

July 2, 2005

PRESIDENT'S ADVISORY  
PANEL  
ON FEDERAL TAX REFORM

President's Advisory Panel on Federal Tax Reform  
1440 New York Ave. NW Suite 2100  
Washington DC 20220

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Senator Mack and panel members,

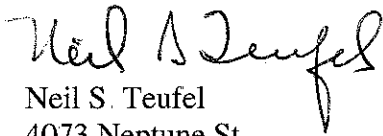
Gentlemen,

I would guess that by now you have been exposed to more than enough tax ideas but perhaps you would be able to consider one more; one that might be the best one yet.

I have enclosed a copy of a tax reform that I believe meets the requirements of the ideal tax system. It is very SIMPLE, very FAIR and very EFFICIENT. Is for a PROGRESSIVE CONSUMPTION TAX which you may not have heard of before because I don't think anyone else has figured out how to develop the progressive tax rates for all the items until now. It took me 8 - 10 years trying various approaches to no avail. Finally I really started "thinking outside of the box" to come up with the concept described in the proposal. This is not just a dream. It can be implemented pretty much as written from the development of the tax rates to the collection of the taxes and finally the weekly {perhaps every two weeks} distribution, by wire, of all tax revenues to the treasurers of the federal state, county and local governmental entities. It still needs computer software to be written and computer hardware specifications to be prepared, both of which are not that difficult but beyond my expertise.

I hope you still have the time and interest to study this proposal.

Respectfully yours,



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## A SIMPLE AND FAIR TAX SYSTEM

Neil S. Teufel

Our present system of federal, state and local taxes has many faults. Each year the IRS has announced that \$100-150 billions of tax revenue was not collected because so much income was not reported. The federal income tax return has become so complicated and intimidating that many taxpayers are forced to seek professional help. Our tax policy discourages savings to the point where we have one of the lowest savings rates in the world. In Pennsylvania and probably most other states, the state income and sales taxes and all local taxes are flat taxes which are regressive and, relatively speaking, a much heavier burden on the poor than on the rich.

There is no good reason to continue our present system with all its problems and inequities when we have a very good option available. This option meets the requirements of the ideal tax system by being SIMPLE and easy for everyone to use and understand; by being FAIR to all citizen regardless of income; by being EFFICIENT requiring the least amount of revenue to be used for administration and by being almost paperless made possible by the use of small, inexpensive, high powered computers.

In addition to being the ideal system as noted above, the bold and dramatic elements of the proposal will be the engine which drives the economic revitalization of the nation. It will increase savings, reduce interest rates, reduce business costs, stimulate sales to domestic and foreign customers and lead to the expansion of existing busi-

nesses and the creation of new businesses.

It will lead to the creation of millions of new jobs, a vast increase in tax revenue, a reduction in government support costs, the elimination of the annual federal deficit and in time the elimination of the \$ 4 trillion + debt.

It will make American businesses more competitive in the world market thus reducing the loss of American jobs to foreign producers and very likely bring back some jobs to the U.S.A.

It will make weekly distribution of tax revenue to federal, state and local authorities making it easy to compare actual revenue to budgeted receipts and expenses thus avoiding surprises and reducing the need for tax anticipation loads.

Weekly publication of sales volume by tax category and price range, geographic region, etc. would be very helpful to retail businesses and an excellent report on the economic vitality of the regions and the nation as a whole.

It will reduce home ownership costs and stimulate home purchases especially by lower income families.

This proposal is a sales tax consisting of two parts; progressive and flat. Let us use automobiles to illustrate the progressive tax concept. An auto selling for \$ 1000 might be taxed at 5% or less. As we move progres-

Figure 1

Federal tax rate	10.0%	15.00%	20.0%	25.00%	30.0%
State tax 25% of federal	2.5%	3.75%	5.0%	6.25%	7.5%
Local tax 15% of federal	1.5%	2.25%	3.0%	3.75%	4.5%
Total tax rate	14.0%	21.00%	28.0%	35.00%	42.0%

This use of progressive taxation at the state and local levels clearly shifts the overall tax burden toward the higher income persons who have the ability to pay the higher tax. Lower income persons will pay less tax than they do today.

The collection of local taxes is changed so much under this proposed sales tax system that it deserves special comment. No longer will most local revenue be based on assessed real estate values. Local government will receive a portion of the tax on every retail sale in the county. Sales taxes on home purchases are like any other sale except larger. A low priced home, \$ 40,000 or less, may be taxed at 5% whereas a \$ 200,000 sale may be taxed at 30%. The cost of the home plus sales tax would be financed with a mortgage. The unique difference between this proposed progressive sales tax and the current real estate tax is that once the mortgage is paid off, the homeowner does not have a continuing tax burden. Most homeowners who retire with substantially reduced income would welcome this feature. This broad new tax base for local revenue should allow the progressive sales tax burden on home buyers to be substantially less than the current annual real estate tax. This reduced cost of home ownership should increase home buying especially by low and middle income families. The elimination of the current real estate tax also eliminates the expense and inequities associated with assessment programs.

The alert reader will recognize the assumption that the higher income persons will purchase the higher priced " things " and will pay the higher sales tax. What would prevent some high income people from buying mostly low cost things and paying relatively little tax? Some will probably do that, at least for a while, especially if they are trying to save at the maximum rate. However, we must remember the earlier statement that THE ULTIMATE END USE OF ALL INCOME IS THE PURCHASE OF GOODS AND SERVICES FOR OUR PERSONAL USE. As our incomes rise, we will automatically increase the sales tax rate we pay as we raise our standard of living by purchasing more expensive clothes, automobiles, homes, etc. This pattern of buying increasingly expensive items is actually necessary if rising incomes are to be enjoyed.

This progressive sales tax system is very efficient. Retailers currently collect a sales tax in most states. Collecting additional tax for the federal and local governments would require very little additional effort. The function of the IRS would be to operate the regional computer centers and to monitor the operation of the overall system and would require relatively few employees compared to today. Vigorous auditing by the IRS coupled with penalties as severe as loss of their businesses would quickly convince retailers to be especially careful and honest in collecting and remitting sales taxes.

card similar to a credit card be issued to each of us. It would contain our name, address and a code number which identifies the state, county and local area where we live. It would also contain the state, county and local tax rates as percentages of the federal tax ( see page 3 ). When we make a purchase, the cashier would pass our card through a magnetic reader recording the tax rates. The cashier then enters the federal tax code, quantity, and unit price of the purchased item. The computerized cash register looks up the federal tax rate, calculates the federal tax and then using the rates from our card calculates the state, county and local taxes and prints a receipt containing all the information. A typical transaction will take only a few seconds.

Every week all collected taxes and records from all retailers are sent to a regional ( 2 - 4 per state ) IRS computer center where all tax information is consolidated and collected taxes are distributed. No matter where we make our purchase in the United States, a significant portion of the taxes we pay will be returned to the state, county and city/township where we live. This prevents localities containing large regional malls or other retail attractions from receiving a disproportionate share of the tax revenues.

Incidentally, the use of this card would effectively eliminate illegal immigration. Persons entering this country illegally would not have the necessary card and could not make the purchases necessary to live here. Of course the card would need to contain photo, signature, finger print, seal, hologram, be encapsulated, etc. to make forgery difficult and expensive.

After the above card tax collection system was developed, it was recognized that with

the addition of the taxpayers social security number, the card could be very effectively used to practically eliminate the use of illegal income from sources such as sale of illegal drugs, robberies, extortion, embezzlement, accepting illegal money " under the table " etc.

At the time of sale, the taxpayer number would be picked up by the retailers computerized cash register and forwarded each week with all the other data to the regional IRS computer. The IRS computer will accumulate by taxpayer number the total dollar value per transaction plus date of sale, number of retailer and invoice number. These last three items are only needed and used if a taxpayer questions the IRS data.

In January of each year, the IRS computer centers will send to taxpayers residing within their boundaries a statement showing the total expenditures of record and request that each taxpayer list his legitimate income sources and dollar amount. Most peoples incomes would be covered by W-2 and 1099 forms. A few would also have income from sale of physical assets, distributions from estates, gifts, etc.

The drug dealer who has been buying food, clothing, shelter, transportation, etc all year using illegal income could not comply with the IRS request. After a follow up warning goes unanswered, the IRS would initiate an arrest warrant. No evidence would have to be gathered, no case would have to be prosecuted and the penalty could easily be related to the amount of illegal income used.

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