Comments for the Record

United States House of Representatives
Committee on Ways and Means

Hearing on Tax Reform and Charitable Contributions
February 14, 2013, 9:30 AM
1100 Longworth House Office Building

By Michael G. Bindner
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Chairman Camp and Ranking Member Levin, thank you for the opportunity to submit comments for the record on these issues. As always, we are available to meet with members and staff to further clarify our comments or to provide a full briefing on our four part tax plan. As you know, the Center for Fiscal Equity has a four part proposal for long term tax and health care reform. The key elements are

- A Value Added Tax (VAT) to fund domestic military spending and domestic discretionary spending with a rate between 10% and 13%, which makes sure every American pays something.
- Personal income surtaxes on joint and widowed filers with net annual incomes of \$100,000 and single filers earning \$50,000 per year to fund net interest payments, debt retirement and overseas and strategic military spending and other international spending, with graduated rates between 5% and 25% in either 5% or 10% increments. Heirs would also pay taxes on distributions from estates, but not the assets themselves, with distributions from sales to a qualified ESOP continuing to be exempt.
- Employee contributions to Old Age and Survivors Insurance (OASI) with a lower income cap, which allows for lower payment levels to wealthier retirees without making bend points more progressive.
- A VAT-like Net Business Receipts Tax (NBRT), which is essentially a subtraction VAT with additional tax expenditures for family support, health care and the private delivery of governmental services, to fund entitlement spending and replace income tax filing for most people (including people who file without paying), the corporate income tax, business tax filing through individual income taxes and the employer contribution to OASI, all payroll taxes for hospital insurance, disability insurance, unemployment insurance and insurance for survivors under age 60.

Our plan proposes that most direct services provided to those who are truly in need (rather than to trade associations or the arts) would come as an offset to the NBRT, with employers preferring to designate a non-governmental supplier rather than paying a higher tax bill and funding an already overloaded governmental bureaucracy. This allows the work to be spread around and innovative service delivery to be developed with less governmental oversight.

Itemized deductions are irrelevant to VAT and Employee OASI taxes.

Charitable organizations themselves will pay the NBRT because their employees will benefit from the programs funded by this levy or from offsets to it. For example, Catholic Charities employees might designate the Catholic school system as an alternative provider to public schools, which would allow Catholic Charities agencies to take a credit on this levy, which would otherwise be paid against their total value added. Likewise, employees would be paid the same child tax credit as commercial employees – again as an offset to NBRT levies. Health and higher education credits proposed for other enterprises would also be available to charitable organizations, as well as any other applicable credits. Note that because certain payroll and personal income taxes will be eliminated, the gross pay of charitable employees will decline in like manner to those of their commercial counterparts.

Under our proposal, the Income and Inheritance Surtax would contain on simplified form where charitable deductions would appear on a single line. Taxpayers who are also business holders would likely make their deductions through the NBRT, which is designed to be the device by which governmental services are replaced by the charitable sector. The question of whether to further allow a charitable deduction to this surtax is an interesting one, due to the fact that these taxes are dedicated toward debt repayment, the payment of net interest and overseas and at sea military deployment. Unlike the VAT and NBRT, the tax need not be balanced so that in time of military action adequate borrowing can occur quickly.

Recent CBO projections are troubling, however, in that they show that while most discretionary and entitlement spending are projected to remain flat while net interest is due to explode. It is helpful to explore the reasons for this. This explosion essentially fuels the growth of the growth of the Dollar as the world's currency. Essentially, this means that we pay our expenses with taxation (even without adopting the Center for Fiscal Equity Plan) while we roll over our debt without repaying it. This seems like a wonderful way for American consumers to continue to live like imperial Rome, however it cannot last.

There are two possible ends to this gravy train. The first is the internationalization of the Dollar, the Federal Reserve and our entire political system into a world currency or government and its concurrent loss of national sovereignty or the eventual creation of rival currencies, like a tradable Yuan or a consolidated European Debt and Income Tax to back its currency. In the prior case, all nations which use the Dollar will contribute to an expanded income tax to repay or finance the interest on the global debt. In the second case, the American taxpayer will be required to pay the debt back – and because raising taxes on all but the wealthy will hurt the economy, it will be the wealthy and their children who will bear the burden of much higher tax levies.

In order to avert either crisis, there are two possibilities. The first is the elimination of deductions, including the Charitable Deduction itemized on personal income taxes – especially for the wealthy. If the charitable sector, from the caring community to the arts, industrial and education sectors, convince wealthier taxpayers to fight for this deduction, then the only alternative is higher rates than would otherwise occur, possibly including a much more graduated tax system.

Thank you again for the opportunity to present our comments. We are always available to discuss them further with members, staff and the general public.

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This testimony is not submitted on behalf of any client, person or organization other than the Center itself, which is so far unfunded by any donations.