To:
Sen. Orrin Hatch (R-Utah)
Sen. Ron Wyden (D-Ore.)

From:
Colin S. Jackson, individual

Date:
March 18, 2015

Re:
Comprehensive Tax Reform Proposal

My tax reform proposal is designed so that the Federal government can collect revenue in a way that is easy to comply with, easy to enforce, and does not favor one kind of activity over another, nor favor one taxpayer over another. It's fairness lies in its simplicity.

Since there is such a deep connection between individual taxes, corporate taxes and international taxes, along with the temptation to game the taxes against each other, I believe it is necessary to reform all the taxes together in a coordinated way to avoid gaming and unintended consequences.

Step 1 - Repeal the entire US tax code including individual income tax, corporate income tax, estate tax, alternative minimum tax, Social Security tax, Medicare tax.

Step 2 - For individuals, define "taxable income" as all income received either as cash or in-kind. This includes wages, dividends, interest (including municipal bond interest), short term capital gains, long term capital gains, benefits paid by employers for employees, life insurance proceeds, gain on sale of home, inheritance received, gifts, social security benefits, pension benefits, "carried interest" for hedge fund managers, stock options received, gains on exercise of stock options, etc. In other words, everything you receive is "taxable income". No exceptions.

Step 3 - Characterize all types of income as just "taxable income" so that they are all taxed exactly the same. So there are no different tax treatments between wages and dividends, for example. There is also no difference between "passive" and "active" sourced income. There are also no rules limiting losses in one type of income against gains in other types of income. It is all "taxable income" and one net number.

Step 4 - Define the "tax free income amount" as being $50,000 per year for married couples and $25,000 for individuals. This replaces all itemized deductions and exemptions. This tax free amount is a key component. This tax free amount makes this proposal very progressive and very simple at the same time. This tax free amount replaces the concept of all deductions and credits and brackets with one large generous tax free amount of income.

Step 5 - Define the individual income tax rate as being 25%

Step 6 - Define corporate taxable income as being the same as GAAP pre-tax income. Equipment is expensed at purchase. This is to give equipment purchases and all other expenses such as marketing, for example, the same treatment. Payment of dividends is tax deductible to eliminate double taxation and the preference of debt over equity. This also prevents cash hoarding by C-corps.

Step 7 - Define the corporate tax rate as being 25%.

Step 8 - Eliminate the deferral of foreign sourced income from countries with a tax rate of less than 20%

Step 9 - For all countries with a tax rate of 20% or greater, move to a territorial tax system.

I believe this proposal solves all the problems we have under the current system including legal avoidance, gaming, unintended consequences, difficulty in complying and difficulty in enforcing. It also strengthens the incentives to work and save, while at the same time greatly preserving strong progressivity.

Thank you for your consideration.

Colin S. Jackson
BA – economics, UCLA
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Former CPA

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