

**Testimony before the Committee on the Budget**  
**Representative Phil English**  
**Panel I**

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210 Cannon House Office Building

Thank you Chairman Nussle, Ranking Member Spratt and Members of the Committee for the opportunity to appear before this committee today.

The American tax system is a Frankenstein's monster that haunts individual taxpayers while casting a cold shadow over the productive sectors of the U.S. economy. It is too complicated, and riddled with obvious inequities. It punishes savings and investment, while reducing economic growth and burdening domestic industry struggling to remain competitive.

To address these inequities and because I want to reform the American tax system in a way that makes sense to average citizens, I introduced the *Simplified USA Tax Act*, H.R. 269. Not only do we need a tax code that is fair and sensible, we need one that is stable. As bad as the current tax code is – and I am one of its severest critics – the last thing we need is to enact some reform that is so radical and experimental that we may have to redo it all over again a few years later. The new tax code I have developed – the *Simplified USA Tax Act* or “SUSAT” – is based on sound and familiar principles that are easy to understand and will provide the correct incentives for today's economy.

Although the Joint Committee on Taxation had never completed a revenue score of SUSAT, it was designed to be revenue neutral.

**TAXING INDIVIDUALS**

The USA Tax for individuals is simplicity itself; a true minimalist approach that achieves a great deal without a lot of complex rules. In addition to providing a simple way to calculate taxes, the USA tax brings several key reforms to the table.

First, the tax code must give Americans a fair opportunity to save part of their earnings. Thrift has helped provide Americans the security and independence that is the foundation of freedom. Savings buys the tools to make Americans more productive. Productivity raises our living standards to the highest in the world.

In my tax reform proposal, “USA” stands for unlimited savings allowance. Everyone is allowed an unlimited Roth IRA in which they can put the portion of each year's income they save after paying taxes and living expenses. After five years, all money in the account can be withdrawn for any purpose and all withdrawals – including accumulated interest and other earnings or principal – are tax free.

Nothing can be simpler and nothing could give the people a better opportunity to save; especially young people. Because only new income earned after enactment of the *Simplified USA Tax* can be put into the USA Roth IRA, young people starting to move into their higher-earning years are the ones who will benefit the most for the longest time.

The tax code must also give everyone the opportunity to keep what they save and, if they wish, to pass it along to succeeding generations. To that end, my tax reform proposal repeals the federal estate and gift taxes.

Under the new tax code, tax rates must be low; especially for wage earners who now pay both an income tax and a FICA payroll tax on the same amount of wages. The *Simplified USA Tax* starts out with low tax rates – 15% at the bottom, 25% in the middle, and 30% at the top. Then, the rates are reduced even further by allowing wage earners a full tax credit for the 7.65% Social Security and Medicare payroll tax that is withheld from their paychecks under current law. I do not propose to repeal the payroll tax because to do so would imperil Social Security, but I do allow a credit for it and when the credit is taken into account, the rates of tax on workers' wages are very low indeed – in the 7% to 17% range for nearly all Americans.

The *Simplified USA Tax* provides tax relief for all Americans, especially those who own their home, give to their church, educate their children and set aside some savings for a better tomorrow. Under my proposal, everyone gets a deduction for the mortgage interest on their home and for charitable contributions they make. In addition – and this is brand new and long overdue in my opinion – the USA plan allows a deduction for tuition paid for college and post-secondary vocational education. The annual limit is \$4,000 per person and \$12,000 for a family.

Generous personal and family exemptions are also allowed under my proposal. On a joint return, the family exemption is \$8,140 and there is an additional \$2,700 exemption for each member of the family. Thus, a married couple with two children pays no tax on their first \$18,940 of income.

The *Simplified USA Tax* is simplicity itself. The tax return will be short, only a page or two for most of us, but more to the point, the tax return will be understandable. For the first time in a very long time, America's tax system will make sense to the citizens who file the tax returns and pay the taxes.

Since inception of the federal income tax, Americans will have a full and fair opportunity to save whatever portion of their income they wish and for whatever purpose they wish. For the first time, working people will be allowed a credit for the payroll tax they pay, and also for the first time, families will have generous tax-free allowance for the education of their children.

## **TAXING BUSINESSES**

My proposal also contains a new and better way of taxing corporations and other businesses that will allow them to compete and win in global markets in a way that exports American-made products, not American jobs. I have studied this issue and believe that, if

enacted in America, this innovative approach to business taxation will soon become the worldwide standard to which other countries aspire.

All businesses – corporate and non-corporate – are taxed alike at an 8% rate on the first \$150,000 of profit and at 12% on all amounts above that small business level. All businesses will be allowed a credit for the payroll tax they pay under current law.

All costs for plant, equipment and inventory in the United States will be expensed into the year of purchase. This is a major departure from our current, and frankly archaic, depreciation system, but a crucial element of the *Simplified USA Tax*.

If they are to survive and prosper, American manufacturers must make big-dollar purchases of capital goods, but they need the lower cost and financing help that first-year expensing provides. If American manufacturers have state-of-the-art machinery and equipment, they will not only create high-paying jobs, they will be able to compete effectively with low-cost producers outside of the U.S.

Since its enactment last March, the 30% expensing allowance followed by a 50% allowance stopped and reversed a two-year decline in capital spending that was one of the worst in history. Every economic principle and every piece of data tells us that first-year expensing must be a major component of fundamental tax reform because it directly translates into high-paying manufacturing jobs and decreases the cost-of-capital thus making American companies more competitive.

Another key element of the business side of the *Simplified USA Tax*, is the way income earned outside of our borders is taxed. What we need to move towards – and what SUSAT embodies – is a system that does not tax foreign-source income on a worldwide basis *or* export sales of American-made products and services.

The absence of some type of border tax adjustments for exports of American-made goods to correspond to the export rebates under foreign countries' Value Added Tax systems puts our businesses – manufacturers and eventually service providers – at a severe disadvantage. If anyone doubts the disadvantage American exporters are faced with, they should look at our trade deficit of astronomical proportions. The trade deficit is so large in part because the relative cost of producing a good or service for export in the U.S. is much higher than in those countries that employ VAT or other consumption-tax systems.

One of the underlying fundamental absurdities is that we currently condition territoriality on foreign subsidiaries reinvesting profits in *foreign countries* instead of repatriating the profits for investment in the U.S. In the least, the tax code should be amended to provide that investment in an active trade or business in the U.S. does not trigger U.S. tax any more than investment in France triggers U.S. tax.

Under SUSAT, all export sales income is exempt, as is all other foreign-source income, and all profits earned abroad can be brought back home for reinvestment in America without penalty. Because of a 12% import adjustment, all companies that produce abroad and sell back

into U.S. markets will be required to bear the same tax as companies that both produce and sell in the U.S.

## **CONCLUSION**

The *Simplified USA Tax* is a hybrid of the others we often hear about. This plan combines the biggest strengths of other mainstream tax proposals and most importantly, it does not contain their weaknesses.

For too long the tax code has been a needless drag on the economy. That is unproductive as a national policy and more importantly, is unfair to those Americans whose living standards are lower because of it. For years, its complex inanities have been the object of ridicule. It is also the ultimate source of bureaucratic excess that is inconsistent with a free society.

It is high time that we restore people's faith in the integrity and competence of their tax system and, in the process, take a major step toward restoring people's confidence in the good character of their government.

Thank you Chairman Nussle, Ranking Member Spratt and Members of the Committee for the opportunity to testify.