

To: Committee on Ways and Means

Re: Comments: Income and Tax Distribution Tax Reform Working Group



Here's my proposal for a simple, fair Tax Code on Individual Income:

According to the White House Office of Management and Budget, taxes on individual income (including dividend and capital gains income) totaled **\$898,549,000,000** in 2010.

According to the U.S. Bureau of Economic Analysis, personal income totaled **\$12,353,600,000,000** in 2010.

Therefore, the rate of tax collection on personal income in 2010 was **7.3%** (\$898.5 billion collected on \$12.3 trillion earned).

According to the Census Bureau report [Income, Poverty, and Health Insurance Coverage in the United States: 2010](#) (issued September 2011), there were 118,682,000 individual income tax filers (households) in 2010.

The Census Bureau report tables:

13.7 % of filers earned under \$15,000 (adjusted dollars)	16,259,434 filers
12.0 % of filers earned \$15,000 to \$24,999	14,241,840 filers
10.9 % of filers earned \$25,000 to \$34,999	12,936,338 filers
13.9 % of filers earned \$35,000 to \$49,999	16,496,798 filers
17.7 % of filers earned \$50,000 to \$74,999	21,006,714 filers
11.4 % of filers earned \$75,000 to \$99,999	13,529,748 filers
12.0 % of filers earned \$100,000 to \$149,999	14,241,840 filers
4.5 % of filers earned \$150,000 to \$199,999	5,340,690 filers
3.9 % of filers earned \$200,000 and over	4,628,598 filers
 Total filers	 118,682,000

Here's my idea for simplifying the tax code: 2 income tax brackets for all income – earned and unearned – 10% and 25%.

10% rate on all income up to \$100,000 – all W-2 income, dividend income, and capital gains earnings. 25% rate on all income above \$100,000. All child tax credits, earned income tax credits, exemptions, and deductions are eliminated. Self-employed filers pay income tax on their net income plus dividend and capital gains income.

A taxpayer earning \$150,000 in 2014 who has earned income, dividend income, and capital gains will pay taxes of \$22,500 [\$10,000 (10% of income of \$100,000) + \$12,500 (25% of \$50,000)]. That's an effective tax rate of 15%.

A single filer with income under \$30,000 pays nothing. A joint filer with income under \$50,000 pays nothing. Once a single filer earns \$30,000, he becomes a 10% taxpayer on all income between \$30,000 and \$100,000 and a 25% taxpayer on all income above \$100,000. Once the joint filer earns \$50,000, he becomes a 10% taxpayer on all income up to \$100,000.

According to the Census Bureau tables, there are approximately 20,000,000 filers with incomes between \$30,000 and \$50,000. I will assume 67% of these filers are single filers. That's 13,400,000 single filers earning between \$30,000 and \$50,000. If we exempt from taxation incomes below \$30,000 for single filers, the tax revenue from single filers earning at least \$30,000 but not more than \$50,000 (with an average income of \$40,000) is **\$13,400,000,000** (13,400,000 filers x \$1,000 average tax), an effective tax rate of 3.33% on a \$40,000 income.

In 2010, there were 58,747,590 household filers with incomes of \$50,000 or more (out of 118,682,000 total filers). All filers with incomes of \$50,000 and not more than \$99,999 pay income tax at a 10% rate. There is no exemption for these filers. The only exemption is for single filers with incomes greater than \$30,000 and not more than \$50,000.

21,006,714 filers earned \$50,000 to \$74,999. Average is \$62,500.
21,006,714 filers x \$6,250 (10% income tax on \$62,500 average income) =
\$131,291,962,500 tax receipts.

13,529,748 filers earned \$75,000 to \$99,999. Average is \$87,500.
13,529,748 filers x \$8,750 = **\$118,385,295,000** tax receipts.

14,241,840 filers earned \$100,000 to \$149,999. Average is \$125,000.
14,241,840 filers x \$16,250 (10% on first \$100,000, 25% on remainder) =
\$231,429,900,000 tax receipts.

5,340,690 filers earned \$150,000 to \$199,999. Average is \$175,000.
5,340,690 filers x \$28,750 = **\$153,544,837,500** tax receipts.

4,628,598 filers earned \$200,000 and up. Average income unknown.
There are several possibilities with this group of income earners. Here are 3:
Option 1: 4,628,598 filers x \$41,250 (average \$225,000 income) =
\$190,929,667,500
Option 2: 4,628,598 filers x \$47,500 (average \$250,000 income) =
\$219,858,405,000
Option 3: 4,628,598 filers x \$60,000 (average \$300,000 income) =
\$277,715,880,000

If we assume the average income of the 4,628,598 filers earning more than \$200,000 is \$225,000, then total income tax receipts are:

\$ 13,400,000,000 +
131,291,962,500 +
118,385,295,000 +
231,429,900,000 +
153,544,837,500 +
190,929,667,500 = **\$838,981,662,500**

If we assume the average income of the 4,628,598 filers earning more than \$200,000 is \$250,000, then total income tax receipts are:

\$ 13,400,000,000 +
131,291,962,500 +
118,385,295,000 +
231,429,900,000 +
153,544,837,500 +
219,858,405,000 = **\$867,910,400,000**

If we assume the average income of the 4,628,598 filers earning more than \$200,000 is \$300,000, then total income tax receipts are: **\$925,767,875,000.**

Under either of these assumptions, total individual income tax receipts using only two tax rates (marginal tax brackets) are very close to the reported total income tax receipts of **\$898,549,000,000** reported in 2010.

One important note: The tax data for 2010 reflects incomes net of all legal deductions and exemptions. If those deductions and exemptions were added back to incomes for the tax year 2010, my example would produce higher incomes and higher total tax receipts. Importantly, my proposal exempts approximately 40 million filers (those with reported incomes below \$30,000) from paying any federal income tax. The removal of all deductions and exemptions would reduce the number of exempt filers.

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