

PRESIDENT'S ADVISORY
PANEL
ON FEDERAL TAX REFORM

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**Response to request for comments by the Federal Tax Reform Panel on
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3/1/2005

Individual Submission to Federal Tax Reform Panel

Comments to the President's Advisory Panel on Federal Tax Reform

Jeff Schworm - 3/1/2005 (Personal/Small Business View)

- 1) Headaches; Unnecessary Complexity; Burdens. Although these are many, my experience has been that the fear of making a mistake or somehow otherwise drawing the scrutiny of a gun-toting IRS agent is the biggest worry. At the same time, one has to ask: How could you NOT make a mistake, with umpteen thousand pages of code rules. Why should Americans have to live through "TAX SEASON" annually from January to April 15th? It's ridiculous! I won't even get into the paperwork aspects – that would take up way to much space (not to mention paper).

To have a huge Tax code and bloated bureaucracy is not only unnecessary and complex but it is wasteful and counterproductive. To do something as simple as collecting tax dollars from a, generally, willing and able population; the only thing needed is a stated purpose, a simple formula, and a basis that is fair to all Americans.

The burden that the income tax places on many Americans, especially those who earn regular paychecks as employees, is simply LOSS OF INCOME. In other words, how is it income if I never see it - touch it -feel it – spend it – save it? Over the years, I have noticed that my credit card debt has, more often than not, been more or less equal to: INCOME TAX PAID. For small businesses, in general, the problem becomes money management, since cash flow can be less regular. Often business owners have to choose between making payroll and purchasing inventory or setting aside enough money for TAXES. Most business advisors recommend that business owners (independent contractors) only count revenues after passing it through a "tax filter" of 30-50%. That is a burden to business no matter how you slice it. The most profitable corporations deal with this by adding their tax liability into the cost of product and then we, as

consumers pay for the products at inflated prices with tax deflated income. That is a burden on the economy as well as the consumer. Many well-intentioned businesses struggle and go out of business due to the failure in fully understanding the implications of their tax liability. The self-employment tax (Social Security etc. for sole-proprietors) is perhaps the biggest source of error and cost for the self-employed. Note that the self-employed may be the fastest growing segment of "wage earners" in this country, since those downsized or displaced by corporations often take this route.

To my wife and I, the current system is a major headache and burden that detracts from the quality of our lives as well as restricting our productivity and is a constant drain on our incomes.

Jeff Schworm , 3/1/05 - Comments on Tax Reform

2) Unfair aspects: That's easy! The current system suffers from it's age. (Don't get me wrong, I'm not age-ist, I think we would be better off if it were 229 rather than 92.) It was crafted in sort of a prohibition mentality to extract excess funds from the wealthy for the purpose of funding developing bureaucracies. This idea is right out of Karl Marx' writings and has largely been "gerrymandered" and jerry-rigged to really zero in on folks earning in the \$50k –250k range. Those are NOT the wealthy- first of all! Secondly, America did not become great based upon the ideals of Karl Marx. Rather, in the words of Thomas Jefferson: A wise and frugal government shall not take from the mouth of labor the bread that it has earned!

Essentially, the major unfairness lies in the fact that those who can best "work the system" and avail themselves of loopholes pay a much lower percentage of earned income in taxes. This example only really scratches the surface of unfairness in the system as it has evolved. I always chuckle a bit when, sometime during "tax season", the figures of a well-known politician are released showing a large dollar amount paid to the IRS. When I do the math, the percentage paid is always less than one-half of many others as well as mine. So, take an old, outdated, and misguided idea – add 92 some odd years of misuse and misunderstanding and you have an UNFAIR IRS mess that doesn't even adequately fund what it is supposed to.

Another aspect of unfairness is the whole penalty and interest nightmare. If someone makes mistakes or poor decision(s) (we're only human) – the IRS adds huge percentage based penalties and then charges interest on that. When a system or process is made so complex and cumbersome that only a select very few can figure out how to run it, the system will fail. Any engineer knows that! Simplicity is key to fairness and success.

While it has been evident to me for some time that this is a failed system, many seem stymied by the poor practices of the past into thinking that this is the way things are and they will never change. If there ever was a time when the income tax was a viable and progressive way of funding government, it is certain that those days are GONE. Change is the only option. We need to begin again. Cont. (Jeff Schworm – 3/1/05 – Comments)

The income tax unfairly sucks the life out of people, businesses, and America. Most people I know want to pay their fair share, but are confounded by a system that takes their money right off the top at a higher rate than necessary and then makes them file for a refund of their own money without interest AND they are too AFRAID to do it any other way. Can you think of a good reason or fair and reasonable motive for Americans to be afraid of a government agency in America? I know of no one who is not either afraid or intimidated by the IRS or it's agents. There is no greater threat to Freedom or democracy.

Examples of distorted decision making: 1) We just received in the mail a notice from a banking institution in reference to "new IRS rules" regarding our savings being subject to regular withholding (28%) of interest income if we didn't fill out the required paperwork. My wife made absolutely certain that this was done ahead of all else. This is distorted on so many levels – you be the judge!

2) Capital Gains Tax - Businesses and Investors are forced into considerations of properly timing asset sales to obtain the desired outcome with respect to taxes.

3) Business startup/expansion - Due to the craziness of the code, businesses are forced into making decisions regarding structure, accounting, inventory, hiring, and financing etc., that they may not have otherwise made.

4) Goals for the panel: Simplicity and Fairness!

- A) **Begin again.** This mess cannot be fixed by amending and revising the old system. Remember - that's how we got into the sad state of affairs we are in now. If you think that we are not in a sad state of affairs, I submit that you have either not walked in the shoes of the average American or you lack the vision to see how great and strong we could be with a NEW and functional system. If you don't want to get into the hard work of starting over, then, I would suggest that you get off the panel. Sorry - but more than one president has gotten elected promising tax reform.
- B) **Build around the reality of a global economy and consumer society.**
- C) **Do not take the expedient route.**
- D) **Unlock the true power and wealth of America.**
- E) **Think about your children and grandchildren (and mine as well) inheriting the mess we have, compounded ten fold if we do not do the right thing.**

**Jeff Schworm - 3/1/2005, Comments to
Tax Reform Panel. Thankyou.**