Fishman's Framework for Tax Reform

Lower Taxes, More Benefits, and How It Can Be Done

Introduction

The proposal you are about to read will significantly lower taxes for the vast majority of individuals and corporations. This is accomplished by making everyone pay their fair share, and when everyone pays their fair share even though overall taxes are lower, sufficient revenue is still raised to:

- Expand Medicare into National Health Care.
- Fully fund Public Education.
- Provide free public college and vocational school to all qualified students.
- Increase Social Security benefits upon retirement.
- Retrain unemployed and displaced workers.
- Repair our deteriorating infrastructure.
- Transition our economy to renewable, non-polluting energy.

This is all possible by restructuring the way we raise taxes, and reprioritizing our spending policies. However, before any serious reform can take place, we must first identify the main problem that makes our current tax code inadequate, inequitable, and incomprehensible: *the tax deduction.*

The dictionary defines a deduction as an expenditure that is deducted from taxable income. Examples include charitable contributions, interest on home mortgages, and yachts. There are tax breaks for business meals, corporate jets, country club memberships, mergers and acquisitions, accelerated depreciation, and executive salaries up to $1 million per year.[1]

More egregious examples include the “check-the-box” loophole, the “Hewlett-Packard” loophole, the “Real Estate Investment Trust” loophole, the “carried interest” loophole, the “earnings stripping” loophole, and the “valuation discount” loophole.[2]

The list goes on and on, and the mere existence of one deduction is used as the justification to create even more deductions whether they are geared to benefit society as a whole or the narrow interests of the few.

To date, the tax code is 2,652 pages long. However, if tax preparers relied only on the statutes contained within these pages and did not have the knowledge of the IRS regulations, revenue rulings, and other clarifications necessary to fully understand them, they would not be able to prepare tax documents properly. Therefore, they also need to have a full understanding of the information contained within the 70,000 pages that make up the *Standard Federal Tax Reporter,* published by Commerce Clearing House (CCH).[3]

Because this massive amount of knowledge is necessary to prepare tax documents properly, the uber-wealthy have been able to use the specialty deductions and loopholes hidden in plane site within the tax code to hide from the public various ways in which wealthy individuals and corporations avoid paying their fair share. And, to add insult to injury, the code increases every year because every year

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[1]https://www.journalofaccountancy.com/news/2020/dec/final-regs-sec-162m-executive-compensation-limits.html#:~:text=The%20IRS%20issued%20final%20regulations,tax%20year%20exceeds%20%241%20million
[2] http://act.credoaction.com/sign/sanderstaxloopholes?t=2&akid=13946.7934487.Juek6Y
[3] https://taxfoundation.org/how-many-words-are-tax-code/

politicians create new deductions in response to the desires of some of their influential constituents who want to pay even less in taxes.

This misuse of congress not only allows wealthy individuals and corporations to avoid paying their fair share, but also prohibits our middle-class and working poor from accessing these deductions because they do not make the kind of money or the quantity of money necessary to take advantage of these loopholes. The result is a decrease in the amount of revenue needed to properly fund the programs and services our society deems important, such as Social Security, Health Care, and Public Education, and leads directly to waste, fraud, and corruption.[4]

Therefore, the best first-step we can take to correct this situation is to eliminate all tax deductions, and that is the signature achievement of this plan. This proposal eliminates all deductions with no exceptions. A tax system absent all deductions allows for unbiased solutions to the inherent complexities of taxation, and results in a tax code that is simple and fair.

No serious attempt at tax reform can occur without addressing the three major programs that account for 62% of our annual budget: Social Security (22%), Medicare, Medicaid and CHIP (21%), and defense (19%).[5] This proposal successfully addresses the self-funding problems associated with Social Security and health care, and calls for a special National Security Surtax to be shared by all American taxpayers to cover defense spending that exceeds two times the combined amount that Russia and China spend on their military budgets.

When this proposal was being written, I used the most accurate data available which at that time was for fiscal 2012. So, references to revenues and expenditures refer to that year. However, readers can still use this proposal as the template for determining this plans effects for the year they want to examine. And, when they do, they will find that, like 2012, this proposal lower taxes yet provides more benefits for the year they are studying.

This proposal is not an attempt to solve all tax problems. As stated in the title, it is a “framework,” a guide for tax reform. It addresses major areas of concern and uses the principles of simplicity and fairness to solve them. Its purpose is to be the basis for the legislation that will be used to enact these reforms into law.

To make the reading and understanding of this proposal easier, an executive summary follows this introduction. This is followed by a brief discussion of each reform which has been placed in the same order as they appear in the formal proposal found in Section 3. This will allow readers to become familiarized with its concepts and explanations and give some background before reading the plan by itself.

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[4] http://www.ctj.org/corporatetaxdodgers/sorrystateofcorptaxes.php#The Size of the Corp
http://www.villagevoice.com/2012-10-10/news/the-10-most-corrupt-tax-loopholes/
http://www.washingtonpost.com/wp-dyn/content/article/2005/12/30/AR2005123001480.html
https://sunlightfoundation.com/blog/2010/02/12/the-legacy-of-billy-tauzin-the-white-house-phrma-deal/
www.medicalsupplychain.com/pdf/Medicare%20Part%20D%20Reform%20&%20Coruption%20Issues.pdf
http://sunlightfoundation.com/blog/2013/01/02/fiscal-cliff-lobbying/
http://www.americanprogress.org/issues/green/news/2012/02/07/11145/big-oils-banner-year

[5] http://www.cbpp.org/cms/?fa=view&id=1258

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Mark Lewis Fishman

Part I
Executive Summary

Executive Summary

This proposal will lower taxes for the vast majority of individuals and corporations while still raising sufficient revenue to fully fund and expand the programs and services our society deems most important: Medicare, Social Security, and Public Education. It will accomplish all this and more while running a budget surplus.

A brief synopsis of how this is accomplished is presented below.

1. Business Taxes

a. Business Gross Sales Tax

The major problem with the existing tax code is that it penalizes corporations with higher taxes as they become more profitable. This encourages the use of deductions to lower the net profits so that the corresponding liability is reduced.

Section 1.a. eliminates the need for deductions by replacing the tax on net profits with a small tax on gross sales. The Business Gross Sales Tax would look like this:

Bracket	Annual Gross Sales		Tax		Tax Owed
1	$1 – $250,000	x	0.50%	=	
2	$250,001 – $500,000	x	0.75%	=	
3	$500,001 – $1,000,000	x	1.00%	=	
4	$1,000,001 – $2,500,000	x	1.30%	=	
5	$2,500,001 – $5,000,000	x	1.70%	=	
6	$5,000,001 – $10,000,000	x	1.90%	=	
7	$10,000,001 – $50,000,000	x	2.10%	=	
8	$50,000,001 and above	x	2.25%	=	
				Total Tax Due:	

EXAMPLE - To calculate the Business Gross Sales Tax on annual gross sales of $725,000:

- Separate the annual gross sales into the corresponding brackets.
- Multiply by the corresponding tax and place this amount in the Tax Owed column.
- Add up the Tax Owed column to determine the Total Tax Due.

Bracket	Annual Gross Sales		Tax		Tax Owed
1	*First* $250,000	x	0.50%	=	$1,250
2	*Next* $250,000	x	0.75%	=	1,875
3	*Balance* $225,000	x	1.00%	=	2,250
4	$1,000,001 – $2,500,000	x	1.30%	=	
5	$2,500,001 – $5,000,000	x	1.70%	=	
6	$5,000,001 – $10,000,000	x	1.90%	=	
7	$10,000,001– $50,000,000	x	2.10%	=	
8	$50,000,001 and above	x	2.25%	=	
				Total Tax Due:	**$5,375**

In this example, the Business Gross Sales Tax on a corporation with annual gross sales of $725,000 is only $5,375. Since the tax on gross sales remains the same no matter how high profits might increase to, the tax on gross sales actually rewards business for being more profitable by not increasing taxes as profits rise. And, since the tax on gross sales makes all corporations pay their fair share, federal business tax revenue will increase from $329.3 billion (fiscal 2012)[6] to at least $664 billion per year.[7] This means that over the next ten years the Business Gross Sales Tax will bring in an additional $3.34 trillion to the treasury.

b. Business Payroll Taxes

Because the tax on gross sales is so small, it allows for an expansion of payroll taxes to include an increase in the Medicare obligation, along with a new payroll tax for National Health Care. The proposed payroll taxes will bring in $631 billion annually, and would look like this:

- The Medicare payroll tax will increase from 1.45% to 2.8%.
- The Social Security payroll tax will be reduced from 6.2% to 5.2%.
- The artificially imposed $110,100.00 cap on Social Security contributions has been removed. The employer must now continue to pay the lower 5.2% Social Security payroll tax on salaries no matter how high the annual salary might rise to.
- A 3% payroll tax for National Health Care has been added.
- Business payroll tax obligations now total 11%, compared to their current total of 7.65%.

Examples of proposed Annual Payroll Taxes based on employee salaries:

Employee Annual Salary	Social Security (5.2%)	National Health Care (3%)	Medicare (2.8%)	Total Annual Payroll Taxes	Monthly Expenditure
$20,000	1,040	600	560	2,200	183
30,000	1560	900	840	3,300	275
40,000	2,080	1,200	1,120	4,400	366
50,000	2,600	1,500	1,400	5,500	458
80,000	4,160	2,400	2,240	8,800	733
100,000	5,200	3,000	2,800	11,000	916

Please note that health care expenditures make up 52.1% of total payroll obligations. When the savings produced from the Business Gross Sales Tax is added to the savings generated by funding National Health Care through payroll taxes, overall corporate tax liability declines.

c. Foreign Business Taxes

Section 1.c. addresses the problem of American workers losing their jobs to foreign workers due to the closing of manufacturing plants in the United States that are outsourced to foreign countries. These factories are opened in countries that provide the cheapest labor, usually based on unfair wages, unsafe working conditions, and the least regulation regarding environmental protection. Section 1.c.iv addresses these problems by placing special taxes on products manufactured under these conditions. These special taxes will force foreign manufacturing costs to rise making them too expensive to export to the United States. This will encourage American manufacturers to keep their plants here, in the United States, and will save and create millions of American jobs.

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[6] https://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/receipts.pdf
Table 15-5 Receipts by Source (Page 220)

[7] See Appendix F

2. Individual Taxes

a. Payroll Taxes

Section 2.a. addresses the problem of individual tax deductions by eliminating the basis for their existence - personal income taxes. Eliminating personal income taxes removes the need for tax deductions and the tax attorneys and creative accountants currently used by high income earners to lower or avoid taxes due.

Everyone's income will now be taxed through payroll taxes which will now be based on annual gross income. Annual gross income will be redefined to include all income earned from all sources with no distinction made between labor and investments. By treating all income equally, everyone will now be subject to the same rates of taxation, and will bring in $1,850 billion annually.

The Individual Annual Gross Income Tax Base upon which payroll taxes will be based will look like this:

Bracket	Annual Gross Income		Tax		Tax Base
1	$1 – $100,000	x	10%	=	
2	$100,001 – $200,000	x	12%	=	
3	$200,001 – $300,000	x	14%	=	
4	$300,001 – $400,000	x	16%	=	
5	$400,001 – $500,000	x	18%	=	
6	$500,001 – $600,000	x	20%	=	
7	$600,001 – $700,000	x	22%	=	
8	$700,001 – $800,000	x	24%	=	
9	$800,001 and above	x	26%	=	
			Total Tax Base	=	

Payroll taxes will be applied against the Total Tax Base as follows:

Social Security	**(Total Tax Base)**	x	65%	=	
Medicare	**(Total Tax Base)**	x	30%	=	
National Health Care	**(Total Tax Base)**	x	45%	=	
Public Education	**(Total Tax Base)**	x	10%	=	
			Total Payroll Taxes Owed	=	

EXAMPLE - To calculate the payroll taxes owed on annual gross income of $320,000:

- Separate the annual gross income into the appropriate bracket(s)
- Multiply by the corresponding tax, and place the results in the **Tax Base** column.
- Add up the results in the tax base column to determine the **Total Tax Base**.

Bracket	Annual Gross Income		Tax		Tax Base
1	*First* $100,000	x	10%	=	$10,000
2	*Second* $100,000	x	12%	=	12,000
3	*Third* $100,000	x	14%	=	14,000
4	*Last* $20,000	x	16%	=	3,200
5	$400,001 – $500,00	x	18%	=	
6	$500,001 – $600,000	x	20%	=	
7	$600,001 – $700,000	x	22%	=	
8	$700,001 – $800,000	x	24%	=	
9	$800,000 and above	x	26%	=	
Total Tax Base				**=**	**$39,200**

The **Total Tax Base** is then multiplied by the percentages associated with Social Security (65%), Medicare (30%), National Health Care (45%), and Public Education (10%), and added together to determine the Total Payroll Taxes Owed.

Social Security	**Total Tax Base** ($39,200)	**x**	65%	=	$25,480
Medicare	**Total Tax Base** ($39,200)	**x**	30%	=	11,760
National Health Care	**Total Tax Base** ($39,200)	**x**	45%	=	17,640
Public Education	**Total Tax Base** ($39,200)	**x**	10%	=	3,920
Total Payroll Taxes Owed				=	**$58,800**

In this example, an individual with annual gross income of $320,000 would pay only $58,800 in payroll taxes, an actual tax rate of 18.38%.

Since the vast majority of Americans earn less than $100,000 annually, most taxpayers will fall into bracket #1, and will pay only 15% in annual payroll taxes. The increased payroll tax obligations will be accepted by a majority of taxpayers for three main reasons:

1. Overall taxes have been reduced.
2. People are no longer paying personal income taxes.
3. All citizens will be the beneficiaries of National Health Care, increased Social Security benefits upon retirement, and fully funded public schools that include free public college or public vocational school for all academically qualified students.

b. Tax Refunds

Partial refunds are sent to all eligible taxpayers whose earnings range from less than $11,000 annually for a single person, to a maximum of $25,000 for a four-person family.

3. Social Security, National Health Care, Public Education

a. Social Security

Social Security faces a future benefit pay out problem due to inadequate funding. If nothing is done to increase revenues, all eligible recipients will receive 100% of benefits through 2033, while after that benefits to recipients between the years 2034 and 2083 will be reduced by 23%.[8]

The solution to the future benefits pay-out problem facing Social Security is accomplished by:

1. Removing the $110,100 cap on the business tax obligation to Social Security (1.b.)
2. Removing the $110,100 cap on the individual's tax obligation to Social Security (2.a.)
3. Decreasing the business tax obligation to Social Security from 6.2% to 5.2% (1.b.)
4. Increasing the individual's tax obligation to Social Security from 6.2% to 6.5%. (2.a.)

Section 2.a. eliminates the distinction between ordinary income and investment income and simply combines them into a common pool of money subject to the same rates of taxation. Because the caps on Social Security contributions have also been eliminated, only 11.7% of annual gross income (6.5% from individuals, and 5.2% from corporations) is needed not only to meet all future obligations, but to increase them as well. In fact, had this proposal been in effect in 2012, all 61.9 million Social Security recipients would have received an average increase of $167/month.

b. National Health Care (Medicare for All)

National Health Care is simply an expanded version of Medicare. As a single-payer system, the government will replace private, for-profit health insurance companies to become the one and only health care administrator. As the sole administrator, the government becomes the collector of premiums in the form of payroll taxes, and the paymaster to the medical professions for the products and services they provide.

National Health will be financed by incorporating the increased funding from Medicare with the revenue raised by the new payroll tax for National Health, and from the general fund when necessary. The combination of Medicare and National Health Care payroll taxes (which amounts to 13.3% of annual gross income) will raise $1.257 trillion per year as follows:[9]

National Health Care Payroll Tax	**Sub-totals**	**Total Revenue Generated**
Individual contributions (4.5%)	555 ($bn)	
Business contributions (3.0%)	172	
Sub total	727	$727 ($bn)
Medicare Payroll Tax		
Individual contributions (3.0%)	370 ($bn)	
Business contributions (2.8%)	160	
Sub total	$530 ($bn)	$530 ($bn)
Total annual revenue for National Health Care:		**$1.257 trillion**

[8]http://www.ssa.gov/oact/tr/2013/tr2013.pdf

[9] See Appendix F

In 2012, US health care expenditures totaled $2.8 trillion.[10] Since this plan will reduce health care costs by at least 50% ($1.4 trillion), only $1.4 trillion will be needed to fully fund National Health Care.

Because this plan implements National Health Care over a 10-year period, a $2.5 trillion surplus will be created in the National Health Care Trust Fund. And, because the single-payer system eliminates for-profit health insurance companies, lowers the cost of prescription medications, reduces unnecessary tests and procedures, and emphasizes preventive care that includes dietary and lifestyle changes, the cost of health care will be reduced by a minimum of 50%. Therefore, the revenue found in the National Health Care Trust Fund will cover all costs associated with National Health Care.

c. Public Education
Section 2.a.iv and Section 8. fund public education at the federal level. This revenue, when combined with State and local revenue, is sufficient to create superior schools for all students in all neighborhoods. It equalizes funding for all schools from pre-school through grade 12, and allows all qualified students the opportunity to attend college or vocational school free of charge.

4. Value Added Tax (VAT)

Section 4 creates a 5% Value Added Tax (VAT) applied to all purchases except for property (residential and commercial), speculative financial instruments (stocks, bonds, commodities, etc.), the sale of a business, gasoline, education, State and Local Government, Medicaid, Medicare, and National Health Care. This will raise <u>$250 billion/year</u> for the general fund.

5. Transaction Taxes

Section 5 creates three new transaction taxes which will raise <u>$55 billion/yr.</u> for the general fund:

a. 1% tax based on the purchase price of commercial and residential property, paid by the buyer at the time of the transaction;
b. 1% tax based on the purchase price of a business, paid by the buyer at the time of the transaction;
c. Wall Street Trading and Speculators Tax Act. U.S. Senate bill #1787 (112th Congress). This places a 0.03% transaction tax on the transfer of stocks, bonds, derivatives, and other debt securities.

6. Estate Taxes

The estate shall include all assets of the deceased including trusts for which the deceased was the grantor or the beneficiary, and shall be taxed according to the following schedule:

a. The first $3.5 million of the value of the deceased's estate is not be taxed.
b. On the value of the estate above $3.5 million and up to $10 million, the tax is 50%.
c. On the value of the estate above $10 million and up to $100 million, the tax is 75%.
d. On the value of the estate above $100 million, the tax is 95%.

This schedule ensures that at time of death, over 99% of Americans will *not* be affected by this tax.[11] This means that over 99% of Americans will be able to pass on to their heirs their entire estate intact while the government still collects <u>$62 billion annually</u>.

[10]https://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/downloads/proj2012.pdf See Table 1, page 5
[11] https://www.jct.gov/publications.html?func=startdown&id=4744
Joint Committee on Taxation, "History, Present Law, and Analysis of the Federal Wealth Transfer Tax System," March 16, 2015, h

7. Excise Taxes

a. Gasoline Tax

Section 7.a. increases the federal gasoline tax from $0.184/gal to $0.50/gal, brings in $86 billion annually, and distributes the revenue as follows:

i $0.20 to the Highway Trust Fund for the repair, maintenance, and construction of our Interstate Highway system.
ii. $0.07 for the construction of mass transit projects.
iii. $0.03 to the Leaking Underground Storage Tank (LUST) Trust Fund.
iv. $0.20 for construction of the infrastructure (grid) necessary for the nationwide implementation of renewable, nonpolluting energy sources and technologies.

b. National Resources Royalty Tax

Section 7.b. imposes for the first time a royalty of 12.5% on hard rock minerals, increases the royalty on coal from12.5% to 15% (based on gross value), and increases the royalty on gas and oil from 12.5% to a minimum of 18.5%, and under certain market conditions, to 25%. This will bring in $5 billion annually for the general fund.

8. State Reimbursement

Section 8. sends back to the States 30% of the non-income-based tax revenue collected by the federal government ($370 billion). The reimbursement money sent back to each state is based soley on each state's population as a percentage of the total U.S. population.
Sub-Section 8.c – 8.h. sends $185 billion back to the states to fund Public Education.

Sub-Sections 8.k.i, 8.k.ii, and 8.k.iii direct the States to fund research and development proposals for science, technology, and medicine; infrastructure projects; new public medical center teaching hospitals, and general acute care hospitals.

Sub-Sections 8.l. – 8.r. direct the States to disperse their reimbursement money to their Counties, based on each County's population as a percentage of the State's population. This revenue is to fund the programs and services that benefit their residents such as child day care, housing for battered women and their children, women's health care clinics and domestic violence programs; clean, safe and affordable housing for low-income senior citizens, the homeless, and those in danger of becoming homeless such as the disabled and veterans.

These Sections also fund adult education and job training for displaced workers, programs and services for the mentally and physically disabled, drug prevention programs, drug rehabilitation treatment centers, non-profit humanitarian projects, and non-profit cultural organizations to promote theatre, music, art, and dance.

Appendix F: Projected Tax Revenue

Appendix F presents the revenue generated from each of the taxes proposed in this plan, and this totals $3.716 trillion. Of this, $2.481 trillion (66.8%), is raised through business and individual payroll taxes to specifically fund Social Security, National Health Care, and Public Education. The balance, $1.235 trillion (33.2%), is generated from non-income-based taxes and is used to fund all other government obligations.

In 2012, our government collected $2.450 trillion,[12] but spent $3.537 trillion,[13] creating a deficit of $1.087 trillion.[14] In contrast, had this proposal been in effect at that time, it would have produced a surplus of $179 billion.

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12 http://www.usgovernmentrevenue.com/yearrev2012_0.html
13 http://www.usgovernmentspending.com/federal_budget_detail_2015bs22012n
14 http://www.usgovernmentrevenue.com/yearrev2012_0.html