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The President's Advisory Panel on Federal Tax Reform  
1440 New York Avenue NW  
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Response to request for comments by the Federal Tax Reform Panel  
on April 29, 2005

Individual Submission to Federal Tax Reform Panel

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PRESIDENT'S ADVISORY  
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Mr. Chairman

Thanks once again for opening the door for input from citizens. I want to repeat my initial concerns that many members of your panel have such a vested interest in the status quo and the current tax code, along with some very obvious conflicts of interests, that their minds are closed to any meaningful changes, let alone significant reform.

Although you are challenged to address the tax system, I believe and I'm sure you realize the real problem is that government spending has gotten out of control. If we were to adhere to Constitutional principals, (which I believe we should), the federal government would not be spending trillions of dollars annually. This is the major issue. If we had only supported government programs, in accordance with the US Constitution, taxation would not be the problem that it has become. If the federal budget was modest and in compliance with the Constitution, I imagine any tax system would work and be acceptable to most people. It has been reported that we could easily run the federal government performing its constitutional functions with revenues from non-IRS sources.

In any tax system we have, Constitutional principles must apply, and any resulting tax recommendations must reflect a fully apportioned, direct tax of all people. I think the proposal known as the Fair Tax, HR25 and S25, can meet these requirements, and can be immediately implemented, since most states already have the mechanism in place. If a proposed system cannot meet Constitutional requirements, then we must change the US Constitution. Why the charade of pretending to uphold the Constitution if every elected and appointed official has no intention? Our founders fought a war for independence over grievances far less threatening to individual freedom and self government than we face today, and it's time we take our country back.

You and the panel have an exciting challenge and opportunity to correct a major wrong inflicted on this country back in 1913. You have the opportunity to be patriots, just like our founding fathers. You must step up and do the right thing and get rid of this most fraudulent, most intrusive, most burdensome, most painful, and most oppressive tax. End the income tax system and close down the IRS.

Sincerely,

Glenn R Tanis

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## **I. Description of Proposal**

The FairTax plan is a comprehensive proposal that **replaces all federal income and payroll taxes** with an integrated approach including a progressive national retail sales tax, a rebate to ensure no American pays federal taxes up to the poverty level, dollar-for-dollar revenue neutrality, and the repeal of the 16th Amendment. This non-partisan legislation (HR 25/S 25) **abolishes all federal personal, gift, estate, capital gains, alternative minimum, Social Security, Medicare, self-employment, and corporate taxes** and replaces them all with one simple, visible, federal retail sales tax – collected by existing state sales tax authorities. The FairTax taxes us only on what we choose to spend, not on what we earn. It does not raise any more or less revenue; it is designed to be revenue neutral. So it is also cost neutral – the final cost for goods and services changes little under the FairTax. The FairTax is a fair, efficient, transparent, and intelligent solution to the frustration and inequity of our current tax system. The FairTax Act has been introduced in the House of Representatives and the Senate. It calls for the repeal of all personal income, gift, estate, capital gains, alternative minimum, Social Security/Medicare, self-employment, and corporate taxes and the introduction of a progressive national retail sales tax. In short, the only taxes Americans pay are the sales tax on new consumer goods and services we purchase. The IRS disappears and no individual or business has to file an income or payroll tax return again. A FairTax rate of 23 percent, calculated as our current federal tax rates are calculated, would produce the same amount of revenue to the federal government as all the various forms of income and

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payroll taxes now collected from the productive incomes of individual Americans and American businesses. This fully funds Social Security and Medicare and all other government services at the current funding levels. To avoid loopholes, there are no exemptions, deductions, credits and exclusions; the initial tax rate is estimated at 23%, but since a consumption tax is fundamentally based on the economy, as economic growth naturally occurs, and you limit the federal spending, the tax rate out of necessity will decrease year after year!

**The tax burden falls on the people who do the most consuming or spending**, that is the people who earn the most money, including all the 'under- the- table' income not currently being reported, viz. drug dealers, etc.!!

**The FairTax proposal honestly detaxes low-wage workers.** The FairTax also has a universal personal consumption allowance (PCA) rebate that assures no one pays any federal taxes on the necessities of life. The Department of Health and Human Services currently calculates the annual amount households of various sizes must pay for the necessities of life (a basket of food, clothing, shelter, transportation, medical care, etc., referred to as the "poverty level" by household size). The amount of FairTax a household pays on those necessities is the FairTax rate times the poverty level amount, and this is the household annual rebate. Each registered household in America is mailed a check on the 1st of each month equal to one-twelfth its annual rebate.

**The impact of the FairTax on religious and other charitable giving**

Our current tax law is thought to have two major effects on religious institutions. First, many assume that the level of religious and other charitable giving in America is driven

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by the tax code and its tax deductions, concluding that if donations were not deductible, then such organizations would experience lower donations. Nothing could be further from the truth. Second, the current tax code has a huge effect on religious freedom of speech, requiring American religious leaders to curtail political commentary to preserve tax-exempt status. The effects of the tax code here are very, very real and a dangerous affront to religion freedom.

**What is the effect of current charitable deductions on religious donations?**

While religious institutions rely on charitable donations, they are somewhat impervious to the tax motivation, as charitable contributions are linked more to attendance than to tax credits or incentives. Studies show that Americans who regularly attend church services contribute 2.2% of their income, a much higher average than non-church-goers who average 1.4%. And the churchgoers higher level of giving is not confined to [their] own congregations but extends to all types of non-profits . . . Active civic participation, and church attendance in particular, is more important to a healthy non-profit sector than the presence of any tax credit or deduction.

**Take federal tax collectors and enforcers out of religion with the FairTax.**

The Fair Tax is a fair, efficient, transparent, and intelligent solution to the frustration and inequity of our current tax system. Specific to this discussion, repealing the income tax code also repeals any deductions for giving, *as there is no longer any income tax from which to deduct!* And, as the federal tax code no longer contains such encouragements for giving to religions, it also ends the justification for government control of political commentary by religious leaders. Under the FairTax, the IRS is no longer the final arbiter

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of what is and is not religious in the USA, as if the current reality was anything but ludicrous in the first place.

**When do people increase their giving and when do they cut back? It's the economy!**

Charitable giving is actually a function of the economy, not the tax code. The common phrase, "It's the economy, stupid!" applies here yet again. Over the past forty years, the level of annual donations almost exactly tracks personal income growth. When the economy is up, along with personal income, Americans give. When the economy falls off a cliff, so does charitable giving. Americans are always generous, but the key to sustaining their giving is a booming economy. From the earliest economic studies conducted on consumption taxes, economists have predicted a huge and sustained boom in the American economy once such taxes replace income taxation. This will drive charitable giving to new heights.

**When do the wealthy give? When they *want* to give!**

While serious wealth is only a narrow sector of charitable giving, when compared to the breadth of modest giving, it does command high visibility in the press. Therefore, it is worthwhile addressing here. The highest net worth benefactors, who grant large donations, are primarily and overwhelmingly influenced by their desire to contribute to a cause. Once they make that decision to contribute, they then tailor that contribution to maximize the contribution while minimizing taxes. The reciprocal is very rarely the case. Just as the Fair Tax allows every American to make their business decisions solely on what is good for their customers and employers, rather than being hamstrung by tax consequences, the Fair Tax unfetters the wealthy from any tax considerations on their

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charitable giving. Finally, it is the height of folly that the Internal Revenue Service now stands as the final arbiter of what is and is not a religion through its control over what is and what is not deductible. Is there any action more at odds with the original intention of the Constitution? The Fair Tax ends this serious infringement for all religious organizations, regardless of denomination, and likewise for all charities.

### **Home Ownership**

According to Harvey Abernathy, Realtor, the Fair Tax booms home ownership: Simple math shows a 71-percent reduction in a homeowner's mortgage costs. The Fair Tax plan is an integrated proposal with many positive features, not the least of which are the advantages that will accrue to residential real estate ownership.

- Pay your entire house payment, both principal and interest, with "pre-tax" dollars.
- Get this benefit without itemizing deductions, which only a small percentage of homeowners do today.
- Save for down payments much faster, without the penalty of taxation.
- Reduce interest rates even lower than they are today.

### **Interest rates come down – more.**

The Fair Tax reduces interest rates by approximately two percentage points, the current difference between tax-exempt mortgages and taxable home mortgages, since the interest income on a home mortgage is currently taxed to the lender of the money. A home mortgage that today could be obtained for an interest rate of approximately 6.75% could be re-financed with a new mortgage at a 4.75% interest rate.

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**Collection method:** The tax would be collected through the individual states, using the system already in place in most of the states. (I would anticipate the states would bring their programs in line with the national program)

**Businesses** would be treated as consumers also; but, business to business purchases (intended for re-sell, for example) would not be subject to the tax. Only the end user pays the tax! And since the cost of doing business due to no payroll deduction, no quarterly reports, and no corporate income tax, the price of goods and services will be reduced 20% to 30%, which will more than offset an proposed sales tax.

**The current tax code would be completely eliminated!**

## **II. Impact of Proposal Relative to Current System.**

Today's income taxes and tomorrow's Fair Tax for Mr. and Mrs. Fair.

As an example, Mr. and Mrs. Fair are married, both self-employed, with two children. Their home has a \$150,000 mortgage payable over 30 years at 6.75%. When the Fair Tax becomes law, they can refinance for 4.75%. Mr. Fair is paid on commission as a manufacturer's representative, and this year made \$28,000 after business expenses. Mrs. Fair runs her eBay business from home and made \$29,000 after business expenses. They jointly set aside \$2,000 in their IRA account. They are the lucky taxpayers because they are two of only 27 percent of all Americans who actually qualify to itemize their income tax deductions. They have calculated their itemized deductions to be \$11,637, most of it

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from their home mortgage interest deduction. Like all Americans, the only thing that really matters to them is what is left over after taxes to have as their spendable income. Simple math tells the truth. Their federal income tax return would show the following:

<b>Mr. and Mrs. Fair's <i>spendable</i> income analysis</b>	<b>Current income tax system</b>	<b>FairTax system</b>
Their combined income before taxes	\$57,000	\$57,000
Less Mr. Fair's Social Security and Medicare taxes	\$4,018	\$0
Less Mrs. Fair's Social Security and Medicare taxes	\$4,162	\$0
Less their combined federal income taxes	\$3,456	\$0
Income after taxes	\$45,364	\$57,000
Add their universal PCA rebate	\$0	\$5,575
Their combined <i>spendable</i> income	\$45,364	\$62,575
Their house payment -- current system, then refinanced	\$11,674	\$9,390
House payment as a percent of <i>spendable</i> income	<b>25.7%</b>	<b>15.0%</b>

Simple math shows us that by maintaining our current federal income tax system, Mr. and Mrs. Fair's house payment is consuming a much larger part of their potential spendable income. When one goes from spending 15 percent to spending 25.7 percent of their spendable income, that is a 71.3-percent increase. An immediate effect of the FairTax is a \$17,211 increase in their spendable income, which is a 37.9-percent increase in the current spendable income. Consumption spending is elective spending; consumption taxing is elective taxing. Under the current federal income tax system, when Mr. and Mrs. Fair spend their spendable income for any goods or services, new or used,

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they pay with post-tax dollars, except, in their case, their home mortgage interest. Most homeowners do not itemize and therefore must pay their equity and interest with post-tax dollars. Additionally, in all retail purchases, they are paying the cost of the federal income tax system that is imbedded in the price of each product or service produced in America, which inflates those prices by an average 22 percent at the checkout counter. The Fair Tax eliminates these costs and through natural competition in the marketplace, prices of these goods and services fall by the amount of those reductions. Under the Fair Tax, when they elect to spend their spendable income for new goods and services, they pay the Fair Tax on those purchases. If Mr. and Mrs. Fair did not save any of their income and spent it all on new goods and services, their purchasing power is as follows:

	<b>Current income</b>	<b>FairTax</b>
<b>Mr. and Mrs. Fair's <i>purchasing</i> power analysis</b>	<b>tax system</b>	<b>system</b>
Their combined <i>spendable</i> income	\$45,364	\$62,575
Their house payment – current system, then refinanced	\$11,674	\$9,390
<i>Spendable</i> income after house payment	\$33,690	\$53,185
Average income tax costs embedded in products/services	22%	
FairTax paid as part of the price of new goods/services	23%	
Actual taxes either imbedded or paid as the FairTax	\$7,412	\$12,233
<i>Spendable</i> income after house payment	\$33,690	\$53,195
Actual taxes either imbedded or paid as the FairTax	\$7,412	\$12,233
Purchasing power of <i>spendable</i> income	\$26,278	\$40,952

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Mr. and Mrs. Fair's true after-tax purchasing power of their spendable income is increased by \$14,674, which is a 55.8-percent increase over their current purchasing power. This is how the Fair Tax benefits just one family. There are many more benefits for all Americans.

### **III. Transition, Tradeoffs and Special Issues.**

Any tax system considered **MUST** comply with the Constitution of the United States. Although the consumption tax doesn't quite meet the requirements of a direct apportioned tax, it is much better than the totally unacceptable slave tax we currently 'enjoy'. Government spending is the real problem and I believe we have to seriously address spending issues, once we eliminate this horrible repressive income and payroll tax system. Any proposed federal program can be assessed on its' own merit and could be apportioned and accepted or rejected as to its impact on a national sales tax!