 1) Dividends; Interest; Mutual fund and REIT (including capital gains) distributions,
 - 2) The taxable part of Social Security benefits, IRAs, Pension, 401, annuities and other similar distributions
 - 3) Unemployment compensation; Income from royalties, partnership, S corporations, trusts, etc.
- If possible, other income streams would also be taxed at a 15% rate before distribution.
Since alimony cannot be deducted, it would not be taxed.

Therefore the only people that would have to file Federal income tax forms would be those with income more than \$250,000 dollars a year and those with income streams not already taxed at 15% before distribution – Other Capital gains, Business income; Rental real estate; Farm income and any other like these.

Examples of ways to subsidizes items outside the income tax collection system

If the Federal government wants to promote some action, it should be done directly not through the income tax system.

Examples:

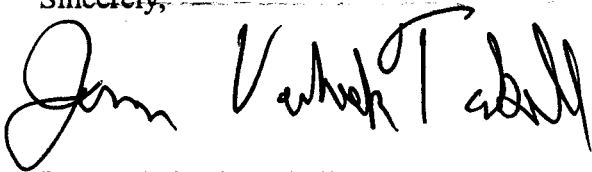
- 1) Match at 15% all charitable gifts (except those that were deducted against income)
- 2) Subsidize selected classes of individuals with monthly or quarterly payment
- 3) Encourage retirement savings by allowing Roth IRA
- 4) Force retirement savings by increase the 15% tax rate on the first \$250,000 of income to say 19% and putting this extra 4% into a Roth IRA for each tax payer including those already retired. The current Roth IRA rules would apply to these accounts but the default investment would be US government bonds.
- 5) Encourage education savings by allowing education savings accounts based on the rules for Roth IRAs.
- 6) Encourage home ownership by paying 15% of mortgage interest.

How to eliminate the double taxation of dividends while keeping the same tax income from corporations

One way to prevent the double taxation of dividends while keeping the same tax income from corporations would be to allow corporations to deduct dividends while increasing the tax on wages. For example all earned income could be taxed at the social security rate and the medicare tax could be doubled with these increased incomes flows going into the social security and medicare trust funds. Alternatively some of the income from increasing the medicare tax could go toward medicaid.

If you have any questions, my telephone number is 610-274-8103.

Sincerely,



James Verhoek Tarbell

cc: Congressman Joseph Pitts
Senator Allen Specter
Senator Rick Santorum
Congressman Bill Thomas
Senator Chuck Grassley