



Cathedral Church of St. Paul

The Very Rev. Stephen H. Bancroft, Dean

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The President's Advisory Panel On Federal Tax Reform
1440 New York Avenue, NW
Suite 2100
Washington, D.C. 20220

PRESIDENT'S ADVISORY
PANEL
ON FEDERAL TAX REFORM
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To whom it may concern:

Enclosed I am sending a basic proposal for reforming the present tax code. I realize that doing this is probably an exercise in personal futility. Ideas from the general populace are probably considered a nuisance at best.

Yet with a degree in economics and having thought about this for years I couldn't pass up the chance to transmit my ideas to at least someone titled with "Tax reform." I have shared these ideas with numerous colleagues who are executives in Fortune 500 companies, college economics professors and small business owners. All have encouraged me to share these proposals with someone who could do something. Until now, I had no idea who that may be. But with President Bush's initiative to reform our taxes in a meaningful way, and the appointment of this panel.....there is at least someone to whom to send these.

As indicated above, I have a somewhat cynical expectation of how unsolicited ideas might be received. I, however, am a man of faith and thus live with some hope. My hope is you will prove me wrong and seriously consider my ideas.

Regardless of your response, I believe you are undertaking a difficult, if not impossible and thankless task; but vitally important. I commend your work and offer prayers for its success.

Sincerely,

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Ideas for Tax Reform

It is generally understood that taxes exist for three basic reasons:

1. To provide a fair, reasonable and effective means to fund the government;
2. To encourage certain economic actions and discourage others;
3. To perform a fair means for leveling an element of financial disparity to satisfy the Constitutional mandate to "provide for the common welfare."

The present tax system does not perform these tasks well. There are several problems with the present system:

1. It is Byzantinely arcane and complicated, definitely not user friendly or efficient;
2. It is held in disesteem by the average American;
3. It is unproductive in producing income efficiently;
4. It is unfair and subversive in that it favors special interests rather than the common good;
5. It is wooden and unresponsive to economic conditions;
6. It is easily subverted by those dedicated to circumventing it, legally and illegally;

Following is a proposal for a radical overhaul of the entire federal tax system as it relates to personal income tax system.

Replace the personal income tax system with a national sales tax on all "end-product" goods and services, including legal services, accounting services, medical services, food...every direct product and service. Maintain a flat 20% income tax on people making yearly incomes of \$250,000 or more.

The National Sales Tax would have five components to it.

1. The sales tax would be collected at the point of sale using bar code technology. The seller would be responsible for transmitting the tax collected to the IRS, who would confirm the transaction through the bar code collection data, and periodic audits of collecting points.
2. The sales tax would have three variations in its percentage:
 - A. Products and services would be designated by the IRS into four categories of value in every product and service arena, ranging from "necessity" to "luxury." For example: in the automobile industry a car selling for under \$12,000 (new or used) would fall in the "necessity" and would be taxed at the lowest rate. Cars selling for \$12,000 to \$19,000 would fall in a second class. Cars selling for \$19,000 to \$35,000 would fall in a third class, and all cars sold above \$35,000 would fall in the luxury class. (The designations of the field is arbitrary for explanation purposes, it could be

B. The second aspect that would determine the tax rate would be the tax percentage for each category. For example; there would be a lower tax rate for "necessity" items and services, with increasing tax rates for each of the upper categories.

C. Those varying tax rates would further have an economic adjustment factor applied to them. For example; the "necessity" tax for the low-end car would be between 8 and 12%. The next class would be between 12 and 16%. The next between 16 and 20% and the luxury class would be between 20 and 24%. The determination of what percentage in the range of possibilities would be made quarterly by a "Federal Reserve" type committee, meeting quarterly to set tax rates in response to governmental needs and economic conditions.

3. The IRS would be responsible not only for the collecting of the taxes but also making the determination of the placement of all goods and services into their industry fields and levels of categories

4. Families and individuals determined to be at or below poverty level in annual income would receive a Tax Debit card equal to their income which would provide total relief from taxes on purchases in "necessity" categories for the amount of purchases pre-warrant an audit of the family's income

To incentivize families to work to increase income without losing immediate benefits, the Debit Card could be increased at less than 100% for increased income. For example: the family with the \$20,000 income who is able to get better jobs and produces \$25,000 income could be given a card for \$22,000, with reduced future increments until income reaches a point where paying taxes will not reduce their income below where they started in family income.

5. Charitable giving would be handled in two ways:

A. Individuals could report to the IRS their charitable giving for the past year and receive a Tax Debit card equal to $\frac{1}{2}$ of the previous year's charitable giving on purchases in the present year from category "necessity" and the next highest category.

B. For those persons making \$250,000 or more they could receive an added benefit in a direct deduction from reported income of an amount equal to $\frac{1}{2}$ of their charitable giving in the year reported.

Several ideas, not directly related to the new individual tax system could be considered

First, I would not do away with the inheritance tax as it does produce tax revenue, but more importantly, when handled properly, it is the greatest incentive for serious charitable donations presently available. The great good of foundations and other legacy charitable giving would

essentially dry up if the inheritance tax were removed I would raise the amount subject to inheritance taxation to estates above \$2 million.

Second, some of the issues of the cost of medical services for the poor and uninsured and legal services for the poor could be encouraged by allowing private practitioners (And perhaps hospitals and health insurance providers) to keep the sales tax they collect for performing a certain percent (15-20% of their total business) of reportable pro bono services to "certified" clients.

Third, excise taxes could be levied on three kinds of income directly at the source regardless of the personal income of the person receiving the money:

1. Gambling winnings
2. Income from stock options and other stock market non-productive income
3. Other non-productive income (there are constantly new ideas for income that do not produce a good or a service)
(In addition, I would not offer any write-offs or deductions for losses in these categories)

The tax system I have proposed above offers numerous benefits over the present system:

1. It is simple for the average person, they need to make very few decisions in regard to their taxes.
2. It maintains an important and active role for the IRS so there is no need to be concerned about the political implications of reduced jobs.
3. It is flexible, allowing almost immediate response to economic conditions.
4. It is efficient at the collecting point, assuring significant improvement in collection of taxes over the present system.
5. It is progressive in nature, helping to benefit the poorest among us.
6. It encourages savings, yet produces income from consumption and non-productive income (if wanted, products produced overseas could be taxed at a slightly higher rate than domestic products)
7. It concentrates IRS investigations of fraud to reduced opportunities for cheating.
8. It takes away the threat for every American inadvertently becoming a criminal every April 15th for failure to understand a Byzantine and complicated system.