

UNITED CALIFORNIANS FOR TAX REFORM

Proposal for a voluntary 15% flat tax

Presented by Roland A. Boucher

National Taxpayers Conference June 16, 2001 at the Radisson Hotel St. Louis Missouri

Summary

This Proposal can result in a defacto Flat Tax of 15% for over 95% of American taxpayers.

It would give seniors and others, the opportunity to compute the tax burden for their particular income level by using the simple one page 1040EZ Tax Form . All data needed to complete this form is supplied by third party; banks, employers, etc. thereby eliminating the fear of an audit. The complexity would be greatly reduced because the accompanying instructions would be reduced from the 61 pages to two .

The legislation Requires:

- 1 That Seniors and others be allowed to use the IRS 1040EZ Tax Form by removing the current restrictions on age and allowing income from interest, dividends, pensions, and capital gains.
- 2 That the current income limit of \$50,000 be raised to \$100,000 for Married couples, and the tax rate be limited to no more than 15 percent to provide comparable tax level offered those claiming itemized deductions on IRS Forms 1040 and 1040A.

Background information

This Concept was first introduced at the National Silver Haired Congress in 1999.and was selected to be in the top 20 proposals in 2001. A State Version AP 35 (540-EZ) by Senior Assemblywoman Dee Erman was introduced in 2000 and was selected as a top ten CSL proposals for the 2001 legislative session .

Studies, Reports, Statistics and Facts

| | |
|----------------------------------|---|
| Senior Population in USA | 35 Million over 65.....Census Bureau |
| 1040 EZ Short form users in USA | 21 Million (18%) in 1996.....IRS # 1304 |
| Standard Deduction Filers in USA | 84 Million (70%) in 1996.....IRS # 1304 |

118 Million Federal Tax Returns were filed in 1996, 70 percent reported an adjusted gross income (AGI) of less than \$50,000; 90 percent reported an AGI of less than \$100,000

Restrictions preventing Taxpayers from using the 1040 EZ short form

- 1 You are Age 65 year of Age or older
- 2 You have more than \$400 income from Interest
- 3 You have any income from Dividends
- 4 You have any income from Pensions
- 5 You have any income from Capital Gains
- 6 Your total income is more than \$50,000 single or married

Restriction # 6 imposes a severe penalty on married couples who would otherwise be allowed to use the short form. CA State Controller Kathleen Connell removed a similar marriage penalty when introducing the new 540-2EZ form for 2000.

Removing restrictions 1 through 5 would allow 80 million taxpayers nation wide to use the simple 1040-EZ tax form.

Expanding the coverage to over 90 percent of taxpayers

30 percent of tax filers now itemize their deductions. These deductions increase with income and are more valuable to the wealthy and upper middle class. The IRS imposes a second 28% tax bracket on these taxpayers which counteracts the benefits of the itemized deductions allowed them. Many of These Taxpayers can be induced to use the 1040-EZ Tax Form which allows no itemized deductions by limiting the tax rate allowed short form filers to 15%. By this simple strategy it may be possible to expand the use of the 1040-EZ to over 90 percent of American Taxpayers

- References: 1 IRS Statics of Income Annual Report for 1997
2 Census bureau web site

Legislative History

A State Version (AB 2347) of this Proposal was Introduced in the California Legislature in 2000 by Assemblywoman Patricia Bates. In 2001 AB 1370, SB 831 and AB 305 a two year Bill were introduced. AB 1370 a study bill has passed the assembly unopposed. Congressman Chris Cox of California plans to introduce this legislation in the House of Representatives this month.

UNITED CALIFORNIANS FOR TAX REFORM

Fiscal Impact

With the Presidents tax cut this proposal is revenue neutral up to the salary of a Congressman.

Support

The National Taxpayers Union
Citizens for a Sound Economy
United Seniors of America

Sample Legislation (California AB 2347)

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS

SECTION 1. Section 17041.1 is added to the Revenue and Taxation Code, to read:

17041.1.

(a) Notwithstanding any other law, in the case of a taxpayer whose total income for the taxable year is fifty thousand dollars (\$50,000) or less in the case of a single person and one hundred thousand dollars (\$100,000) or less in the case of a married couple filing a joint return, all of the following shall apply:

- (1) The taxpayer shall have the option to use Form 540EZ, as revised by the Franchise Tax Board to reflect the provisions of this section.
- (2) *The taxpayer shall be allowed a standard deduction in an amount equal to the minimum wage for the taxable year multiplied by 1040.*
- 3) The amount of tax imposed under this part shall be an amount equal to total income minus the standard deduction multiplied by .025.

(b) For purposes of this section, "total income" means both of the following

- (1) Wages, salaries, and tips.
- (2) Taxable dividends, interest, and pension and *capital gains* income from Federal Form 1099.

SEC. 2. This act provides for a tax levy within the meaning of Article IV of the Constitution and shall go into immediate effect.

Note: References to the Minimum wage and to Capital Gains income were deleted by the authors in 2001 legislative session