

UNITED CALIFORNIANS FOR TAX REFORM

THE 10 PERCENT SOLUTION THE RIGHT TAX FOR THE 21st CENTURY

Remarks By Roland Boucher on October 17, 1996 to the Rotary Club of Irvine California

INTRODUCTION

Thank you for inviting me to speak to the Irvine Rotary club. I will be speaking to you Today about our tax code, why it should be reformed, those things we should consider in designing a new tax code, and finally what the new code should look like.

A..... WHY THE TAX CODE SHOULD BE REFORMED

First: I will discuss what's wrong with the present tax code.

Very simply put: The present tax code wastes Billions of Dollars of our hard earned Money, is a serious contributor to the corruption of congress, and is unfair to most taxpayers,

A-1 HOW DOES IT WASTE OUR MONEY ?

It's been estimated that as a nation we Americans spend over \$300 billion each year on accountants, lawyers, and tax preparers just to protect ourselves from the IRS. This is not a trivial amount. If the money we spend on this army of tax preparers, attorneys, and accountants was sent to Washington, it could refund the social Security trust fund in two years and retire one half of the national debt in the next seven years. Closer to home, orange county' share of this waste is 3 Billion each year. If every tax accountant, tax preparer and tax attorney in orange county had donated his salary toward the Orange County bankruptcy, the creditors would have been paid off in 90 days and the pool participants would have been paid in the time it took to defeat measure "R" This waste is reason enough for tax reform.

A-2 HOW DOES IT CORRUPT CONGRESS

The Internal Revenue Code is the single most Corrupting of Federal Legislation. Common Cause, the AARP, The League of Woman Voters, and United We Stand America have worked diligently to eliminate the corrupting influence of campaign contributions. I applaud their efforts in this vein, but the real problem is not the money that politicians receive, the real problem is what that money buys the contributors.

The real problem is that the Tax Code is a cesspool of corruption in which those with influence either by their campaign contributions or control of voting blocks can pick the pocket of the American taxpayer for the benefit of themselves and their members. Dick Arme in a piece in the Wall Street Journal identified the tax code as a major source of corruption by showing us that Washington has ONE lobbyist for each 11 WORDS in the tax code. This trend has held steady for the past 30 years.

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These 70,000 lobbyists have created a tax code where small business and middle America pay tax rates of 28 to 36 percent while thousands of pages of loopholes protect hundreds of billions of dollars from taxation reducing the average tax collected to 9.5% of personal income.

The corporate tax code is even worse. Here in California the average corporation, including multinationals with gross profits of between 17 and 19 percent, declare so many deductions totally unrelated to the cost of production that California taxes them at the rate of only 1/4 of one percent of gross receipts.

The only sure solution is to outlaw all exemptions, all deductions, and all tax credits. Each are a tax increase on everyone else.

I realize that eliminating all exemptions deductions and tax credits may at first seem a drastic remedy to cut out this cancer on the body politic but can those who love their Country dare do any less??

These reforms will not be easy. Tax reform is not for the faint hearted. These thousands of pages of loopholes were not written overnight. Millions of dollars of campaign contributions over the past 80 years have created this monster. Hundreds of special interest lobby groups will work overtime to discredit anyone who dares suggest change.

A-3 WHY IS IT UNFAIR TO MOST TAXPAYERS

The tax code should be changed because it over taxes main street and middle income Americans to pay for tax breaks given only to those who can afford to lobby for them.

On Sunday February 18, 1996 Business reporter Liz Pulliam in the Orange County Register described the taxes paid under current law by five families here in orange county. This article clearly demonstrated to all who studied it , the unfairness of today's tax code. In this Article income levels ranged from a low of \$18,761 received by pensioner Francisca Ritchey to a high of \$86,852 by Robert and Marsha Adams, a family of 3. What is striking in this article is that the wealthy Adams family paid the lowest tax rate (8.32%) while the poorest taxpayer Ms Ritchey paid 9.25% The Livingston's, a married couple with no dependent children paid over 10% even though their income was half of that of the Adams family. The most unfortunate of these taxpayers was a Mr. Ron Harkins ,a single renter, whose unprotected earnings of \$47,643 caused him to pay the highest rate a whopping 17.86%. This is not tax fairness!! It is an example of a tax code gone mad. Is it any wonder that most Americans feel cheated by the government?

Let's review why we should reform the present tax code. Very simply put: The present tax code wastes Billions of our hard earned Dollars, is a serious contributor to the corruption of Congress, and is unfair to most taxpayers,

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WHAT FACTORS SHOULD WE CONSIDER WHEN DEVELOPING OUR NEW TAX CODE ??

B-1 THE TAX CODE SHOULD BE EFFICIENT

Today every American Taxpayer, Business, and Corporation must file an annual tax statement to prove they are complying with the law. Corporations and wealthy individuals also pay quarterly tax payments under threat of serious penalty if these payments do not reflect the taxes ultimately due at years end. As was discussed earlier the cost of this effort to protect ourselves from punishment by the IRS is frequently more than the taxes due!!

To be efficient taxes should be collected at the source of the income, and at the time of distribution. For example if all income were taxed at the same rate, withholding of wages would be exact and no further tax would be due. There would be no need to file a tax return on April 15. This could also be done quite easily for dividends and interest by merely requiring that financial institutions withheld a certain portion of earnings and send this tax to the government within say 10 days of the distribution. This withholding could also be accomplished when capital assets are sold with indexing for long term capital gains should congress agree to include this feature in the tax code. Taxing Corporate profits requires costly justification with serious penalty for error including fines and jail time. Since it is widely acknowledged that corporate and business taxes are by and large passed on to the customer in the form of higher prices. It would be fairer and much simpler to tax corporations on their total sales and let them keep or distribute to their shareholders any profit they make. Most American Taxpayers would never again file an Annual Tax Return.

B-2 THE TAX CODE SHOULD PROMOTE ECONOMIC GROWTH

No tax code really promotes economic growth. The best that we can expect is that it do the least harm while collecting revenue to provide the services our citizens and politicians feel government should provide.

The 1996 Nobel Prize in economics was awarded to the late William S. Vickery and James Mirrless. Their work suggests that the top tax rates should not exceed 20% and that all citizens should pay whatever top rate is chosen. We here in the America are taxed at the federal, state, and local level and in addition are taxed to pay for medical care for our senior citizens. If we are to be taxed at a maximum rate of 20% ,the federal income tax must be substantially below that rate.

Our Citizens do not disagree. Dr. Everett Ladd at the University of Connecticut ran a poll for the readers Digest in the spring of 1996. It asked "What is the highest percentage of income that would be fair for a family of four making \$200,000 to pay in all taxes combined?" the average result for all income groups polled was 25%, there was no difference between males and females, between blacks and whites, between those with high school or college degrees, between those earning less than \$30,000, those earning \$50,000 and those earning over \$75,000. There was no difference between those under 30 years of age or those over 65 or anyone in between. There was no difference between registered Republicans, Democrats, or Independents, or between those who characterized themselves as liberal, moderate, or conservative. In short the gut feeling of the

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average American Taxpayer and the best brains in the field of economics agree. Our tax rates are too high and our tax code is too complex.

B-3 THE TAX CODE SHOULD BE FAIR

As we all know fairness as well as beauty is frequently in the eye of the beholder. There are however some principals that I think most of us can agree with.

The first principal of tax fairness is that every American pay the same tax as any other American who earns the same income.

The second principal of tax fairness is that no American should be taxed on income they never actually received. This brings us to the subject of capital gains. When assets such as businesses , farms and homes are sold, the government imposes an income tax on the difference between the cost of the asset and the sales price. This is just fine if the asset was purchased in the same year of the sale before any serious devaluation of the dollar had occurred. Inflation in the last year or so has not been a serious problem but for those of us who made large capital investments in the early 1970's and wish to cash out now have a serious problem. Our dollars are not worth what they once were. In 1973 President Nixon took us off the gold standard. The Dollar used to be "as good as gold" not any more!! Is it our fault that in 1973 gasoline was 35 cents per gallon and now is \$1.50. Is it our fault that stamps were 5 cents and now they are 32 cents. In 1975 my family moved to Orange County. In those days you could buy a 3 bedroom home with a two car garage in Irvine for under 40,000 dollars. today that home cost 200.000. The problem is that when you sell that home the IRS will claim that you made a profit of \$160,000 and can claim over \$50.000 in taxes, the State of California can claim \$10,000 more. By taxing us on the inflation portion of these gains the government is really taxing us on **its** failure to maintain the value of the dollar!! This is not right, it should be stopped. Many would suggest that we not tax capital gains at all. This would be a mistake. The same crooks that gave us the savings an loan fiasco would be back. Thousands of fast buck operators would set up shop with fraudulent schemes to convert out taxable income to non taxable capital gains. WE don't need another savings and loan or junk bond fiasco. It's important to tax and and to index capital gains. None of us should be taxed unfairly when we sell assets we have held for a long time such as our farms, business, and homes.

B-4 THE TAX CODE SHOULD BE SIMPLE SO EVERY AMERICAN CAN UNDERSTAND IT

Every American understands the social security tax where a certain percentage of your income is set aside to guarantee an income in your retirement years. Every American understands a sales tax or gasoline tax. Is it too much to expect that the Congress institute an income tax that every American can understand!! Where no attempt to insert a loophole for someone would go unnoticed by the rest of us. Remember every loophole, every deduction, every exemption, every tax credit is a tax increase on everyone else. Let me remind you that Schedule 1040EZ is only two pages, yet the tax code contains over 800,000 words!! How many of these were paid for by Campaign Contributions ?

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The tax code could be as simple as 10 percent. in other words add up how much you make , move the decimal place, and send it in. It could be as simple as an hour a day is the American way. You could work one hour each day for the IRS and seven hours for yourself. The California State income tax could be "an hour per week is all they get to keep" in other words 2.5 percent. as we have shown earlier Complexity breeds Corruption. It is important that we keep our tax code simple,

B-5 THE TAX CODE SHOULD BE PAPERLESS FOR MOST AMERICANS

The social security tax is a flat tax on wages. It collects 90% of what those geniuses at the IRS manage to collect and does it entirely without paperwork. The cost to administer social security is therefore, negligible. Social Security is too important to play games with, so Congress gave it a SIMPLE FLAT TAX -- one whereby every American wage earner pays the same tax as any other taxpayer earning the same salary. There is no reason our income tax cannot be collected this way. If the tax is simple it can be collected in exactly the proper amount at the source and no annual tax filing would ever need be imposed. For most Americans the IRS would disappear, and in fact most of their agents would be out of a job and be forced to seek more gainful employment.

If the tax rate were the same for all interest and dividends the taxes due could be paid at the source and the recipient could consider the income distributed to them as tax free. Corporations and finance companies would merely add up the dollar amount of interest or dividends they intended to distribute each month and send in a fixed percentage to the government. To whom these distributions were intended would be of no consequence since all taxes due would already be paid.

THE TAX CODE SHOULD NOT PLACE A HIGH COST OF COMPLIANCE ON BUSINESS SINCE ALL BUSINESS TAXES WILL BE PASSED ON TO THE PUBLIC IN THE PRICE OF THE GOODS AND SERVICES WE BUY.

If corporate taxes were simply a percentage of total revenue rather than Profit, proof of tax compliance would be a no-brainer. each Corporation would simply add its sales for the month and send in a fixed percentage to the IRS.

C-1 now that we have discussed the reasons the present tax code should be replaced and what we should consider when making the change we are recommends the following:

THE FEDERAL TAX CODE

- The personal income tax be replaced with a flat 10% income tax on all wages and dividends.
- The same flat rate tax of 10% be imposed on interest and capital gains after taking into account the loss of principal due to inflation.
- The Corporate income tax be replaced by a flat 1% tax on corporate gross revenues

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THE CALIFORNIA TAX CODE

- The California personal income tax be replaced by a flat 2.5% tax on all income with proper corrections for inflation.
- The California corporate income tax code be replaced with a flat 1/4 percent tax on corporate gross revenues

WE further recommend that all personal taxes be collected at the source through withholding so that no American taxpayer will ever again be forced to file an annual tax return.