

March, 2005

PRESIDENT'S ADVISORY
PANEL
ON FEDERAL TAX REFORM

The Hon. Senator Connie Mack
Chairman,
President's Advisory Panel
on Federal Tax Reform
1440 New York Avenue NW, Suite 2100
WASHINGTON, DC 20220

2005 APR 21 A 10: 56

Dear Senator Mack,

Re: National Tax Reform Solutions

I was very heartened to watch you and your Panel members on C-Span recently, talking about the proposed Federal tax reform. I think it's a really good thing you are doing, allowing the public to observe your workings and reasonings in this matter.

It may or may not be of interest to you to know that I have been working on a NATIONAL TAX REFORM since 1991 and was in fact the instigator of the Flat Tax name and idea, that unfortunately became misconstrued.

As you probably know, the average wage earners in America pay some 52% of their income in an assortment of open and hidden taxes by Local, State and Federal taxing authorities. This heavy tax burden has resulted in too many cases where both marriage partners have to work, sometimes with multiple jobs, and are still not able to cover the cost of their basic living expenses. Added to these taxes, are the prevalent Homeowner Association fees, that for condominiums and townhouses, consume an average additional 11% of the average wage. The children of these parents, who are emotionally and physically neglected, as a direct result of all these burdensome costs and lack of attention, are legion across the country . . . in turn resulting in many of today's social problems, physical illnesses and laying the groundwork for future criminals.

As an example of Federal, State and Local taxes; the combined taxes/fees on a Texas telephone bill are some 28%. The combined taxes at the gas pump are some 38%. When basic services and utilities carry such high taxation, all business and product costs are raised significantly and are passed onto the end consumer, where of course a national average sales tax of 5% is added. Property taxes in Harris County, Texas are particularly heavy at 3.10% and are responsible for countless property foreclosures on a regular basis. A neighbor of mine, who worked briefly for the Harris County Appraisal District in Houston, has some real horror stories to tell, regarding the ruthlessness and unfairness of their methods of raising taxes. Increases of 100% or more are not uncommon. Homesteads, with a legal maximum 10% increase per year, are raised to their highest level, irrespective of whether the real estate market justifies such increase or not. Recently, I heard of a New York City case, where a couple, supporting their elderly father, had their taxes raised from some \$4,000 per year to almost \$40,000 per year, simply because they had renovated the building. These abuses are not limited to Texas or New York City. Local and State taxes account for approximately half of the 52% average taxation nationally. A comprehensive National Tax Reform, that addresses ALL taxation in America, is very much needed.

Re: National Tax Reform Solutions

I realize that the President has asked you for some Federal Tax Reform plans but I urge you to recommend the reforms for the whole nation, as this is the only way to solve our country's internal problems.

My initial Flat Tax idea, which was promoted via the local TV Access channel in Houston for some six months, suggested a 10% Flat Tax to replace ALL Local, State and Federal taxation. In 1992, this 10% revenue, split 50-50 with the States, according to their populations, who in turn would have distributed half of their 50% with their counties, according to their population, would have equaled the national expenditures at that time, balanced the Federal, State and Local budgets within one year and allowed this country to get out of debt within 10 years. Had this system been adopted in 1993-1994, we would be out of debt now instead of being burdened with a \$7.7+ trillion debt and interest payments of some \$320 billion per year and rising!

By some form of communication, which remains a mystery to me, Governor Jerry Brown of California got hold of the idea and used it in his 1992 presidential campaign. Unfortunately, he failed to clarify in his speeches, that this 10% Flat Tax would do away with ALL the Local and State taxes as well.

Texas Congressman Bill Archer, former Chairman of the House Ways and Means Committee, then took on the idea of tax reform, calling it a Consumption Tax but again, failed to include the necessary replacement of the Local and State taxes as well.

In general, I have found that older people do not want change . . . about any thing. They may say they do but when it comes to taking action, one finds that little if any change has been made. Have you ever tried to change a habit of a grand-parent? Almost impossible, isn't it? It's a rare senior person, who is willing to made a progressive change. Yet change, is the ONLY WAY that man, since his cave days, has ever made any progress in anything. In fact, those species (including races), who have refused to adapt to change or progress, have perished.

The recommendations for the new tax reform, that I have heard so far, is that one ought to keep the Federal income tax and add to it a Consumption tax, similar to the value added tax in Britain. Perhaps these recommendations might simplify the Federal tax code but they would not serve to alleviate the national financial tax burdens, would not balance the Federal, State or Local budgets, nor would it get this country out of debt. In fact, in Britain, the value added tax served only to plunge the majority of its people into further debt and lower living standards.

Since 1992, I have discovered two other means of a NATIONAL TAX REFORM, which I believe would be far, far better and simpler than a national 10% Flat Tax or any of the present proposals. As a third option, I have combined these two new methods. I can only hope and pray that you and your Panel members agree and choose to recommend all three to the President. I am at your service for any further discourse or work on this subject. The three possible systems are as follow overleaf . . .

I look forward to your response, after you and your Panel members have had time to investigate, verify and discuss these proposals. Thank you so much for your time and attention,

Re: National Tax Reform Solutions

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Helena de Ferro".

Helena de Ferro
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Houston, Tx. 77079
Phone/Fax: 281.920.2981

Encls.

SOLUTION NO.1 THE NATIONAL WITHDRAWAL TAX

This tax would apply to any and all withdrawals from a bank, credit union, savings & loan office, check cashing office or any other place of deposit and withdrawal. These withdrawals would incorporate taxes on income and products, as well as the many other reasons for withdrawal. However, it would not include monetary transfers between bank, etc. branches, if the account was held by the same social security number or tax identity number entity. Nor would it include a transfer if the bank, etc. was sending its own money to one of its branches . . . unless that money was being sent out of the U.S.

From the Statistical Abstract of the U.S., which published the total annual withdrawals from U.S. banks up to July of 1996, it appears that the annual increase in bank withdrawals averages 13%. That is, from \$63.1 trillion withdrawals in October 31, 1980 to \$422.69 trillion withdrawals by March 31, 1996. The increase from March 1996 to July 1996 was over 10%.

This average 13% increase per year, added yearly from the March 1996 figure above, indicates a withdrawal amount of \$1,269,700,000,000,000 for the year April 2004 - March 2005. That's about \$1.269 quadrillion! Since the Federal Reserve Bank said in 1996 that they were no longer collecting this information, confirmation of this gargantuan amount could be obtained directly from all U.S. banks as well as all the other places of financial deposits and withdrawals.

The 2002 New York Almanac listed the then current in house deposits of all U.S. banks, savings & loan offices and credit unions to have been \$5.823 trillion for the year 2000. However, as you know, the same money gets deposited and withdrawn constantly, as anyone who has handled cash can tell. Besides the amounts on deposit at a given date, there are obviously huge sums out there in the market place. The banks' deposit portion of the \$5.823 trillion was \$4.914 trillion. This left \$529.413 billion in savings & loan offices and \$379.2 billion in credit unions. The total deposits of the savings & loans and the credit unions' percentage in relation to the total amount of the banks' deposits was therefore 15.60%. If this 15.60% is taken in relation to the \$1.269 quadrillion of bank withdrawals, then the probable amount for the savings & loans and credit union withdrawals for March 2005, is \$234,553,800,000,000. The total withdrawals for all banks, etc. are then \$1,503,553,800,000,000 up to March 2005.

By taking just one half of one percent of these withdrawals, totaling some \$7.5 trillion and dividing this amount between the Federal Government on a 50-50 basis with the States, according to the population of each State and on the basis that the States in turn would divide their portion on a 50-50 basis with their counties, according to the population of each, would ELIMINATE THE NEED FOR ANY OTHER TAX, LOCAL, STATE OR FEDERAL. States and their counties who continued to charge fees and taxes AFTER receiving their share, would be found guilty of extortion against the public and lose their share. States and counties would need to be made aware that if they impose additional taxes and fees, they would risk losing not only their share of the dividend but also their population as people would move to a State and county where they had no taxes other than the $\frac{1}{2}\%$ withdrawal tax.

This withdrawal tax system complies with Mr. Greenspan's wish for a broader and lower tax base. It also complies with Mr. Baker's wish for taxing income and consumption.

As far as import taxes are concerned, these should be done on a strictly reciprocal basis with the particular country, where the goods have come from. There should not be any import taxes on personal goods. We should also be on an equal footing as far as buying quotas are concerned, relative to the population of the particular country.

The October 2004 figures show the Federal Government spending to have been some \$2,292,400,000,000 and the States' and Counties' spending to have been \$2.197 trillion, totaling \$4,489,400,000,000. Omitting the low single digit percentage adjustment between the October 2004 and March 2005 spending, an excess of about \$1.5 trillion each, would be left over for the Federal Government and the States. This could be used to catch up on needed items, such as infrastructure repairs and a national health care system to rival healthcare systems in other countries, that are known to work well. The national healthcare costs need not exceed the present \$270.5 billion Medicare/Medicaid costs and could be substantially less, if more attention and emphasis was placed on using alternative and preventative healthcare remedies. There is a tape available called "Dead Doctors Don't Lie", recorded by a Dr. Joel Wallach, which perfectly explains the importance of nutrition versus medical drugs. The tape is available from a John Whittle at 1.908.241.9254. It's free. By the way, ALL medicinal drugs have adverse side effects.

Free America

As an urgent priority, I suggest that for the first year ONLY, that this Withdrawal Tax be 1% and thereafter reduced to ½% annually PERMANENTLY. The reason being that the U.S. national debt is now some \$7.726,940,296,624 and rising! The interest on the debt, at last check was \$321,566,323,971 and rising. It is the 4th highest item on the Federal budget and with rising interest rates, could increase dramatically. If we had a 1% Withdrawal Tax for the first year ONLY, we could pay off the national debt within that year for EVER! The Federal spending would then be reduced by some \$321+ billion and the value of the U.S. dollar would increase and regain its prestige. This would also counteract the present inflation growth.

Other Benefits

By eliminating all taxes, including Social Security payments and other deductions from a person's income, apart from the ½% National Withdrawal Tax, people's wages would be effectively doubled, bringing tens of millions of people out of their current poverty status and thereby reducing Federal welfare payments. Eliminating property taxes would stop the thousands of foreclosures and save many marriages from divorce. The taxation removed from utility and fuels, as they exist, would reduce the costs of products and services, further stimulating purchases and investments throughout the country, thereby increasing employment. The pressure to increase wages would be gone. With the removal of the payroll tax and healthcare insurance costs from employers, employment would once again become more permanent. Lower product costs would help make U.S. goods more competitive internationally and help keep jobs here. These results would all give a tremendous boost to the U.S. economy, increasing the withdrawal amounts, balancing the budget and further increasing the value of the U.S. dollar, thereby encouraging more foreign investment. The stronger dollar would reduce the costs of imports, such as oil and other necessary products. Since we import far more than we export, this would be an additional gain for the economy. There are so many advantages to this system that time and space prohibit here.

I.R.S.

I.R.S. employees would have a far easier time to collect from banks, etc., perhaps on a monthly basis, to collect the ½% debits to withdrawals. To simplify; A man withdraws \$100 from his checking or savings account. His account is not debited with the \$100 withdrawal but with a \$100.50 withdrawal. The \$0.50 is set aside by the bank for collection by the I.R.S. people. The collections done and disbursed on a monthly basis would ensure that the income to all government agencies, county, state and federal, keeps flowing.

With this $\frac{1}{2}\%$ Withdrawal Tax system, the necessity for anyone to file a tax return would be over, thereby ending the current terror of audits. This will save U.S. businesses untold billions of dollars, currently lost in time and paperwork. Tax accountants could retrain as investment counselors or stay on as accountants for businesses.

I believe this would be one of the three fairest and simplest methods of taxation, while spurring tremendous economic growth, resulting in a strong positive emotional uplift for the whole country.

This taxation system would exempt NO ONE, and there would be NO DEDUCTIONS for anyone . . . not for charities, churches, diplomats, foreign entities, royalty, the insane, the underprivileged, government departments or anyone. It would collect taxation from the many entities, who are currently not paying their fair share. The reason for including government departments, is so that the tax money split would be equally distributed among all government entities. In fairness, the Federal Reserve Bank would need to be released from its obligation to pay for certain Federal government expenditures and to hand over the $\frac{1}{2}\%$ tax on any of their qualifying withdrawals instead.

As for the fear that people would stop banking their money and hide it under a mattress or whatever, the very first time they were burgled or lost the cash in some other way, (e.g. fire, flood, hurricane, rodents chewing up the paper money, etc.), they would realize that a $\frac{1}{2}\%$ tax ONLY on withdrawals, was a very cheap insurance.

I believe it would encourage people to save, which most economists agree, is a necessity, lacking in the U.S. at the present time. Of course, all banks, etc. and businesses would pass on their $\frac{1}{2}\%$ cost, as they do with all their other costs now, but this would be a minor expense, compared to the heavy burden carried by the majority of the U.S. public today, which causes so much poverty, destruction of family unity, grief and crime. I further believe it would encourage many people to get off welfare and go to work, knowing they would get to keep everything they work for.

This tax reform would need a strong additional enactment, that this $\frac{1}{2}\%$. after the first year of 1% to repay the national debt, could be decreased in time but NEVER, under any circumstances, increased beyond the $\frac{1}{2}\%$. We must take care not to repeat the mistakes of American taxation history.

SOLUTION NO.2THE BOND & STOCK TRANSACTION TAX

The proposed rules for this Transaction Tax are virtually the same as for the Withdrawal Tax.

The average daily turnover on the New York Stock Exchange in the value of stocks traded, is about \$3 trillion per day. According to an investment advisor from A.G. Edwards, the brokerage company, the Stock Market amount is trivial when compared to the Bond Market, which has an average turnover of some \$30 trillion per day. That's a total of some \$33 trillion per day being traded on average!

If we had a Bond & Stock Transaction Tax of a mere 1/10th of 1% on each transaction, then there would be some \$33 billion available PER DAY, for the 50-50 split between the Federal Government and the States (according to their population). Multiplied by some 253 trading days of the year = \$8,349 trillion. With the new proposed extended trading hours, this revenue will probably increase.

I.R.S. agents would collect directly from the Brokerage houses and any other places where trading took place, instead of from the banks, etc. Again, the 1/10th of 1% would be added to business by the various investing entities, with I believe, minimal impact.

People would not stop investing because of a 1/10th of 1% tax but would be encouraged to invest and trade because there would be, among the other banished taxes, no more capital gains tax or any other taxes in the country, thereby increasing the amount of available investments - thus further adding to the available revenue.

The guarantee of abolishment by the States of all taxes, fees, etc. in return for receiving their share, would of course apply, as would the Federal Government abolishing all taxes in exchange for half of the 1/10th of 1%.

The rider to this Bond & Stock Transaction Tax, i.e. that there could NEVER be an increase to this 1/10th of 1% after the first year, would also apply. Without this rider being in place, it is likely that there would be great opposition to this tax reform plan and the other tax reform plan, as people would be worried, and rightly so, that this low percentage would be increased significantly in the future.

Last but not least, if this Bond & Stock Transaction Tax system is chosen, may I suggest that for the 1st year ONLY, that the tax be 2/10th of 1%, so that we could get rid of the \$7.7 trillion national debt within the first year and remain debt free from then on.

SOLUTION NO.3 . . . THE NATIONAL WITHDRAWAL AND BOND & STOCK TRANSACTION TAXES.

As a compromise for all those people who love to negate any positive suggestion for improvement, particularly when it involves a radical change, here is the alternative;

By HALVING the amount of taxation in the Withdrawal Tax, i.e. instead of adding a debit of $\frac{1}{2}\%$ to any withdrawal amount, let's reduce the debit to $\frac{1}{4}\%$. The revenue from this would then be about \$3.75 trillion per year.

ADDED to this \$3.75 trillion per year would be the revenue from the Bond & Stock Transaction Tax, now reduced to 1/20th of 1% - generating at the present trading rate, some \$4.17 trillion per year.

By this combination of the 2 tax systems, the total revenue per year for the country would be some \$7.92 trillion per year. Surely no half way reasonable person would complain about these miniscule taxation amounts, bearing in mind that by accepting this system or either of the other two, there would be NO other taxes or tax returns to file. The effect of this country being out of debt and people's wages being effectively doubled will have an amazing effect on boosting the U.S. economy in all directions.

With this tax reform system, as with the other two, it is imperative that for the 1st year ONLY, the proposed tax be doubled so that this country can finally be freed from its burdensome, crippling national debt.