April 13, 2005

Jeffrey F. Kupfer  
Executive Director  
The President's Advisory Panel  
on Federal Tax Reform  
1440 New York Avenue NW, Suite 2100  
Washington, DC 20220

Re:  Tax Reform for a Stronger America

Dear Mr. Kupfer,

This is a brief follow-up letter to the documents I previously sent.

Let me highlight two points. First, the most regressive tax is the payroll tax. The substitute consumption tax in my proposal will be borne more fairly across the entire population. The equitable flat tax benefits everyone.

Second, given the importance that Congress attaches to the home mortgage deduction, I enclose the revised calculations which include this important deduction.

Thank you again.

Respectfully,

Robert Batinovich

Attachment
April 13, 2005

Robert Batinovich
441 Roehampton Road
Hillsborough, CA 94010

By Fax: (650) 343 0957 (2 pages total)

Dear Bat,

Internal Revenue Service Statistics of Income data have been posted on the IRS web site for 2001
and 2002 Individual Income Tax Returns. In 2001, home mortgage interest (HMI) deductions
totaled $330.7 billion. In 2002, the amount was $336.6 billion. Extrapolating to 2005 suggests a
number in the neighborhood of $350 billion.

Removing $350 billion of HMI from the Equitable Flat Tax (EFT) base, multiplied by the 19% tax
rate, reduces federal income tax receipts by $66.5 billion. (The tax base of EFT is $6,400 billion.
Removing $350 billion in HMI reduces the tax base to $6,050 billion.) The 19% EFT presented in
Tax Reform for a Stronger America yields revenue of $1,216 billion. It would take a higher rate
of 20.1% to generate the same $1,216 billion from the EFT with HMI (20.1% times $6,050 billion
equals $1,216 billion).

The 16.5% revenue neutral EFT calculated in Tax Reform for a Stronger America requires a
higher rate of 17.4% for an EFT with HMI.

The data for 2002 show that returns with adjusted gross income of $60,000 to $100,000 received
31.7% of the total value of home mortgage interest (HMI) deductions. Those with AGI of $100,000
to $500,000 enjoyed 31.4%; those under $60,000 received 34.1% of the total; and, the remaining
2.8% was taken by those with AGI over $500,000.

Individuals who borrow against their homes and use the proceeds to purchase capital goods used in
a small business receive a double benefit: first, full writeoff of investment; second, an interest
deduction on borrowed funds used to purchase the capital goods. Regulations should be written to
try to control the use of the HMI deduction as a subsidy for capital investment. One suggestion is
to limit HMI to a primary residence only. (In any event, this problem should not be too large given
that only $1,000,000 of HMI is currently deductible, and any use of the deduction of the interest on
this amount to buy capital goods, which could save as much as $20,000 a year in federal taxes
assuming a 5% interest rate, would likely be used by small, home-based businesses). Still,
subsidizing capital works to the benefits of the owners of capital, not workers deriving their income
solely from wages and salaries.

Sincerely,

[Signature]

Alvin Rabushka