

The Honorable Orrin Hatch  
United States Senate  
Washington DC

Dear Senator Hatch:

March 13, 2015

I offer the following comments as a retired CPA who has paid into the system throughout my life and recognize the need for a responsible tax policy. Most importantly, I encourage you to take a principles-based approach, rather than merely addressing the rules. Three key principles that should be at the top of your list are: (1) Simplicity (2) Fairness & Inclusiveness and (3) Separation of revenue generation from social policy.

Simplicity: The tax code is far too complex, even for a CPA.

Fairness and Inclusiveness: Residency comes at a cost, which all who live here and benefit from shared protections and services should bear. When one pays nothing, two fundamental adverse consequences follow: (1) a sense of entitlement and (2) government expenditures increase due to some voting for things for which they do not pay.

Separation of revenue generation from social policy: Often, when the two are mixed, neither is done very well. The government needs to be much more transparent in policy matters so taxpayers see more clearly what our government is doing with our money.

With this in mind, I believe it is time for a **hybrid flat income tax combined with a federal sales tax**. To address concerns about limited ability to pay at lower income levels, an appropriate floor could be developed beneath which no income tax would be assessed. A federal sales tax also would be quite progressive, not because of graduated rates, but rather because of graduated spending by upper-earners. Such an approach would help to significantly reduce the amount of lost revenue due to fraud or error, which was estimated to be \$376 Billion in 2012 (IRS Tax Gap Study, December 2011). It would be quite simple, fair and free from social policy bias. It also helps to address an obvious financial problem the US faces as our baby-boomer generation retires.

Social policy still could be addressed by Congress, but it should be in explicit ways. For example, assistance with housing and food could be provided to qualified indigents without entangling it with revenue generation. Other behaviors that are viewed as socially or economically beneficial could still be promoted. For example, a home buyer's credit could be offered (similar to what was done a few years ago). Or mortgage interest payments could be partially rebated, with banks acting as the government's disbursing agent. The rebate process could be as simple as deducting basis points from the bank's customary interest rates. Such an approach could be used to promote other desired behaviors, such as charitable giving, with the exempt-organization acting in a similar capacity. The advantage to charitable organizations is that in most cases, donors would likely opt to allow the charity to retain the "rebate." By explicitly considering each such program, its merits could be debated independent of other unnecessary complications. The number of such items would also likely greatly decrease. I realize that those beholdng to lobbyists may object to this approach.

One other matter that must be addressed is how the government will honor its commitments embedded in current law, including tax advantaged vehicles (such as Roth IRAs) or time-sensitive matters (such as capital loss carryforwards). Under a simplified flat tax system, unless explicitly addressed, these lose their value. Accordingly, credits should be granted to rebate the tax originally paid (adjusted for the time value of money) or the estimated future tax benefit. These would be one-time transition matters.

I commend you for your willingness to consider meaningful change.

Sincerely,

William R. Titera

