Introduction to a proposed new way to tax the income of Individuals living in the United States

The objectives are simple:

- Make it simple
- Make it (more) fair
- Make sure more pay
- Minimize using the income tax code to administer social policy

Recap on how the system works

The reality is this: no system of taxation will be considered completely fair by all of those who have to pay the tax. Since the federal income tax code was first established in 1862, politicians have spent hundreds of millions of dollars and millions of man-hours creating a tax code that all (except perhaps tax preparers and CPAs) agree is simply a disaster.

This is a first draft of a greatly simplified federal income tax system for individuals. It is basically a flat tax, a very simple flat tax. It greatly reduces the types of income that are subject to taxation. It virtually eliminates all deductions except for dependents…and it greatly simplifies who qualifies as being a dependent. There is only one tax rate, and it is hoped that as part of the adoption of such a tax plan, Congress would also pass legislation that would require a super-majority to pass any change in this rate and at any change could not take affect for at least two years. An effort has been made avoid using the tax system to provide welfare type benefits such as "earned income credit".

Specifics

Dependents were given special thought and consideration and is the only area where a bit of social policy slipped in. Today's reality is that more individuals are living under one roof in an effort to survive economically. Their legal status is frequently blurred by state level legislation. The proposed system has seven simple tests to determine if someone may be claimed as a dependent. It is hoped that the vast majority of Americans will agree with these tests. Only one filer may claim a dependent and all returns are for individuals. Simple…and fair even for married couples as you will see when you do the math…no need for all of the old tax tables.

The deduction for dependents is based on the current poverty index for the continental United States as provided by HHS (Health and Human Services). Each filer gets to deduct him/herself at the individual level and then the rate for each dependent is the current level per dependent rounded up to the next thousand. Simple.

Income was also given thought. The usual W2s and some 1099s are retained, but many changes were made. Most importantly, an employer need not report to the IRS or provide you with a W-2 or 1099 if your earnings are less than $1000 during the year. One still pays tax on early withdrawals from IRAs and 401-K. But, there is no tax on dividends, savings, social security earnings, unemployment compensation,

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money earned while living abroad and tax-exempt interest notes or bonds issued by governmental institutions located in United States. Even if you are a US citizen, you need not report W-2 or 1099 income for the portion of the tax year you lived overseas. Your employer will not report this as income to the IRS. For a complete list of items that will no longer be taxed, or taxed differently, please review Addendum A. (Overseas trips are not considered living overseas; proof of foreign residency is required.)

Two other items are requested: alimony and child support, whether paid or received. The effort here is only to assign those income and expense types to the correct party. It should be noted that the person receiving the child support also gets to pay the tax on that income while also getting to claim the dependent.

Federal tax rate – At the moment, most pay four different taxes on W-2 income:

Current Rates			Proposed Rates	
Tax	Rate	On Amount up to		On Amount up to
FUTA	0.80%*	$7000	0.0%	-
Social Security	7.65%	$106,800	0.0%	-
Medicare	1.45%	Unlimited	0.0%	-
Federal	0 to 35%	Unlimited	15%	Unlimited
Total	9.8% to 41.45%		15%	Unlimited
Rates may now be changed in Congress by a simple majority vote			60% vote required to change any percentage	

As you can see, all of your federal taxes have been reduced to one, all-encompassing rate.

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Addendum A

Significant changes are made to the types of income and deductions taxed by this Act and also the rates of taxation. Here are the changes:

Taxable Item	Current Rate	Proposed Rate
W2 Wages	0%-39.6% +ALT Min Tax if applicable	15%
1099 Income (all types)	0%-39.6% +ALT Min Tax	15%
Savings Accounts	0%-39.6% +ALT Min Tax	0%
Social Security Income	0%-39.6% +ALT Min Tax if applicable	0%
Retirement Accounts	Deferred unless withdrawn early	0% after age 62
Dividends	0%-39.6% +ALT Min Tax	0%
Short Term Investment Sales*	0%-39.6% +ALT Min Tax	15%***.
Long Term Investment Sales*	Generally, ½ of normal tax rate	15%***.
Distributions from partnerships, sub-chapter S Corporations and the like	0%-39.6% +ALT Min Tax if applicable	15%***.
Inheritance	varies	15% of net Value**
Interest Expense	Some types deductible	No types deductible
Local or state states	Deductible	Not Deductible
Donations	Deductible with proof	Not Deductible
Medical Expenses	Deductible within rules	Not Deductible
Casualty and theft losses	Deductible within rules	Not Deductible
Misc Deductions	Deductible within rules	Not Deductible

*regardless of investment type (Stocks, bonds, EFTs, commodities, currencies, derivatives, rentals, second homes but not primary homes, alternative energy programs, etc.)

** Estate value is total current market value of estate, less any debt of the estate. Life insurance is not taxable.

*** Reported and taxed as if investments. Losses limited to 100% of all other income. No loss carryforward.

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