

*Thomas M. Hofstetter*  
822 Judson  
Evanston IL 60202  
*tomhof26@sbcglobal.net*

PRESIDENT'S ADVISORY  
PANEL  
ON FEDERAL TAX REFORM

2005 APR 30 P 1: 46

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

Dear Chairman Mack,

Our Government needs money to operate. Most of the Government's money comes from the People - either directly through income taxes or indirectly through Corporate income taxes on corporations owned by the People. Where, when and how the Government raises the money it needs are what the debate over taxes is all about.

Could any reasonable person say that the current Federal Income Tax Code is fine just as it is? Would anyone say that it is basically OK but needs a little *adjusting* to make it good? I think any serious person who has considered the situation would have to agree that the Code, both Personal and Corporate, is a total mess and should be abolished and rewritten from scratch.

We have in our power the ability to correct this serious problem and yet years go by and it only gets worse. This is unacceptable. It leads me to believe the Code is nothing but the inevitable result of political contributions from special interests for special favors. The failure to correct this leads to cynicism about the whole process of Government and the funding of the important and necessary work of our Government. Tax policy should not be for sale to the highest bidder. But it certainly seems as if it has been.

Here is what I would suggest. Go into the discussion assuming that we have no Income Tax Code and then look at the realities of labor and capital and come up with a simple and fair way to raise the money required. A cosmetic tinkering with the current Code should not be an option. The imperative must be starting from square one!

Here's an informative and reasonable way to consider the situation. You have two neighbors. One is a very productive citizen who works 60-hour weeks and is very successful. He earns \$200,000 a year of taxable, paycheck income. How much will he pay in income tax? How much into Social Security and Medicare?

Your other neighbor inherited a large amount of capital and receives the same \$200,000 a year, not on a paycheck but from common-stock dividends, long-term capital gains and tax-exempt interest. How much income tax will he pay? How much

will he pay into Social Security and Medicare? Do the math and ask yourselves if it passes the fairness test.

I do not favor *punishing* 'capital' but the current Code gives it an undeserved and unnecessary break in relation to 'labor.' This strikes me as fundamentally unfair. Those who currently have capital are advantaged over those attempting to accumulate capital. This is clearly not a good long-term policy. Why, for example, is income from capital not paying into Social Security and Medicare?

I read recently that the IRS was receiving over \$3 billion from individuals who had used a bogus off-shore shelter to avoid paying taxes. Bravo! The lawyers and accountants who came up with these sham transactions should be severely fined or barred from their professions. It is shameful that the Code is so complex that educated, professional people thought they could get away with it.

As it stands, the very wealthy get tremendous breaks since so much of their income is from tax-exempt interest, dividends and capital gains. They are also in a position to afford creative and aggressive accountants and lawyers to assist them in avoiding taxes. The poor get breaks since many pay no tax at all. The people in the middle, with incomes in the \$50,000 - \$150,000 range, get it in the neck. Society needs to encourage a vibrant middle-class but current tax policy fails to do so.

The 15% tax on dividend income is a gift to the wealthy. It was "sold" as helping *everybody* but that is mostly a deception. Most middle-income people have their dividend paying stocks in tax-deferred accounts (IRAs and 401-Ks) so the low tax rate is meaningless. It is not meaningless to the very wealthy. Do they really need and deserve a break like this?

If the Code was simple and easily understandable it would eliminate the many tricks employed to avoid paying taxes. Money penalties for cheating should be painful, swift and certain. Three-times the amount of the cheating for the first offense - ten-times the amount for the second offense. Jail after that. The IRS should have adequate enforcement funding so that tax cheaters will think of the risks before they act. The fear of punishment will encourage compliance with a fair, reasonable and understandable Code. The current Code, through its ludicrous complexity, invites people to attempt tax avoidance or evasion.

The 'poor' get tax breaks and I have no problem with that. The 'rich' get tax breaks and I do have a problem with that. Those who have prospered under our government and economic system should welcome the opportunity to support the system that allowed them to prosper and not resort to illegal or unethical means to avoid paying their share. If they do not welcome the opportunity perhaps it is right for the Government to force them to do so.

Regarding the Inheritance Tax - I am in favor of it. Raise the limit of wealth excluded from the tax to maybe \$5,000,000 and make the rate reasonable - 25 - 35% for example. Give people a reasonable time to pay the tax - maybe two or three years - so forced sales of businesses would not cause problems. The argument against this tax is that the capital has already been taxed. This is simply not true in most cases and the people making this argument should know better.

The line between tax policy and social policy is a thin one. It should be questioned whether it is right for tax policy to be tilted in favor of the rich, the powerful and the greedy. Would it be better if those without powerful lobbyists, PACs or the ability to make large political contributions - in other words most of us - were considered in the recommendations of the Panel? I think it would be better for the economy and the Country as a whole.

Your mission is a critical one and I wish you the best. Please listen to the suggestions you receive and consider the prejudices and self-interests behind those suggestions. Please keep in mind these two principles: ***Simplicity and Fairness***. Please do what is simply 'right.'

Sincerely,

Thomas M. Hofstetter