

PRESIDENT'S ADVISORY
PANEL
ON FEDERAL TAX REFORM

2005 MAR 28 P 4: 23

Individual

Submission to

The President's Advisory Panel on Federal Tax Reform

1440 New York Avenue NW Suite 2100

Washington, DC 20220

March 7, 2005

by

Norm Edwards

8180 Port Dr

Port Austin, Michigan 48467

From: Norm Edwards, 8180 Port Dr, Port Austin, Michigan 48467

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

1. I would like to comment on “Aspects of the tax system that are unfair.” The enforcement of our present tax system seems largely given to collecting money for the government any way possible, rather than fairly enforcing existing tax code. I have heard many first-hand experiences from many people, and read about many more. Let me give my own example:

In the 1980s, I invested in a gold mining project in which some of my friends were involved. It was a real mine. There were many investors who invested out-of-pocket money only. For those in higher tax brackets, I believe it was possible to invest in a “tax-sheltered” manner—where the actual tax bill reduction is more than the out-of-pocket investment. I invested about \$3000 of out-of-pocket money, took out a loan for mining development expense and took deductions which reduced my tax bill about \$2400 for that year. I was aware at the time that the IRS would not accept tax-motivated transactions—sham investments that are simply designed to reduce tax bills. However, since I had a net loss of \$600 if the mining project failed to produce, I felt that I could not possibly be accused of a tax motivated transaction.

Was I wrong! A couple of years later, I received certified communications from the IRS assessing tax and penalties due for a “tax motivated transaction”. My wife, myself and our young children went to Tax Court so they could see our U.S. legal system in action. I presented my case, only to be told that “tax motivated transactions are determined at the

entity level”; if a particular investment is determined to be a tax motivated transaction for some people, it is considered a tax motivated transaction for everyone involved. Did the IRS or the Tax Court care that I read the relevant law at the time and could not see anything that I was violating? No.

It was there that I realized that the IRS is not concerned with fairness and honesty to taxpayers, but with collecting money in whichever way it can. I did not know, and the IRS did not bother to tell me, that “Tax Court” is not even a real court—it is part of the executive branch. For a citizen to exercise their rights—like the right to a fair trial, they must take their case to a Federal court. So I paid over \$7000 to learn this little-known information.

The problem with the Internal Revenue Service is that it treats the taxpayers like they have a patriotic duty to be honest and to pay all the taxes that are demanded of them, but treats itself like the “big gorilla” that can do whatever it wants. After a few years of this situation, the people begin spending a lot of time thinking about how they can avoid, outsmart or get rid of the “big gorilla”. I realize that there have always been anti-government and anti-tax groups, but this thinking seems to be filtering down even to our young people. I will give just one of many stories that could illustrate my point.

When the movie “Independence Day” was airing in a large Lansing, Michigan theater several years ago, the crowd was mostly young people rooting for Will Smith and other favorite actors in a war against the aliens. But when the aliens blew the Whitehouse to bits, a big spontaneous cheer went up throughout the entire theater. As you read this, I hope that you do not think about retaliating by adding more taxes to moviemakers, theaters or young people—but I hope you realize the total lack of confidence many young people have in their government.

2. Now, I would like to address **“goals that the Panel should try to achieve as it evaluates the existing tax system and recommends options for reform.”** The federal income tax system has been revised and changed so much that most of the people responsible for following it, as well as those responsible for influencing it, do not understand it. It is a symbol of complexity and corruption to young and old alike. **The best thing to do is to replace it completely with a direct tax “apportioned among the several states” as Article 1, Section 2 of our constitution provides.** Our founders knew what they were doing.

Yes, a big change would be required to begin collecting federal taxes at the state level and simply fund the federal government from that collection, but that is exactly what we need—a big change. States that develop abusive tax laws and enforcement will experience an exodus of their people and businesses. Those with simple and fair laws would benefit greatly. I enjoy reading history, and I am always interested in reading some of the reasons why ancient aging empires thought they could not change their policy on this or that. The reasons made so much sense at the time. But then, some unexpected event or disaster befell them, and they instantly changed more than they ever thought they could! Our own nation has such stories!

If replacement of the IRS is not one of the recommended options for reform, too many people are not thinking big enough!

Thanks for listening,


Norm Edwards