

The President's Advisory Panel on Federal Tax Reform
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General Comments from an Individual Taxpayer

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Consumed Income Tax

As the President's task force looks at various ways of reforming the federal tax code, strong consideration should be given to something known as a "Consumed Income Tax". If designed and implemented based on the principles presented, it would be simpler than the present Income Tax and more transparent than a National Retail Sales Tax (NRST) or a Value Added Tax (VAT). In addition to the items stated below, this plan could be phased in and would not require repealing the 16th amendment.

Principles of Taxation

Our tax system should be transparent, fair and promote building both financial and human capital (wealth).

- Transparent
 - No hidden taxes
 - One method of taxation
 - No double or triple taxation
 - Total taxes paid easily known
 - Paid directly by taxpayer
- Fair
 - Same tax rate for everyone
- Building Capital
 - Financial
 1. All money saved or invested is not taxed, including principle & interest on loans to purchase or improve the investment (e.g. Home loans)
 2. Inheritance or gifts are not taxed if they are saved or invested

- Human

No tax levied on the following:

1. Healthcare expenses, Insurance or loans to pay healthcare expenses
2. Educational expenses, or loans to pay educational expenses for anyone at any age
3. Charitable Contributions
4. Adoption Expenses

Consequences

Comments in Italics

- Transparency

Eliminate Hidden & Double Taxation; Specifically eliminate:

- Corporate taxes
Corporations don't pay taxes; they're a cost of doing business.
- Excise taxes (e.g. gasoline, telephone, tires, tobacco, etc.)
Removes businesses as tax collectors.
- Tolls on Federal Highways and taxes on Air Travel
All costs for federal highways and costs to maintain order & security of the airways should be born by the federal government since they are vital to interstate commerce and national security.
- Withholding
Removes businesses as tax collectors. All taxes are paid directly to the federal government on a monthly or quarterly basis by individuals on all money received and not invested. Increases tax awareness.
- Federal taxes on all local and state income, sales, property and excise taxes
- Income taxes paid on Social Security and Medicare taxes
Although there is a temptation to incorporate Social Security and Medicare taxes into one general tax rate, leaving them as separate line items provides the visibility to phase in private retirement and healthcare solutions.

- Fair
 - Anyone spending wealth (i.e. spending more money than they earned in a month or quarter) will pay the flat tax rate which does not include the Social Security and Medicare taxes

While this effectively excludes payroll taxes on the cost basis of invested money, people with high incomes (currently above \$90,000) do not pay payroll taxes on this money. This would encourage people in lower income brackets to save for big-ticket items (avoiding consumer debt) or long periods of sickness and / or unemployment.

This solution also eliminates the issue of levying payroll taxes on wealth and double payroll taxation on the cost basis of present wealth.

- Promote building of Financial and Human Capital
 - All money placed into investments (savings accounts, stocks, bonds, mutual funds or real estate) is not taxed until withdrawn for consumption.
 - All earnings on the above investments are not taxed until withdrawn for consumption.
 - Money spent on Human Capital is tax-free.
 - Inheritance or gifts of any amount to any individual are not taxed to the donor or receiver if transferred to the receiver's qualified account. The actual investment can change but must remain in a qualified account. The receiver pays the normal tax rate on any amounts spent.
 - Gifts made, in any amount, to pay for Healthcare, Education or Adoption expenses on behalf of specific individuals or general-purpose contributions to organizations that provide these services are tax-free. *Promotes charity to individuals and organizations.*

Nuts & Bolts

- Businesses
 - No longer pay or collect Federal taxes or file Federal Income Taxes
 - Pay employees their entire gross pay
 - Include employee and employer Social Security and Medicare in gross pay
 - Report employees gross pay to IRS monthly, less any amount transferred to various employer sponsored retirement plans.

- Individuals
 - Income deposited to a qualified account is not taxed
 - Money transferred between any qualified account is not taxed
 - Earnings that remain in qualified accounts are not taxed
 - Funds in designated personal retirement accounts have restricted withdrawal until a set retirement age
 - Eliminate retirement fund withdrawal requirement at age 70
 - Money withdrawn from qualified accounts is taxed, unless it is used for a tax exempt purpose (Health, Education, Charity, Adoption)
 - Individuals receive a tax bill based on the past month's (or quarter's) activity. The tax bill would be paid directly by the individual taxpayer. [*Money Received – Money Invested (Financial + Human) = Money Consumed*] *On a practical level, a person only needs to report what they received (pay, gifts, etc.), and deposits and withdrawals to / from qualified accounts.*

- Tax Code and Forms
 - Businesses report employee's earnings to the IRS. That's the only burden on business.
 - Financial institutions report net deposits and withdrawals to / from qualified accounts to the IRS. *Transfers between qualified accounts are not reported.*
 - Walk through a 1040 form and imagine the lines, schedules, forms and whole sections of tax code that could be eliminated.

Filing status
 Exemptions
 Interest
 Dividends
 Capital gains
 Schedules A, B, C, D, E, F...
 Forms 4797, 2106, 8889...