

PRESIDENT'S ADVISORY
PANEL
ON FEDERAL TAX REFORM

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COMMENTS TO THE PRESIDENT'S ADVISORY PANEL
ON FEDERAL TAX REFORM

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April 15, 2005

The President's Advisory Panel on Federal Tax Reform
1440 New York Avenue NW
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Chairman Connie Mack III and Vice Chairman John Breaux
and the members of the panel

Gentlemen and Ladies,

I am an individual tax payer who has been watching the changes in the tax code for a number of years. I am not affiliated with any group or organization, but rather I am merely an ordinary tax-paying citizen. I learned that this panel is considering possible changes to the country's tax code and is accepting comments from the public. I therefore offer the comments below which are my opinions but also represent the opinions of many ordinary citizens whom I know

1. I believe that the tax code is clearly in need of change. It has not had a significant overhaul since 1986, which was a good overhaul as it eliminated a lot of special favors and simplified the law, but the tax laws have been seriously compromised since then. The tax code now represents the aggregation of the desires of numerous special interests and power groups and does not operate in the best interests of the average tax-paying citizen who is at a severe disadvantage when it comes to influencing the tax code.

2. I sincerely hope that your panel's most important criterion for a new tax code is fairness to the average person in this country, that is, the hard-working citizen that makes from say \$30,000 to \$125,000 per year and does not have any tax shelters, or any significant capital, with which to artificially lower his taxes. And by fairness I mean not only what that person is expected to pay, but also what that person pays relative to his/her fellow-citizens, especially those who earn far more in income.

3. **Most importantly**, I believe that the taxes paid should be based on income and that there should be a relatively steep progression to the tax rates as income rises. Let those who have benefited most in this country pay the most to support it. Tax rates ranging from 15% to 40% seem reasonable to me. I believe that a flat tax is inappropriate and unfair. I also believe that a consumption tax is inappropriate and unfair.

4. There should be few deductions to income, possibly charitable donations, medical expenses and home interest. However, I believe that medical expenses should be very narrowly defined and I believe that the deduction for home ownership should be limited by a ceiling amount on such debt, such as \$500,000. This country allows deductions for home mortgages because of the desire to foster broad ownership for the public. In doing so, we should not be providing a subsidy to the wealthy few who can clearly afford so much more

5. I believe that when a taxpayer dies the taxable assets he/she owns should be marked-to-market and taxed as though sold on the date of death. This is especially true of marketable assets such as stock and bonds. There is no reason that someone should be able to achieve a

sheltering of taxability after they are dead. To those who argue that it's unfair to tax an asset that has not been converted to cash, I would respond that an heir has not done anything to earn the asset and therefore he/she is not being treated unfairly if the asset is received for free on a net-of-tax basis. Today there are assets that are unjustly benefiting heirs on a pre-tax basis long after the death of the person that acquired the assets. This is very unfair to all the other taxpayers who are required to pay their taxes as they go through life. Tax-free treatment throughout the original owner's life is certainly more than fair and just to all. The heirs should not be able to further benefit

Once the estate is taxed for income tax purposes upon death, there could be a separate decision made as to whether there should be a separate estate tax. I believe there should be, but there should also be a relatively high threshold before it takes effect, such as \$5,000,000 or \$10,000,000 to eliminate most people

6. I believe the AMT concept is a good one, insofar that it establishes a policy that if someone benefits from tax "subsidies" they at least cannot take too great an advantage of them. I would hope that when your panel is done there are few, if any, special deductions that people could take advantage of to artificially reduce their taxes, but if there are, the AMT concept should be kept in place. I would however eliminate items, such as state taxes, from the AMT computation that are not a matter of individual choice and for which the taxpayer is not really benefiting.

7. I do not understand why capital gains should be taxed at a much lower rate than earned income. Labor is just as necessary as capital for an economic system that will benefit all the citizens of the country. Taxing capital at too low a rate rewards the rich and allows them to pay a significantly lower share of the costs of running the country than those who haven't been so fortunate. Why should a person who earns say \$200,000 via a hard-working job pay a higher rate than someone who inherits wealth and merely cashes \$200,000 worth of dividend checks? This is inherently and seriously unfair. If it raises the cost of capital to have the wealthy pay their share of government costs, than so be it. Why should the laborers subsidize the cost of capital?

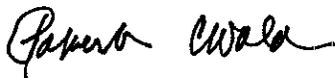
8. Once and for all, please eliminate all offshore shelters of all types, whether they are for corporations that create phony inter-country tax transactions or pretend for tax purposes that they are not American or for individuals who wish to live in America but not support it. A corporation should be considered headquartered where its executives are living. If these corporate executives or individuals don't want to pay American taxes, let them move. This whole system is a travesty on the American public, and everyone knows it.

9. More radical solutions could include the following. Consider taxing all publicly-owned entities on the basis of their GAAP-basis accounting results that are now filed with the SEC. These are the results that are used to report economic profits to the shareholders and are considered the most accurate results of the year's operations. This would eliminate the double sets of books that are now such a sham, as well as saving corporate America and the IRS a lot of work and cost. If necessary, the corporate tax rates could be adjusted to accommodate such a change

Also, consider eliminating the tax on corporations and changing all entities to pass-through entities. This also would eliminate most of the double bookkeeping that now goes on and the financial "artistry" that corporations now engage in to save tax expenditures.

10. Whatever the tax changes your panel recommends, I hope that you would recommend that Congress also significantly increase the funding for the IRS to ensure that the tax laws are complied with. Today there are numerous individuals that flaunt their decision to ignore the tax laws and there is no significant effort by the IRS to stop them. There are also numerous sham transactions by corporations that bear no relation to economics but are done solely for tax reporting purposes. I find this deplorable for a system that purports to operate on a trust basis, and once again this strikes at the heart of the average tax-paying citizen. Every dollar of tax money that is improperly avoided is a dollar that is added to the backs of the labor force in America, the labor force that cannot afford to pay for health insurance much less save for the future. And it is clear from recent studies that the amounts improperly avoided are in the billions of dollars per year, and growing. How can the current administration and the members of Congress look their constituents in the eye in light of these facts? They should be ashamed. It is time for this scandal to end and to ensure a system that is fair to all and not just fair to those that can afford lawyers and accountants to find ways to push their responsibilities off on those less willing or less able to cheat. If you are interested in further reading, please check out Perfectly Legal by David Cay Johnston. While everything in that book may not be perfectly on target, it certainly captures the essence of the problem.

I am certain that most of the people on the panel, and most people in Congress, do not complete their own tax returns. It would be a far better world if those that made the rules had to live more closely with them. Please keep in your hearts the average American citizen, and then do what you think is right. Thank you and good luck,



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