

THE FREEDOM TAX™

EXECUTIVE SUMMARY

The *FreedomTax* is a revolutionary reform proposal for a simple, compliance-easy, low-rate income tax. It would redesign the entire income tax system to bring tax-efficiency to the Treasury and tax-neutrality to the economy. Importantly, the redesign will make the tax system less prone to continual tax law changes and return to mindless tax complexity. It's a revenue-neutral reform proposal designed and intended to raise at least as much revenue for the Treasury as the current tax mess it would replace.

The *FreedomTax* would significantly restructure the income tax to free most all Americans from ever again having to file a personal income tax return, *not even a postcard return*. It would greatly simplify the income tax, freeing American businesses from the heavy compliance costs and distortion of decision-making caused under the present system. The *FreedomTax* would assure that *all income would bear its fair share of the income tax burden*. It would end the disparate treatment of income and taxpayers where, today, it is rare to find any two taxpayers paying the same effective rate of tax on their income. It would bring a freedom from IRS intrusion in the personal lives of Americans and, important to maintaining freedom and democracy, its improved structure would preclude use of the income tax as a weapon of the IRS against political opponents.

The *FreedomTax* would tax all income on a no-exception basis and at the same tax rate. This flat tax rate would be 10%, set to be revenue-neutral to the Treasury by ending all deductions claimed for non-income-producing expenditures and all exemptions, exclusions, and tax credits now allowed to shelter income from taxation. The *FreedomTax* would employ an at-source income tax collection system, more efficient to administer than the present system which is dependent upon the filing of millions of personal tax returns and where each individual is required to self-assess the tax personally against himself. This restructured system would bring huge administrative cost savings to the Treasury and help to redress a major deficiency in the present system that leaves billions in uncollected tax revenue.

The present income tax system should be replaced with a new design. Its gargantuan size and incomprehensible nature puts it in a non-repairable state. Indeed, long ago, it lost its essence as an income tax, and now functions as a person tax, not as a true tax on income. Proof of this reality is in the shameless claims of the demigods that some taxpayers should pay even more tax because they are not paying their "fair share" and the unending political use of the income tax to pick winners and losers. We can do better; the nation deserves better. We are now well into the 21st century and facing a competitive global economy. The current income tax should be replaced with a new design, a modern one which assures all income bears its fair share of the income tax burden, which ends tax complexity, which is tax-neutral, and which is more efficient to administer. That new model is the *FreedomTax*, having this improved design:

1. Same tax rate on all income – regardless of the nature of the income or recipient;
2. Elimination of tax returns for most taxpayers -- at-source taxation of most items of

- income, particularly wage, interest, and dividend income;
3. Comprehensive tax base – to include all income regardless of payor or recipient, including the value of all employer-provided fringe benefits, and ending all deductions for non-income producing expenditures and all exemptions, exclusions, and tax credits now allowed to shelter income from taxation;
 4. Integration of the taxation of corporate income with the taxation of individual income so that corporate income no longer is double-taxed;
 5. No capital gains taxation;
 6. Simplification – ending tax rules which make the system needlessly complicated, such as time-value-of-money accounting and rules requiring businesses to maintain a separate set of books for tax purposes;
 7. No taxation of transfers on death or by gift; and,
 8. Territorial system of taxation – ending the flawed system of worldwide taxation.

Importantly, the *FreedomTax* would correct the inherent flaw in the present income tax system which has allowed the system to morph into a *de facto* tax on the person, resulting in today's tax complexity and disparate treatment of taxpayers. In so doing, the *FreedomTax* would boldly reduce all tax rates to a single flat rate of 10%. Other reform proposals timidly would retain still-too-high tax rates and most tax breaks, making impossible the meaningful tax simplification and tax neutrality for the economy which would be accomplished under the *FreedomTax*.

The author estimates that, if adopted, the *FreedomTax* would reduce the size of the income tax law to less than 5% of its girth of today; namely, to less than 5% of its present five million words and to less than 5% of its current 70,000 pages. The *FreedomTax* will end the IRS, as we know it. For the average taxpayer, this will be equivalent to abolishing the IRS, making its successor a far less intrusive agency. And, the economy would gain from less tax drag, plus the Treasury would gain billions from improved efficiency in tax collections and reduced administrative costs.

Fundamental tax reform to bring simplification and fairness to everyone

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