Personal Income Tax Code Reform (submitted by Carla J. Finis)

This only need be complex if there is a desire to retain the existing inequities.

First, tax should be fair and make sense; neither is true of the existing code.

Eliminate itemized deductions (in fact filing itself could be eliminated) with everyone receiving a single *effective** deduction (though different from the current standardized deduction that doesn't take it to account the vast differences in *Cost of Living* (COL) throughout the country). It's true that the current system allows for real estate (property tax) deductions to somewhat temper these COL discrepancies; however, there remain significant differences in costs of fuel (for vehicles as well as heating/cooling), food, rent/mortgage and other necessities. We have both the accessible data and the technological capability to see that the single deduction reflects the actual cost of living (food, clothing, shelter) in a given area. I would suggest it reflect the modal COL (mCOL) for a given township/city (note: this doesn't necessitate that there be differing tax tables for every locale but rather Manhattan may be on par with Los Angles and Minneapolis with Atlanta, etc. statistical analyses of the data will be used to determine grouping and all locales should fall into a reasonable number of groupings). By using the mCOL rather than a mean, you will be making the fairest assessment for the greatest proportion of citizens and rewarding less extravagant living practices as well.

Basic Tenets:

Income: Income is income is income regardless of source (salary, wage, investment, interest, inheritance, alimony …) –if it's new to you; it's taxable income. Exceptions might include social security income (more on that as it's all related) and a small amount of interest income to encourage savings (e.g., ≤ $1000). Heavy financial penalties should be assessed on failure to report income (dual reporting required by individuals and banks, brokerages, employers, etc.).

Tax Rates: Tax rates should still be progressive and brackets based on multiples of the mCOL. For example anything below .5 x mCOL might be considered the poverty level (with no tax assessment) and .50(mCOL) < Income ≤ 1.0(mCOL) would represent the minimal tax rate (<5%?), >1.0- 1.5 x would be the first tax bracket similar to the lowest tax bracket now (10%?), then 1.5 – 2.0 x, >2-3x, >3-4x, >4-5x …. with >10(mCOL) as the highest tax bracket (I would suggest at a 45% tax rate but …) * That's what I meant by effective deduction the mCOL is taken into account in the tax bracketing.

Social Security: You've heard of cap and trade, I suggest *trading caps* for this tax. That is remove the income cap above which FICA is not assessed (all income is taxed) but place a cap on recipients (e.g., an individual/couple could only receive SS income to bring his/her/their income level up to 2.0 (mCOL, 200%). The overall rate could likely be cut in half and still increase overall income flow to the SSA keeping it solvent beyond the baby boom years.

Deductions:

Dependants. What to do about dependents under this scheme? Well, just as with our current tax system recognize that it costs more to feed, clothe and shelter multiple persons and adjust accordingly. That is, for a couple increase the mCOL deduction by 25% (1.25mCOL) and then add an additional 10% for subsequent dependants (this is accomplished by reducing the tax bracket by the same mCOL percent – that is a family of four whose income falls in the >-3-4 bracket would be assessed in the 1.5-2.0 tax bracket). However, it has never made any sense have equal deductions for any number of dependants resulting in individuals with large families paying less tax to provide for services they utilize to a greater extent. We are where we are because we have already exceeded a sustainable population for this planet and while it will not be politically popular I would suggest that it be more equitable to limit dependant deductions to two children total (for say up to 24 years maximum for full-time students).

Other Deductions: Medical Expenses: Depending on what is done with health care reform, I would suggest a deduction for out-of pocket medical expenses and not only when they exceed 7% or more of an individual's/family's income but rather actual amounts for anything in excess of for example, $1000.

Educational Expenses: I personally think that one of our greatest failings is in that of not investing in our country's future by providing higher education (with taxes) but as we do not, we should at the very least allow deductions for costs of tuition, fees and books.

Retired Persons: As stated Social Security payments could only be used to bring income up to 200% mCOL; in addition we might consider that individuals at some age (65? 70?) receive a 200%mCOL deduction as well. That is any senior (or couple with senior member) above the given age would only be taxed on income above that level.

Additional Taxes: Consumption Tax: Sizes of homes have increased dramatically over the last few decades and the corresponding increase in energy consumption has never been address. There should be an energy surtax (e.g., $1000/yr for every 2000 (or fraction of) square feet increments above 3,000 square feet) assessed. A credit would be given for any off-grid properties.

No loop-holes, no varying itemized deductions will result in a vastly more equitable tax system as well as one that is easier to audit. Using the modal COL with geographic adjustments not only accounts for the reality that a living wage in one area of our country could simultaneously represent a good living in another and poverty in a third location but does not discriminate between homeowners and renters. I have only listed generalizations/approximations as the brackets and rates should fall out of the COL statistical analyses. Each year a statement would be sent (or once we have accessible/affordable broadband internet access for all it could be accessed at the IRS site) listing all income and sources, assessed tax bracket and whether or not funds are owed or a refund is due – the taxpayer verifies that the information is correct and that's all that is necessary.

Corporate Tax Reform: Executive Compensation: There have been suggestions of curbing salaries/bonuses within the financial entities that we have (wrongly in my opinion) bailed out, however, I don't believe that to be the most prudent approach. If we make it so their salaries/bonuses come out of the corporate bottom line (are not allowed as taxable deductions) – profits, the shareholders will undoubtedly take care of the necessary adjustments. That is, any compensation above 10 times (or less but certainly no more) the compensation of the lowest paid employee in the corporation is not deductible and is taxed as net profit.

Advertising/Endorsements: Deductions for advertising should be limited to reasonable costs based on figures for non-celebrity, non-event costs. That is to say if you want Tiger Woods or a Super Bowl ad, that's fine but you can only deduct costs based on typical ad time costs in a given market for a given time of day using standard guild pay for any endorsement compensation. Product advertising deduction should depreciate over time after new product introduction.

Other Deductions: Sky boxes at arenas, corporate island 'retreats', golf outings and three-martini lunches may well be a mechanism for 'doing business' but they are choices and should not be tax deductions. *Reasonable costs for food, lodging and travel expenses for necessary business travel will, of course, still be allowable and must be claimed at the corporate level as individuals will be unable to claim such deductions. *Those costs should be comparable to business-class airfare, and average hotel accommodation and restaurant costs only. In addition, much like with over-sized homes, there should be an energy surcharge on corporate jets per annual mileage. Corporations can participate in all the excesses they wish but it should not come out of their tax base.

U.S. Corporation Definition: Perhaps we need to re-define what an American corporation is in terms of the percentage of assets that are in the U.S. That is give tax benefits to those corporations that, for example, have 85% (or 90%) of all real assets (including personnel) in the United States. Exceptions of the assets rule might include things such as raw materials not available within the U.S.