

COMMENTS # 1

Submitted By: Kathy E. Saul

Date Submitted: March 15, 2005

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PRESIDENT'S ADVISORY
PANEL
ON FEDERAL TAX REFORM

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CATEGORY OF SUBMITTER: INDIVIDUAL

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I feel question #4 – Goals the panel should try to achieve – should be the first issue to address. The panel must thoroughly understand the goal before considering the details of the executive order. The Executive Order in part states: the purpose of the Advisory Panel is to submit “revenue neutral policy options” and that the options should simplify compliance, share the burdens and benefits, and promote long-run economic growth to strengthen the competitiveness of the United States in the global marketplace.

It is incomprehensible for me to visualize how you will be able to develop “revenue neutral policy options” without having at your disposal one or more sophisticated computer programs to project the effects of the policy changes. Consequently, unless you do have such programs to project the changes I believe that part of the executive order should be disregarded. Your main concern should be to address simplification, and sharing the burdens and benefits to promote long-run economic growth.

Regarding the other three issues – headaches and complexities, unfairness, and examples of distortion, I feel I must first summarize my beliefs and career background. I was born in 1956 believing I lived in a country where the majority of people were God fearing and free. That we have inalienable rights, that among these are life, liberty, and the pursuit of happiness. The most important concept, as stated in the Declaration of Independence, is that our government derives its powers from the consent of the governed.

I have a bachelor's degree in business administration majoring in accounting with a minor in computer science. I prepared income tax returns for 3 tax seasons at a CPA

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firm when I began my accounting career. I discovered that preparing individual income tax returns was quite meaningless and frustrating. My work also involved the preparation of a variety of tax and information reporting returns (payroll, unemployment, pension, partnership, trust and corporation income tax returns along with state and local property, sales, intangible and net worth tax returns). I feel the most important aspect of my job at the CPA firm was financial compilation and review, which was the area that was allowed minimal time as compared to tax compliance. I therefore left public accounting to work for a corporation where I felt I would have some control over the financial information. I eventually found that multistate corporate tax compliance to be the most fulfilling, and have worked in that area of taxation for 20 years.

I have spent countless hours researching federal, state and local tax laws and court cases attempting to understand a variety of issues. My main conclusion is that accountants spend numerous unproductive hours preparing workpapers, rearranging information, to support the numbers reported on income and payroll tax returns.

The biggest headaches involve the definitions in the Internal Revenue Code (IRC), including, but not limited to: Taxpayer, farmer, wages, remuneration, salary, income, United States, State, Trade or Business, Individual and Person. Also the variety of revenue and expense recognition rules create needless compliance complexities.

Over time, since the creation of the Federal Reserve and the Internal Revenue Service (IRS), the citizens of our country, have been misled to believe that each and everyone of the corporations, partnerships, associations, sole proprietors, and individuals in the United States of America, is *required* to file payroll and income tax returns.

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Everyone “doing business” or “working for a living” is treated as a “taxpayer” and is required to comply with the Internal Revenue Code (IRC) and various sections of the Code of Federal Regulations (CFR). The administrators of the IRC have found it necessary to develop the Internal Revenue Manual (IRM) along with a wide variety of “Publications”. I believe these additional documents are required because the IRC is so convoluted, and the employees of the IRS either can not, or will not, implement the IRC according to the promulgated regulations. All these rules, along with the improper application of those rules, has lead our country to be less productive and therefore less competitive.

The main aspect of the tax system that makes it unfair is the fraud the IRS flagrantly uses to coerce citizens to participate in social security and to file payroll and income tax returns. If someone does not want to participate or disagrees with the application of the law, the person may very well be ignored and have their request for a meeting denied (especially if the person requests a tape recorder be allowed at the meeting). Tax returns the service centers deem improper are not processed, and then allows the IRS computers to request a different return. Eventually an assessment from a feigned “Substitute for Return” will be prepared and the collections department takes over to perform additional coercion to force compliance with the IRC. The IRS’s employees apparently are trained to NOT follow the procedures described in 26 CFR 601.101. Also, the frequent changes in the tax laws encourage taxpayers to make hasty decisions for which, five years later, may very well be economically punished due to

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further changes in the IRC. Those businesses that have sufficient funds to lobby politicians usually gain benefits not available to others.

The IRC distorts important business and personal decisions through the use of Subtitles, Chapters, Subchapters, Sections, and Subsections (Parts and Subparts). The IRC is written in such a manner that misleads businesses and individuals into believing that everyone is a "taxpayer" and is required to comply with subtitle A and C of the tax code. One specific example includes the sections the IRS refers to when demanding an individual file a federal income tax return. Sections 6001, 6011 and 6012(a), respectively located in Subtitle F, Chapter 61, Subchapter A, Part I; Part II; and Part II, Subpart B.

The following quotes are excerpts from the referenced sections (as of 12/31/02):

Section 6001. Notice or regulations requiring records, statements, and special returns.

Every person liable for any tax imposed by this title, or for the collection thereof, shall keep such records, render such returns, and comply with such rules and regulations as the Secretary may from time to time prescribe. Whenever in the judgment of the Secretary it is necessary, he may require any person, by notice served upon such person or by regulations, to make such returns, render such statements, or keep such records, as the Secretary deems sufficient to show whether or not such person is liable for tax under this title....

Section 6011. General requirement of return, statement, or list. (a) General rule. When required by regulations prescribed by the Secretary any person made liable for any tax imposed by this title, or with respect to the collection thereof, shall make a return or statement according to the forms and regulations prescribed by the Secretary. Every

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person required to make a return or statement shall include therein the information required by such forms or regulations. (b) Identification of taxpayer. The Secretary...

Section 6012. Persons required to make returns of income. (a) – General rule. Returns with respect to income taxes under subtitle A shall be made by the following: (1)(A) Every individual having for the taxable year gross income which equals or exceeds the exemption amount, except that a return shall not be required of an individual - (i) who is not married (determined by applying section 7003), is not a surviving spouse (as defined in section 2(a)), is not a head of household (as defined in section 2(b)), and for the taxable year has gross income of less than the sum of the exemption amount plus the basic standard deduction applicable to such an individual, (ii) who is head of household (as so defined) and for the taxable year has gross income of less than the sum of the exemption amount plus the basic standard deduction applicable to such individual, (iii) who is a surviving spouse.....(2) Every corporation subject to taxation under subtitle A; (3) Every estate the gross income of which for the taxable year is \$600 or more;..... etc., etc., etc.....

Ask yourself a few questions – who is it that is required to file a return? These are general requirements, where are the specific requirements? Where is it that an individual is made liable for income tax? Review some of the IRS “Publications” and note they are addressed to “Taxpayers”. Who is a taxpayer? How is it that a corporation becomes “subject to taxation”? These are serious questions that need to be addressed if sole proprietorships and small businesses can be expected to fairly share the burdens and benefits of government services and to promote long-run economic growth.