Joseph Peters's plan to integrate social insurance with income tax.

Advantages:

– same tax bracket for everybody yet net tax rate is progressive.

– equitable to both taxpayers and social security recipients.

– automates social security increases and effective tax rates.

– eliminates social security trust fund liability.

– self-adjusting for inflation.

– all social insurance payments including social security pensions ,welfare, disability, and unemployment are incorporated in a single national scheme. The payouts are linked to gross payroll receipts so that government deficits are prevented.

Here's how:

Replace all payroll taxes including social security, unemployment insurance, workers' compensation, and income tax with one tax on all net cash earnings. This tax has a single rate and it replaces deductions with tax credits. The rate should be about 32%. Half of the proceeds is redistributed to social security payments and to the basic tax credit for all tax payers. The goal is for social security benefits and the basic tax credit to be equal for all Americans.

This plan leads to the wonderful situation that net tax rates decrease as social security payments increase. Let me repeat this in bold letters. **When social security payments increase everybody's tax rate decreases.** It may sound impossible but it is a simple arithmetic result of linking social security pension to basic tax credit.

Ideally social security payments and tax credit, applied or refunded, should be taxable. Otherwise there will be temptation to increase tax rate to uneconomic and unfair percentage.

Here is an example. Suppose $16,000 is the basic tax credit for both this year and last year . Jane earns $40,000. Thirty-two percent of her taxable income, $40,000 plus $16,000 , is $17,920. She applies her $16,000 credit for net taxes of $1,920. Initially the division between social insurance and other government requirements and that between basic tax credit and social insurance benefits may have to be adjusted. But the goal should be even splits to keep things equitable and non-political.

Here is a tax table for the example above ($16,000 tax credit for prior and current year):

annual income is	$20,000	tax is	$4480	(credit)
	$40,000		$1920	
	$60,000		$8320	
	$80,000		$14,720	
	$100,000		$21,120	
annual income is	$150,000	tax is	$37,120	
	$200,000		$53,120	
	$300,000		$85,120	

Any non-refundable part of tax credit cannot be taxable and it should be "bankable" so that it can be applied when tax payer earns more money. This way everybody who earns the same amount during their lifetime pays about the same taxes in total. Our current tax system can cause quite unequal outcomes over various person's lifetimes.

The table above shows how progressive the scheme is despite it having a single rate for everybody. When there is inflation, the basic tax credit will grow to prevent bracket creep.

The portion of tax receipts to be redistributed to social insurance and tax credits can be calculated by a moving average over about thirty months. This will help flatten cyclical fluctuations in the economy.

To encourage savings and investments; unearned income should be dealt with fairly. When you treat earnings and investment income equally, then the first hundred percent of dividends or interest is actually a return of capital. After that any cash generated or withdrawn is equivalent to earnings.

The transition to this scheme will be interesting. But the result will be a tax code that treats all Americans equally.

I appreciate this opportunity to help the panel devise a more sensible and less political method for designing tax laws.