

**HARRY LUCAS, JR.**

PRESIDENT'S ADVISORY  
PANEL  
ON FEDERAL TAX REFORM

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March 7, 2005

Senator Connie Mack III  
King and Spaulding, LLP  
1700 Pennsylvania Avenue, N.W.  
Washington, D.C. 20006-4706

Honorable Senator Mack:

I remember your fine work as a Senator, and appreciate you serving on this panel.

The enclosed documents (although written in 1985 and therefore requiring updating with current information), is based on a concept which may be pertinent to your current hearings.

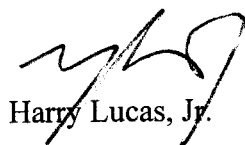
This concept is:

- 1) "phasing in" the consumption tax,  
and concurrently,
- 2) "phasing out" the income tax by 1/3 each year (over 3-years).

This keeps most lobbying groups at "status quo" – i.e. their relative position does not change with the rate reduction.

Hopefully, this will lead to a simplified tax structure benefiting all American, (especially those attempting to start-up new businesses!)

Sincerely,



Harry Lucas, Jr.

HL/nf

Enclosures

P.S. My staff does not have time, nor do we have the expertise to update the old figures.

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March 18, 1985

Senator Bob Packwood  
259 Russell Senate Office Building  
Washington, D.C. 20510

*Bob - looking forward to discussing this with you  
in Dallas April 8 -  
Regards, Harry*

Dear Senator Packwood:

The current impasse in tax reform may be difficult to break because of various lobbying groups, and this difficulty leads to suggestions for an optimum fallback position.

The income tax could be reduced over several years with a "capped" federal sales tax (or another appropriate consumption tax) making up the needed revenue.

The ultimate "user" tax is a federal sales tax, adjusted to provide fairness for low income groups. Using CY1982 figures, a tax base of \$1493.2 billion<sup>1</sup> exempts food, rent, and medical.

Using projected receipts for 1988, the individual income tax would raise \$438 billion<sup>2</sup> which means that taxes could be cut 1/3 (\$146 billion) and the revenue made up with a 10% retail sales tax (10% of \$1493.2 billion equals \$149 billion). The American people approve sales taxes in public opinion polls by a 2-1 margin if tax changes are made.

Similar figures would be required for a value added tax to replace some part of the individual income tax.

Even though some inflation would result, a consumption tax rate of say 10% per year increment rate for three years with an equivalent reduction in income tax rates proportionally would allow a phase out of the income tax on individuals - a truly historic event - as the consumption tax is phased in.

Any additional costs for administering the consumption tax are estimated to be offset by the administrative savings from the reduction of costs for administering the income tax.

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Your consideration of these alternatives will be appreciated by all Americans who want to see a simpler and fairer tax system in this country. As you know, the NAM and the American Council on Capitol Formation have published material to educate the American public concerning this important matter.

Yours truly,

  
Harry Lucas, Jr.

HL:sm

FOOTNOTES:

- 1 Private communication addressed to Robert C. Brown, Tax Foundation, dated March 7, 1984, internal memo.
- 2 Base line budget projections fiscal 1985-1989 CBO.