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JC
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HARRY LUCAS, JR.

HL COPY

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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MEMORANDUM

To: Robert C. Brown

Date: January 18, 1985

From: Douglas P. Bates

Subject: Request on VAT

Treasury calculates that the Value Added Tax base (with appropriate deductions) in 1988 would be $2,408 billion. Thus, each 1% VAT would yield $24.1 billion.

To replace the corporate and individual income tax:

	Projected Receipts, 1988[1]	VAT Replacement %
Corporate Income Tax	$85 billion	3.5
Individual Income Tax	$438 billion	18.2
Social Security Tax	$354 billion	14.6

[1]Source: Baseline Budget Projections Fiscal 1985-1989, CBO.

In the Treasury Report on VAT (excerpts attached), it is assumed that the administration of the VAT would require a whole new layer of bureaucracy at a cost, after transition, of $700 million per year. No offsets were assumed.

Also attached are Tax Foundation estimates of the Value Added Tax base in 1982 and the rates necessary to meet full federal funding as specified by Horace Busby.

DPB/ses

encs

P. 004/006

To: Robert C. Brown

March 7, 1984

From: Douglas P. Bates

Re: Busby Request

Mr. Horace Busby has requested estimates of the tax rate necessary to fully fund federal spending (i.e. no federal borrowing) under three different tax structures. The rate imposed on each alternate tax structure must be sufficient to fully fund all federal outlays including off-budget spending, but excluding the payout from the Social Security trust funds. For calender year 1982, this amount would have been $546.5 billion. It is assumed that all existing taxes are repealed except for Social insurance contributions (FICA and FUTA), and that the repealed taxes result in an expansion of the tax base.

1. National Sales Tax: The base on which a national sales tax would be imposed consists of all personal consumption expenditures except for food, medical costs, and rent for housing services (including imputed rent for owner-occupied housing). It is assumed that the repealed taxes are translated into an equal amount of increased consumer spending.

For calendar year 1982, the base for such a tax would be slightly under $1.5 trillion. This would necessitate a tax rate of 36.6 percent to raise the necessary amount of revenue.

Tax Base	CY 1982
Personal Consumption Expenditure	1991.7
Food	-421.9
Rent	-334.1
Medical	-221.3
New Residential Housing	79.3
Replaced Taxes	399.5
	1493.2
Revenue Needed	
Federal Spending (including off-Budget)	764.4
Social Insurance Contributions	-217.9
	546.5
Rate Necessary	36.6%

Source: Survey of Current Business, July 1982, Bureau of Economic Analysis. Tax Foundation calculations.

cont.

2. Value Added Tax (VAT): A flat rate consumption-type value added tax would be imposed on a tax base of $1.69 trillion. This base includes exemptions as suggested by a study done by the Treasury Department in 1969 (see chart). In addition, it includes $286 billion in taxable expenditures as a result of the $399.9 billion in repealed taxes. This is based on the assumption that these repealed taxes will be divided between taxable and non-taxable consumption expenditures in the same proportion as other personal consumption expenditures. A tax rate of 32 percent would be required to generate the necessary revenues from this tax base.

3. Flat Rate Income Tax: A flat rate income tax, as the name suggests, would impose one tax rate on all income. The base for such a tax would be aggregate gross income without adjustments for any exemptions. For calendar year 1982 this base would have been $1,847 billion which would have required a tax rate of 29.6 percent in order to raise $546.5 billion.

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ESTIMATE OF VAT BASE IN 1982

Major GNP Category	Amount	Exclusions From Tax Base	Amount	VAT Tax Base
Personal consumption expenditures	$1,991,861		$641,252	$1,350,609
		Personal remittances in kind to foreigners	481	
		Expenditures in U.S. by foreigners	12,554	
		Rental value of owner-occupied homes	229,086	
		Rental value of farm homes	12,916	
		Food produced and consumed on farms	978	
		Domestic service	7,626	
		Expenditures abroad by U.S. residents	3,220	
		Foreign travel by U.S. residents	16,460	
		Food furnished employees	5,602	
		G.I. clothing issue	132	
		Bridge, road tolls	1100	
		Utility services provided by governments, including transportation	N/A	
		Medical care, drugs	221,333	
		Private education and research	31,503	
		Religious and welfare activities	28,106	
		Parimutuel net receipts	2,313	
		Nonprofit entertainment and sports	1,717	
		Services furnished without cost by financial intermediaries, except life insurance	41,725	
		Expenses of handling life insurance	23,800	
Net exports of goods and services	17,412	All	17,412	
Government purchases of goods and services	649,202	All	649,202	
Changes in business inventories	-24,544	All	-24,544	
Gross private fixed investment	414,514		370,185	44,329
		Producers durable equipment	206,419	
		Nonresidential structures	141,889	
		Residential structures for rental purposes	21,877	
Repealed Taxes	399,500		113,500	286,000
	[illegible]		[illegible]	[illegible]