22 Richard Road
Mechanicsburg PA 17050-6832

April 26, 2005

The President's Advisory Panel on
Federal Tax Reform
ATTN: Jeffrey F Kupfer, Exec Director
1440 New York Ave NW Suite 2100
Washington DC 20220

Dear Mr Kupfer:

In response to the request for Tax Reform Proposals concerning the January 7, 2005 Executive Order of President George W Bush, enclosed please find a proposal for the Panel's review and examination.

I am prepared to respond to any individuals whom you may designate as appropriate with an eye toward further investigation of this very feasible opportunity.

Respectfully,

David R Harris

c: Senator Arlen Specter
Senator Rick Santorum
Congressman Todd Platts

TAX REFORM PROPOSAL

Submitted to

PRESIDENT'S ADVISORY PANEL

on

FEDERAL TAX REFORM

In accordance with the request of the Advisory Panel in response to the Executive Order of President George W Bush establishing the President's Advisory Panel on Federal Tax Reform on January 7, 2005, the following is submitted for your consideration.

This proposal seeks to establish a FLAT RATE TAX system. In order to meet the specific criteria of "simplicity, efficiency and fairness," it is necessary to set aside the traditional thinking in the formation of tax policy. The current tax system is based upon certain assumptions, determinations and inequitable variations and over time has become confusing, cumbersome and, in some ways, almost indecipherable. This has occurred due to the addition of more assumptions, determinations and variations.

Specifically, the main stream of current tax planning and determination is based upon the prevalence of the "family" as the basic taxpaying unit. While family is an important and necessary part of life and is desired in most other contexts of daily living, it is an imperfect vehicle on which to base the assessment of tax responsibility

"Family" may be described as an individual, an intact nuclear family unit with two parents and offspring, single parent households, married taxpayers filing jointly or separately, non-traditional households (head of household filing) and other various other formations There are literally thousands, maybe even millions, of interpretations of the meaning of "family."

This is the first ambiguity which must be eliminated in seeking a fairer, more evenly applied tax assessment.

DESCRIPTION OF PROPOSAL

This proposal establishes that the tax paying burden should be applied to all income recipients regardless of "filing status," family circumstance or other discrimination. Under this plan, tax is levied based upon all income, to each individual, in excess of $26,000.00 per annum

The tax is based on INDIVIDUAL earnings (not marital or family status). The first $26,000 of annual earnings is exempt from tax for all taxpayers.

Tax will be paid on ALL income in excess of $26,000 annually with the exception of any pre-taxed income (e.g.: retirement IRAs, etc). No tax shall be levied upon any income previous to the established threshold. There shall be no further exemptions, deductions, credits or exclusions to the income of the specific taxpayer.

This plan will be most effective for lower income residents, while assessing the upper incomes at an appropriate, but reasonable, rate.

FLAT TAX RATE: 10% of all income in excess of $26,000 per taxpayer

plus a Federal Debt Surcharge as follows:

FEDERAL DEBT (December 31 of tax year)	SUR-CHARGE	CUMU-LATIVE
$ 1 - $1,000,000,000,000 (1 trillion)	½ %	½ %
$ 1,000,000,000,001 - $2,000,000,000,000 (2 trillion)	½ %	1 %
$ 2,000,000,000,001 - $3,000,000000,,000 (3 trillion)	½ %	1 ½ %
$ 3,000,000,000,001 - $4,000,000,000,000 (4 trillion)	½ %	2 %
$ 4,000,000,000,001 - $5,000,000,000,000 (5 trillion)	½ %	2 ½ %
$ 5,000,000,000,001 - $6,000,000,000,000 (6 trillion)	½ %	3 %
$ 6,000,000,000,001 - $7,000,000,000,000 (7 trillion)	1 %	4 %
$ 7,000,000,000,001 - $8,000,000,000,000 (8 trillion)	1 %	5 %
$ 8,000,000,000,001 - $9,000,000,000,000 (9 trillion)	1 %	6 %

This pattern to continue ad infinitum (at the established rate of 1% per trillion) if the debt increases above this threshold.

Example: The Federal Debt on December 31, 2004 was approximately $7,550,000,000,000.00 thus the income tax rate for 2004 would be 15%.

<u>NO</u> deductions or Exemptions - <u>NONE!</u>

This formula distributes the tax burden evenly upon each taxpayer in relation to the taxpayer's financial circumstance as well as to equitably apply the responsibility commensurate to their ability to pay.

The initial exempt threshold of $26,000 provides for the consideration of home ownership and charitable giving by identifying them as 'cost of living' and eliminating the taxation of these amounts.

Under this proposal, businesses would also be accountable to a flat tax in the same proportion as the individual tax rate established above.

Sole proprietorships (unincorporated) and partnerships would determine the net gain (loss) in a manner similar to current processes (schedules C or K) and the result will be included in (or be) the income of the individual taxpayer, now subject to the tax above identified.

Corporations, of whatever size or industry, shall be individual taxpaying entities, as well. In these instances, the tax shall be applied to "after-distribution" income using the same thresholds as in the individual scenario. Specifically, the first $26,000 net profit to the corporation shall be exempt from tax and all remaining profit shall be taxed at the rates established above. NOTE: This is based upon "after-distribution" income – all dividends distributed will be taxed at the individual taxpayer level subject to the individual accumulation of income.

Business purchase of assets shall be a 'cost of business' at the rate expended in each tax year, without depreciation. i.e. A unit of manufacturing process (machine, vehicle, real estate, etc.) shall be expensed in the amount actually expended within the subject tax year

– if the item is purchased outright, then all expense is immediately applied; if the item is financed, then the amount actually expended during the tax year shall be applied.

Businesses (corporations) will execute and submit a schedule identifying the financial circumstances of the entity in a form similar to the current Schedule 1120.

Nonprofit corporations shall be required to comply with established requirements regarding what percentage of the entity's income was applied to the cause for which the entity exists to assist, and/or any other standards so established to assure the legitimacy and legality of the entity. Nonprofit corporations shall also report all transactions in the above manner, however, no tax shall be assessed if the financial accounting establishes no personal distribution or benefit accrued by individual taxpayers. Violation of these provisions shall be subject to extremely harsh penalty under the new code.

Collection of this tax shall be in a manner similar to the present system by the Internal Revenue System. Employer withholding, estimated payments and annual reporting and settlement of outstanding balances shall continue to occur. Obviously, all such schedules and formulae will need to be re-established to accommodate the new tax rate.

IMPACT OF PROPOSAL RELATIVE TO CURRENT SYSTEM

The first impact of this proposal is that it is markedly simpler than the current tax code. This new plan will eliminate many cumbersome and expensive procedures for the individual taxpayer and will provide a more stable basis from which to determine the individual tax liability. Notably, for businesses, it will remove many impediments to growth and improvement within their industry by eliminating much of the overhead costs and expenses incurred by the current tax system.

Application of a "flat rate" tax program achieves a level of fairness to all Americans and provides needed tax relief to lower-income individuals. It further provides for business to improve economic status and structure

Application of this proposal will not eliminate the need for an agency such as the Internal Revenue Service as there will still be collection and compliance responsibilities, however, implementation of this plan will reduce the overall size and 'sprawl' of the agency necessary to complete these activities.

TRANSITION, TRADEOFFS AND SPECIAL ISSUES

The specific impacts of the transition from our current system to the proposed system are simply identified. The first is that the Federal Budget will now be a more relevant factor in the establishment of the annual tax rate. Ideally this will require a more cognizant limitation of the expenditures of the Federal Government.

Secondly, there will be a direct impact on the operations of certain Federal agencies, most notably the Internal Revenue Service, as well as direct decreases in Federal employment. The third specific impact will be most notable in the financial services industry as the more simple and equitable application of the tax rate will eliminate the need for many taxpayers to seek assistance in order to comply with the new tax code and meet their individual responsibilities.

The other specific impact that will occur is in the cash flow of the Federal Government for the first year of the new program. Although the proposed tax is basically revenue-neutral in net proceeds to the Federal Government, there will be major fluctuations in the timing and receipt of the payment of taxes, especially by individual taxpayers

There are no special issues or considerations required to implement this proposal, and as all taxpaying entities will be treated in a fair and equitable manner, no special treatment is necessary for any industry or sector of the economy.

Establishment of a FLAT RATE TAX system will help restore the faith of the American people in our nation and our leaders. Treating all taxpayers with equality, fairness, objectivity and respect will help restore our national pride and purpose.

Submitted by:

David R Harris
22 Richard Road
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717 580-8545

FLAT TAX
FACT SHEET

Hamburg – Harris Plan

This plan will be most effective for lower income residents, while assessing the upper incomes at an appropriate, but reasonable, rate. However, the most dangerous element of the implementation of this plan would be if the individual states, or other local taxing authorities, would, upon realization of the lowered impact on these persons, use the opportunity to increase their tax rates (thus eliminating the level of tax relief provided by this plan for Federal taxation). Because of this element, implementation of this plan will necessitate some mechanism which will prohibit states and local jurisdictions from taking this benefit-canceling action

FLAT TAX RATE: 10% of all income in excess of $26,000 per taxpayer plus a Federal Debt Surcharge as follows:

FEDERAL DEBT (December 31 of tax year)	SUR-CHARGE	CUMU-LATIVE
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The tax is based on <u>INDIVIDUAL</u> earnings (<u>not marital or family status</u>). The first $26,000 of annual earnings is exempt from tax for all taxpayers.

Tax will be paid on <u>ALL</u> income in excess of $26,000 annually with the exception of any pre-taxed income (eg: retirement IRAs, etc).

<u>NO</u> deductions or Exemptions - <u>NONE</u>!

For further information, contact:

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