

Tax Reform

\$2 Trillion. That's how much the IRS collects each year from personal income taxes, corporate taxes and payroll taxes. Based on current spending levels, we are about a trillion short, which requires us to borrow the rest. Not exactly breaking news and I don't have an immediate solution to the deficit, but we have to do something about our convoluted tax code.

The recent political sparring and posturing over the payroll tax is just one example of why big changes are needed. This tug of war between funding social security against the extra 2% on worker's paychecks has no winners. No matter what the outcome, the silly season will just continue as lobbying for special interests will rule the day.

Lets face it. The payroll tax has no chance of sustainably funding social security in its entirety. It should be abolished in favor of a graduated flat tax with the recognition that social security must be paid from the general fund. Its time to get serious about throwing out loopholes and special interest deductions as well. The only deductions that should be allowed without an income qualifier are charitable deductions and state and local taxes. All other deductions or exclusions from income, including mortgage interest, should be subject to an income qualification. So here is my plan.

First, personal income needs to be defined in two separate classes. Class 1 would include wages, salaries, interest, dividends, IRA distributions, etc. A detailed list of Class 1 and Class 2 income items can be viewed [here](#). Class 2 items would be business income or loss, capital gains, etc.

As to deductions, with the exception of qualified charitable contributions and state and local taxes, all would be subject to an income exclusion of 5%. For example, for someone earning \$100,000 with \$8,000 in mortgage interest, the allowable deduction would only be \$3,000.

Finally, there would be a two-tier tax rate. Tier one would be the first \$50,000 of income which would be taxed at 15% for *everyone* with no deductions allowed. The second tier is that income over \$50,000 which, after qualified deductions, would be taxed at 20%. For a detailed example and to view an actual filled-in form, click [here](#).

Can you imagine how much simpler all of our lives would be with this kind of system? Think of all the time, money, and resources that are spent on ways to circumvent taxes. Like it or not, taxes are necessary and we all need to pay our fair share. *Fair* – that's the operative word here!