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The President's Advisory Panel on Federal Tax Reform
1440 New York Avenue NW
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PRESIDENT'S ADVISORY
PANEL
ON FEDERAL TAX REFORM
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Dear Advisors,

My name is Michael Gallon. I have twenty-nine years of tax experience, beginning with four years as an income tax auditor. My proposal is for a progressive (not regressive) income tax system that is fair, reasonable and much simpler than the current system. Some may not like it, but they would have a difficult time not admitting that it is fairly applied and would be acceptable by the majority of taxpayers.

Goals:

Fairness to the majority of taxpayers

No one should have to pay taxes on income needed to meet a basic cost of housing, food, clothing, medical insurance and a reasonable deferral for retirement.

Renters trying to save for a home should not be penalized for not having an interest expense and property tax deduction.

In many cases, the earned income credit is applied in a manner that is inconsistent and not really deserved or particularly fair. It has been an unexpected windfall to many who did not expect it. There must be another way.

Seniors should not have to pay taxes on their social security because of gambling winnings which are totally offset by losses.

The alternative minimum tax is the most unfairly applied tax law of them all. The examples are too numerous to list but include miscellaneous deductions for insurance agents running independent offices, attorney fees for most lawsuits and losses on Roth IRA's. In addition, how many incentive tax measures sound politically great but are taken away by the alternative minimum tax.

Taxes on Social Security should be based on the amounts exceeding the taxpayer's basis in the retirement portion of their contributions. The income tax liability on social security income should be allocated to the Social Security Fund, not the General Fund. Is it really necessary to say why?

Tax dividends, but not capital gains, at ordinary rates. Everyone should pay their fair share. Some people live quite well on their dividends.

No one should pay more than a combined federal and state tax rate of 35%.

Reduce the tax rolls

Significantly increase the standard deduction to cover the majority of homeowners who do not otherwise have any significant tax audit issues. Remember fairness to the renters as noted above

Greatly simplify the tax system

Eliminate most itemized deductions. Eliminate the Alternative Minimum Tax. Re-institute the two-tier tax rate system. Condense most forms, such as schedule C and E. Details are available but are limited herein by the time and other constraints of this letter.

Increase compliance

Make audits much more random. Reduce complacency and increase a healthy concern for compliance. Detailed schedules, and supporting documentation would be requested and reviewed by mail. Most reviews would be very simple. Those playing by the rules would have little to protest. Most audits would be little more than providing the information used to prepare their tax return. Some might be concerned if they did not do the work to prepare a complete and accurate tax return to begin with.

Maintain current tax revenues

Eliminate the deduction for the cost of housing (interest and taxes) over an increase in the standard deduction.

Eliminate the deduction for charity. I have rarely seen an honest charitable donation on Form 1040 motivated by the tax savings. The only exception has been charitable remainder trusts.

Eliminate the state income and sales tax deduction. Work out incentives with the states to keep the combined federal and state tax rates at a maximum two-tier rate level of either 25% or 35%.

Tax dividends as ordinary income.

Eliminate the alternative minimum tax.

Eliminate the tax-deferred exchange. How many people will die never paying a penny of tax, especially if the estate tax is eliminated?

Apply the higher tier tax rate across a larger tax base as necessary.

Eliminate special interest tax incentives.

Proposals:

1) Eliminate the itemized deductions. "Above the line deductions" would include employee business expenses (raise 2% limit to 5%), medical (raise limit from 7 1/2% to 10%), daycare costs, legal fees tied directly into settlements received and gambling losses. Deductions for taxes, interest (especially on a second home) and charity would be eliminated.

2) Increase the standard deduction and rename it, "The Standard Cost of Housing Deduction." This deduction would be tied into the average cost of rental housing in a particular locale and would be based on the number of family members. This should result in a significant increase in tax revenues in a progressive way. There would be a sense of fairness in that there would be a cap on the tax rate of 25%. The U.S. Government would not be subsidizing expensive homes and especially not second homes. People are now writing off the interest on their motor homes as second homes. If they can afford motor homes, let them pay their fair share of taxes first.

3) Tie the personal exemption into the cost of food and clothing in a particular locale.

4) Add a standard health insurance deduction with a certificate of insurance provided by the insurer to the IRS.

5) Eliminate work flex plans. These are biased for employees of larger firms and include amounts that should be given across the board for all taxpayers or not at all.

6) Eliminate the alternative minimum tax. Establish laws for determining the regular tax that are fair, reasonable and raise the necessary tax revenue. Why offer an incentive only to take it away with an alternative minimum tax? Give the IRS more discretion to “suspend” write-offs that have a primary tax-deferral or tax-avoidance purpose. Allow passive losses on a property by property basis. Do not let a tax-sheltered limited partnership loss offset a positive rental income property

7) Eliminate the Earned Income Credit. Food servers with large unreported tips get it. Cash workers get it. Owner-employees of corporations with large Section 179 deductions get it. Other successful owners of companies with sporadic revenue recognition get it. This should be a part of a program not related to the tax system.

Alas, the constraints of time and content keep me from providing more ideas, detail and implementation suggestions.

Very truly yours,

A handwritten signature in black ink, appearing to read "Michael Gallon", with a long, sweeping underline.

Michael Gallon