Individual Taxes

2a. Payroll Taxes

By using the deductions and tax policies imbedded in the tax code, millionaires and billionaires have been allowed to delay or avoid taxes due, and in many cases end up by paying a lower amount or a lower percentage on the income they earn compared to what the average taxpayer pays on the income they make.[1]

For example, by receiving substantial amounts of income from dividends, stock options, capital gains, carried interest, or pass-through income, the wealthy are taxed at varying rates such as: 14.1%[2] 20%,[3] 23.8%[4] and 29.6%.[5] And, even though the IRS has deemed the following as abusive, the ultra-wealthy continue to use tax shelters in their quest to avoid paying taxes, such as Variable Prepaid Forward Contracts, Offshore Tax Havens, Inflated Partnership Basis Transactions (Son of Boss), and *abusive* Roth IRA Transactions.

Contrast this with the average taxpayer who earns most of their income from work wages (ordinary income), and therefore does not make the kind or amount of money necessary to take advantage of the deductions available to the ultra-wealthy. They cannot avoid taxes due, and can be subject to rates as high as 37%. This is not only unfair but illogical.

Since deductions create the biased and skewed tax code that prevents our government from collecting the true amount owed, and since the misuse of the tax code effectively shifts a disproportionate amount of the tax burden onto those who are unable to take advantage of these loopholes - the middle-class and the working poor - it is the tax deduction that must be eliminated in order to create a tax system that is simple and fair.

The solution

The solution to make everyone pay their fair share can be accomplished in three steps:

1. Eliminate personal income taxes.
2. Treat all income equally by eliminating the distinction between ordinary income and investment income.
3. Apply payroll taxes against annual gross income to determine taxes owed.

1) Eliminate personal income taxes

Eliminating personal income taxes removes the need for tax deductions. Without deductions there is no legitimate way to lower the true amount of taxes owed, and takes away the inequities and fraud surrounding the current tax system. Consequently, personal income taxes have been eliminated.

2) Treat all income equally

This plan does away with the artificially created distinction between income derived from labor and income derived from investments. The idea that a doctor, nurse, architect, plumber, electrician, teacher, police officer, firefighter or any other tradesperson could have their income taxed at rates as high as 37%, while income earned by hedge fund managers, real estate moguls, or from capital gains can be taxed at rates as low as 14.1%, or even less, is illogical and inequitable.[6]

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[1] https://abcnews.go.com/Politics/OTUS/romney-paid-required-raising-tax-rate-141-percent/story?id=17291504
Former Presidential candidate Mitt Romney paid only 14.1% on the $22 million he earned in 2011

[2] https://abcnews.go.com/Politics/OTUS/romney-paid-required-raising-tax-rate-141-percent/story?id=17291504

[3] https://www.bankrate.com/investing/long-term-capital-gains-tax/

[4] https://taxfoundation.org/federal-capital-gains-tax-rates-1988-2013/

[5] https://www.thecapitalideas.com/articles/2018-tax-reforms-mean-for-investors

[6] ibid

To illustrate the corrupting influence the tax deduction has on our political process, let us look at the shenanigans surrounding passage of the Tax Cuts and Job Act of 2017. Retiring Senator Bob Corker (R) Tennessee, was the sole Republican Senator to vote against the House version of the bill, publicly stating that he was against it because it would increase the federal deficit.[7] (At that time, the Congressional Budget Office estimated that the bill would increase the deficit by at least $1.4 trillion.[8])

However, at the last moment republicans inserted a special tax break for people like Senator Corker and President Trump who have large real estate investments. This loophole allowed those eligible for the pass-through deduction to take 20% off their taxable income for tax calculation purposes. This meant that if you were subject to the highest tax rate for 2018, 37%, this rule would effectively reduce your tax rate to 29.6%.[9] After this provision was placed into the legislation, Senator Corker reversed his earlier position and voted for the bill allowing it to be signed into law.

Another example of the inequity of our tax system caused by tax deductions pertains to carried interest. "Carried interest is defined as a contractual right that entitles the general partner of a private investment fund (often a private equity fund) to share in the fund's profits. A fund typically uses the carried interest to pass through its net capital gains to the general partner which, in turn, passes the gains on to the investment managers. The managers pay a federal personal income tax on these gains at a rate of only 23.8% (20% tax on net capital gains plus a 3.8% investment tax)."[10] However, had this income been treated as ordinary income, it would have been taxed at up to 37%.

A third example pertains to the ultra-wealthy who live off capital gains. These people pay only 20% on the millions they receive annually, and when combined with other tax loop-holes that permeate the tax code, begins to explain how former Presidential candidate Mitt Romney paid only 14.1% on the $22 million he made in 2011.[11]

Treating all income equally, no matter its source, is the only logical solution to this misuse of the tax code. Therefore, this proposal eliminates the distinction between ordinary income and investment income. They are simply added together to determine annual gross income, and annual gross income is then used as the basis to construct the tax base against which payroll taxes will be applied.

3) Apply payroll taxes against annual gross income to determine taxes owed

In this plan, payroll taxes replace personal income taxes, and are increased for Social Security and Medicare, while new payroll taxes for National Health Care and Public Education have been created. The new and revised payroll taxes are detailed below:

Social Security contributions will <u>increase</u> from 6.2% to:	6.5%
Medicare contributions will <u>increase</u> from 1.45% to:	3.0%
National Health Care	4.5%
Public Education	1.0%
Total Payroll Taxes:	**15%**

[7] https://www.politico.com/story/2017/12/18/bob-corker-tax-bill-kickback-republicans-respond-302482
[8] https://www.cbo.gov/publication/53312
[9] https://www.thecapitalideas.com/articles/2018-tax-reforms-mean-for-investors
[10] htttps://www.taxpolicycenter.org/briefing-book/what-carried-interest-and-how-should-it-be-taxed
[11]https://www.washingtonpost.com/politics/decision2012/romney-earned-nearly-14-million-in-2011-paid-141-percent-tax-rate-campaign-says/2012/09/21/e62e5096-0417-11e2-91e7-2962c74e7738_story.html

The increased and expanded payroll taxes will be applied against the **Total Tax Base** which is constructed from annual gross income as detailed below:

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: Assume an individual earns an annual gross income of $320,000.

- In ascending order, separate the annual gross income into the appropriate brackets, 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	$800,001 and above	x	26%	=	
			Total Tax Base	**=**	**$39,200**

The **Total Tax Base**, **$39,200,** is then multiplied by the percentages associated with Social Security (65%), Medicare (30%), National Health Care (45%), and Public Education (10%). These amounts are added together to determine the total payroll taxes owed, as detailed below:

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 case, a person making $320,000/year would pay only $58,800 in payroll taxes, an actual tax rate of 18.3%.

More examples of proposed individual payroll taxes with actual tax rates:

Annual Gross Income	**Medicare**	**National Health Care**	**Social Security**	**Public Education**	**Total Payroll Taxes Paid**	**Actual Tax Rate**
$30,000	**900**	**1,350**	**1,950**	**300**	**4,500**	**15.0%**
40,000	**1,200**	**1,800**	**2,600**	**400**	**6,000**	**15.0**
50,000	**1,500**	**2,250**	**3,250**	**500**	**7,500**	**15.0**
75,000	**2,250**	**3,375**	**4,875**	**750**	**11,250**	**15.0**
100,000	**3,000**	**4,500**	**6,500**	**1,000**	**15,000**	**15.0**
150,000	4,800	7,200	10,400	1,600	24,000	16.0
250,000	8,700	13,050	18,850	2,900	43,500	17.4
500,000	21,000	31,500	45,500	7,000	105,000	21.0
750,000	37,200	55,800	80,600	12,400	186,000	24.8
1,000,000	56,400	84,600	122,200	18,800	282,000	28.2
5,000,000	368,400	552,600	798,200	122,800	1,842,000	36.8
22,000,000	1,694,400	2,541,600	3,671,200	564,800	8,472,000	38.5

Upon review, you will notice that on income up to $100,000, the actual tax rate is 15%. Since most Americans earn less than $100,000 per year, **most Americans will pay only 15% of their annual gross income in payroll taxes.**

As income rises above $100,000/year, so does the actual tax rate. This corresponds to the 2% increase per $100,000 imposed by the Tax Base on income over $100,000, capped at 26% for those earning over $800,000/year. It is very hard to argue that a tax schedule with such small increases at these levels is a burden on anyone.

Acceptance of this proposal

Most taxpayers will accept their increased payroll tax obligations for three main reasons. First, their overall taxes have been reduced. Second, personal income taxes have been eliminated. And third, they are now the beneficiaries of National Health Care (Section 3.b.), increased Social Security benefits upon retirement (Section 3.a), and superior public schools including free public college or public vocational school for their children (Section 3.c).

When the public realizes that their individual payroll taxes have directly financed the most important elements in their lives, and at the same time reduced their overall living expenses and taxes, they will simply wonder why this proposal had not been adopted earlier. And, since this solution requires everyone's income be taxed through payroll taxes, and since payroll taxes are automatically deducted from the paycheck, compliance becomes almost a non-issue.

For most taxpayers, this means no more major record keeping. No more paperwork. No more strategies designed to avoid paying taxes. No more personal income taxes. It’s already been taken care of for you at work. And, since all deductions have been eliminated, and all taxes have been deducted from the paycheck, there is now no legitimate way for individuals to avoid paying their fair share. This means that the bizarre scenario mentioned earlier, where wealthy individuals end up paying a lower amount or a lower percentage on their income than poorer individuals do on theirs, cannot occur.

Let us look at a few examples. Assume a family of four with one wage earner has an annual gross income of $50,000. This family will pay $7,500 in payroll taxes, a tax rate of 15%, and this includes their Social Security and Medicare contributions as well as their new obligations for National Health Care and Public Education.

When compared to the current system, where payroll taxes for Social Security and Medicare total 7.65% of their income, almost doubling payroll taxes to 15% is more than offset by the benefits that accrue to this family. After paying their payroll taxes in the proposed system, they still have $42,500 on which to live, and upon retirement can look forward to increased Social Security benefits while at the same time their living expenses have been reduced because:

- They are no longer paying personal income taxes.
- They are no longer paying monthly health care premiums and therefore no longer responsible for the deductibles, co-payments, prescription medications. and other out of pocket medical expenses associated with private for-profit policies (Section 3.b., National Health Care).
- They can send their children to fully funded public schools which now includes free public college or public vocational school (Section 3.c., Public Education).
- Child day care expenses have been lowered since this plan provides an additional $27 billion to the states for this service. (See Section 8.m)

In our next example, assume a family with one wage earner has an annual gross income of $100,000. They would pay $15,000 in payroll taxes, an actual tax rate of 15%, and this includes their Social Security, Medicare, National Health Care, and Public Education contributions. So, after paying their payroll taxes they still have $85,000 on which to live. Again, their living expenses have been lowered since they are no longer paying income taxes, no longer paying health care premiums or medical bills, their academically qualified children can attend public college or vocational school free of charge, and they will receive increased Social Security benefits upon retirement.

Above $100,000 in annual gross income, the actual tax rate increases. For example, an individual with annual gross income of $250,000 would pay $43,500 in payroll taxes, an actual tax rate of 17.40%. And, someone like former Presidential candidate Mitt Romney who earned $22 million in 2011 but paid only $3,102,000 in taxes (14.1%), would pay $8,472,000 in payroll taxes, an actual tax rate of 38.51%.

Opposition from affected industries

It should be noted that the elimination of personal deductions will draw immediate and intense criticism from several industries. By way of example, let us look at the real estate industry. Here, the claim will be made that the entire industry will collapse without the mortgage interest deduction that has now been taken away. Nothing could be further from the truth.

Most people do not know that the mortgage interest deduction is used by and mainly benefits those that make over $100,000 per year.[12] Since the medium income in 2012 was only $53,891[13], it is hard to see how losing this deduction could possibly bring down the real estate market. Furthermore, the loss of this deduction is more than offset by the benefits that accrue to all citizens which include overall lower taxes and living expenses.

National Health Care

In addition to the Social Security and Medicare taxes individuals are used to paying, this plan requires a new tax to help fund National Health Care (Medicare for all). At the present time, we do not have National Health Care, however, the nation wants National Health Care and is more than willing to pay for it.

In this plan, 7.5% of annual income (3% from Medicare and 4.5% from National Health Care) is dedicated to help realize this goal. And, since the average annual income in 2012 was $53,891, the average National Health Care tax in the form of the "monthly health care premium" will now be only $337/month. Providing full family coverage for such a modest amount is a very small burden that most Americans will readily accept.

Examples of National Health Care's "Monthly Premium"

Annual Gross Income	Medicare (3%)	National Health Care (4.5%)	Annual Cost	**"Monthly Premium"**
$40,000	$1,200	$1,800	$3,000	**$250**
50,000	1,500	2,250	3,750	**312**
75,000	2,250	3,375	5,625	**468**
100,000	3,000	4,500	7,500	**625**

It is important to note that National Health Care means that *everyone* is covered and everyone is covered for all conditions. The peace of mind knowing that the entire family can go to the doctor and not worry about coverage, pre-existing conditions, affordability, or being out of work is worth the small, proportionate obligation that everyone is now required to make. And, since at least 29% of all bankruptcies are due in part to the financial burden directly caused from unmet medical bills, National Health Care helps eliminate a root cause of bankruptcy.[14]

It is also important to point out that since everyone is now pre-paying healthcare costs through payroll taxes, and since payroll taxes are made throughout their entire working career, National Health Care becomes an "entitlement program," but not in a negative sense. In other words, everyone is now entitled to health care services because they paid for it.

Public Education

This plan also creates a 1% payroll tax obligation to help fund public education. This raises $123 billion per year (Appendix F). When combined with the state's reimbursement money earmarked for Public Education from Section 8.d., $185 billion, the money from the Department of Education, $103.3 billion, and the money earmarked within the Department of Agriculture for the National School Lunch Program, $11.6 billion, public education now receives federal funding of $422.9 billion.

This represents a 3½ fold increase in federal funding, and when combined with state and local revenue, the money necessary to fully fund public education has been achieved. Everyone will now

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[12] http://www.cbpp.org/research/mortgage-interest-deduction-is-ripe-for-reform?fa=view&id=3948

[13] http://money.cnn.com/2014/08/20/news/economy/median-income/

[14] http:/www.politifact.com/truth-o-meter/statements/2009/jun/11/chris-dodd/medical-bankruptcy-study-not-clear-cut/

know that all students will attend first rate schools no matter where they live or the income level of their family. Additionally, all academically qualified students will have the opportunity attend public colleges or public vocational schools free of charge. (Section 3.c Public Education)

Comparing taxes

Most people will find that the taxes they pay in the proposed system will be less that what they pay under the current system, and yet they will receive more benefits. To prove that this is true, refer to Appendix C to determine taxes owed, and Appendix D for the comparison.

2b. Tax Refunds

The final safeguard for taxpayers is the tax refund. 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 family of four. Individuals and families who qualify will receive refunds by the 15th of April, based on the gross income from the previous year.

Tax Refund Schedule Based on Annual Gross Income

Refund	**1st Person**	**2 Person Family**	**3 Person Family**	**4 Person Family**
Base*	$11,000	$15,000	$20,000	$25,000
	Base*	Base*	Base*	Base*
*Base = 10% up to amount cited in each category. No refund s to anyone earning more than $25,000 per year.				

EXAMPLES:

First Person Annual Gross Income	**Refund**
$9,000 = 10% of $ 9,000	$900
$11,000 = 10% of $11,000	$1,100
$12,000 = 10% of $11,000	$1,100
$20,000 = 10% of $11,000	$1,100
$25,001 and above	No Refund

2-Person Family Annual Gross Income	**Refund**
$11,000 = 10% of $11,000	$1,100
$15,000 = 10% of $15,000	$1,500
$20,000 = 10% of $15,000	$1,500
$25,000 = 10% of $15,000	$1,500
$25,001 and above	No Refund

3-Person Family Annual Gross Income	**Refund**
$11,000 = 10% of $11,000	$1,100
$15,000 = 10% of $15,000	$1,500
$20,000 = 10% of $20,000	$2,000
$25,000 = 10% of $20,000	$2,000
$25,001 and above	No Refund

4-Person Family Annual Gross Income	**Refund**
$11,000 = 10% of $11,000	$1,100
$15,000 = 10% of $15,000	$1,500
$20,000 = 10% of $20,000	$2,000
$25,000 = 10% of $25,000	$2,500
$25,001 and above	No Refund

There are those who will look at this refund schedule and complain that the low-income earners are not paying enough in taxes. This is not true. Like everyone else, the low-income earners pay 15% of their annual gross income in payroll taxes for Social Security, Medicare, National Health Care, and Public Education (Section 2.a.).

However, requiring people who earn less than $25,000 per year to pay 15% of their income in taxes is inherently unfair. After paying their payroll taxes, the low-income earners are simply not left with enough disposable income with which to survive with any sense of security. Additionally, even though these people are living in poverty, they are still subject to state and local taxes.

To help remedy this situation, the tax refund has been created for those who earn less than $25,001 per year. This results in proportional tax representation while not compromising our ability to collect everyone's fair share of taxes.

For example, an individual with an annual gross income of $15,000 would pay $2,250 in taxes but receive a refund of $1,100. This reduced the individual's original payroll tax contribution from 15% to 7.66%. Even after receiving the refund, this person still paid $1,150 in taxes, leaving only $13,850 on which to live. This is a very small amount of money with which to pay rent, utilities, purchase clothing, groceries, and other basic necessities.

A family of four whose annual gross income is $20,000 receives a refund of $2,000, reducing their tax from $3,000 to $1,000, an actual tax rate of 5%. Even after receiving the refund, this family still paid $1,000 in taxes, and has only $19,000 left on which to survive. More examples:

Annual Gross Income	Individual/Family	Total Payroll Taxes Paid	Refund	Taxes Paid After Refund	Actual Tax Rate %
$11,000	Individual	$1,650	$1,100	$550	5.00
$11,000	Family of 2	$1,650	$1,100	$550	5.00
$13,000	Individual	$1,950	$1,100	$850	6.54
$13,000	Family of 2	$1,950	$1,300	$650	5.00
$15,000	Individual	$2,250	$1,100	$1,150	7.66
$15,000	Family of 2	$2,250	$1,500	$750	5.00
$20,000	Individual	$3,000	$1,100	$1,900	9.50
$20,000	Family of 4	$3,000	$2,000	$1,000	5.00

It is important to note that everyone benefits from this tax reform plan. Whether one earns $9,000 or $1million per year, we are all the recipients of National Health Care, excellent public schools (including free college or vocational school for all academically qualified students), and increased Social Security benefits upon retirement. There are other programs and services available to all citizens, and these are enumerated in Section 8.