

USBIG Discussion Paper #144, February 2006

**It's Time to Think BIG!
How to Simplify the Tax Code and Provide
Every American with a Basic Income
Guarantee**

By Allan Sheahan

Revised April 2006

It's Time to Think BIG!

How to Simplify the Tax Code and Provide Every American with a Basic Income Guarantee

By Allan Sheahen

This proposal dramatically simplifies the tax code and shows how the United States can afford to provide a Basic Income Guarantee (BIG) to every citizen. A BIG would virtually end hunger and poverty in America and provide economic freedom and security to everyone.

The income tax system is too complex with 138 separate tax loopholes.

The welfare system is equally complex with more than 200 separate programs to help the poor.

This Basic Income Guarantee proposal would simplify the tax code by eliminating all of the tax breaks and over half of the welfare programs. The savings would help pay for an annual full BIG at the poverty level of \$10,000 per adult and \$2000 per child.

A Basic Income Guarantee (BIG) is a government-ensured guarantee that all citizens will receive an unconditional income on an individual basis, without means test or work requirement – enough for food, shelter, and basic necessities.

BIG is an efficient and effective solution to poverty that preserves individual freedom and work incentives.

What's the BIG Idea?

In 1964, President Lyndon Johnson declared a “War on Poverty” in America. He said we have a moral responsibility to end poverty. Four decades later, that war has yet to be won.

In 1969, a Presidential Commission recommended that America adopt a Guaranteed Income – often called a Negative Income Tax – with no mandatory work requirements, for all citizens in need. The idea was endorsed by Martin Luther King, the National Council of Churches, the California Democratic Council, the Republican Ripon Society, the 1972 Democratic Party platform, and several Nobel-prize-winning economists.

In his 1972 Presidential campaign, Senator George McGovern proposed giving \$1000 to every needy American. During the 1970s, Congress debated four guaranteed income bills, but none of them passed.

However, some good things came out of these struggles. In 1974, Congress passed Supplemental Security Income, a negative income tax for people over age 65. In 1976, Congress adopted the Earned Income Tax Credit, which gives money to low-income workers.

In the 1980s and 1990s, the trend turned to cutting social programs. Homeless people reappeared for the first time since the Depression. Food banks and soup kitchens sprang up. This trend culminated in the 1996 welfare reform bill.

The new law was sold as a way to get people off welfare, and it did. Welfare rolls in the United States are down more than 50 percent from 1996. But it didn't reduce poverty. That's because welfare reform dumped many recipients into low-paying jobs – with no benefits or ability to move up.

A better strategy is available. In 1980, the state of Alaska began distributing revenues from state oil revenues to every resident. The Alaska Permanent Fund gives about \$1000 to every man, woman and child in the state each year. There are no work requirements. It is not enough to eliminate poverty, but it is a model on which to build a simpler and more effective system of social protection.

Did You Know?

- In 2004, the poverty level was \$9645 (one person), \$12,334 (two people), \$15,067 (three people), and \$19,307 (four people).
- *37.0 million Americans – 24 million adults and 13 million children -- still live below the poverty level – six million more than 25 years ago.
- One child in six lives in poverty in America, compared to one in 12 in France and one in 38 in Sweden.
- The number of people living in “severe” poverty – incomes below 50% of the poverty line – increased in 2004 from 14.1 million to 15.3 million.
- The wealthiest one percent of the U.S. population owns more wealth than the bottom 93%.
- The unemployment rate ranges from 5% to 6%. Eight million Americans who want jobs can't find them. Others have given up looking for work.
- “Welfare-to-work” can never solve the poverty problem because there aren't enough jobs for everyone who wants to work, and because many jobs don't pay living wages.
- In the U.S., one in 10 people who work full time all year lives in poverty.
- Millions of jobs are moving overseas.
- Automation means we need fewer workers to produce the goods we need.
- People are working two and three jobs just to make ends meet.
- Some people who work to escape poverty are taxed back into it.
- Most people who live in poverty are single parents and their children.

**37 million Americans live below the official 2004 U.S. Census Bureau poverty level. But about six million escape poverty through government programs such as the Earned Income Tax Credit.*

BIG Advocates Believe:

- Children should not be poor.
- Anyone who gives care to children or the infirm should not be poor.
- Anyone who works full time should not be poor.
- No one should lack adequate food, shelter and clothing for any reason.
- We must break the link between work and income.
- We can end hunger and poverty in America and achieve true economic freedom by providing a Basic Income Guarantee (BIG) to everyone.

Would a BIG Replace Welfare?

Yes.

Would a BIG Replace Social Security?

Not at first. But, in time, yes. It will be a gradual transition.

Who Would Pay for a BIG?

The Federal Government, out of the taxes it collects.

Why Can't Everyone Get a Job?

The aged, sick and disabled can't. Children and many mothers can't. There aren't enough jobs to go around. For those who can work, 40 hours a week at the federal minimum wage of \$5.15 per hour still leaves a family of two below the poverty line, and leaves a family of four on the street.

Why Don't the Current Welfare Programs Work?

Benefits are too low. The programs are too complex. Benefits vary from state to state. The system causes abuse and error. Single people often get no help. Single parents who want to be home raising their small children are forced to work to receive welfare benefits.

Why Should We Adopt a BIG?

Poverty is wrong. A Basic Income Guarantee would put an end to poverty. It would provide economic security to everyone, like an insurance policy, for you, me, Uncle Charlie, Aunt Jane. It gives all of us the assurance that, no matter what happens, we won't starve. Loss of a job, or sickness, won't put a family onto the street.

Why Not Guarantee Everyone a Job?

Under our current labor structure, it's very difficult. It would be more complex and expensive than guaranteeing an income. It wouldn't help those unable to work. It would create a bigger bureaucracy than we've got now. It assumes the basic conditions of human life have to be earned. But why? Why not treat people's basic economic existence as a legal right and then provide incentives to earn more?

Why Would Anyone Work if His or Her Income Was Guaranteed?

First, to earn more money. The guarantee would be set at a minimum level, just enough to get by on. Second, tests show that people *want* to work.

Does Everyone Have the Right to a BIG?

There is a moral obligation to provide every man, woman and child with a decent living. A person's right to be – the right to simple existence – is not something for others to grant or withhold as an economic carrot, or to give as a gift. It should be a universal right.

Has the Basic Income Guarantee Ever Been Tested?

A 10-year, 7800-family government test of a guaranteed income found that most people would continue to work, even when their incomes were guaranteed.

What are the Benefits of a Basic Income Guarantee?

- End hunger and poverty
- Provide economic security to everyone
- Increase individual freedom
- Improve working conditions
- Reduce crime and violence
- Stimulate the economy
- End the bureaucracy of the welfare system
- Retain positive incentives to work
- Help people move to where the jobs are
- Cut down the migration of people to the cities
- Provide time to create, to think, to invent, to raise families
- Help end class divisions
- Develop a spirit of community
- End homelessness
- Provide income to unpaid caregivers

“Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing, medical care, and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age, or other lack of livelihood in circumstances beyond his control.”

-- Article 25 of the Universal Declaration of Human Rights of the United Nations

Can the U.S. Afford a Basic Income Guarantee?

Yes. The U.S. is a wealthy nation. Our 2004 Gross Domestic Product was \$11.3 trillion. That's an average of \$39,000 for each man, woman and child in the country. It's an average of \$52,000 per adult.

Yet we still have millions of Americans without adequate food, shelter, and health care. The solution is to give the money to the people.

A good deal of research has been done by many competent scholars to try to determine how the U.S. could afford a BIG.

In 1997, Irwin Garfinkel of Columbia University and Chien-Chung Huang of Rutgers University produced a comprehensive paper which became the foundation of Leonard Greene's 1998 book: *The National Tax Rebate*. Using 1994 government data, Garfinkel and Huang calculated that the U.S. could afford an annual BIG of \$4000 per adult, \$2175 per child, and \$8000 per senior by eliminating 115 federal welfare programs, abolishing the income tax personal exemption, and taxing BIG benefits.

In 2004, Charles Clark of St. John's University estimated the U.S. could afford a BIG at the 2002 poverty level of \$9359 for an adult and \$3500 for a child by eliminating some federal welfare programs and by replacing the individual income tax rates with a flat tax of 35%.

Those studies followed on previous work done by Michael Murray of Drake University, in his 1997 book: *...And Economic Justice for All*. Murray judged that a 35% flat tax could pay for a mid-ranged BIG of \$6000 per adult and \$2000 per child..

This paper combines the work of all those individuals.

Using 2004 data from the Internal Revenue Service, Congressional Budget Office, Office of Management and Budget, U.S. Census Bureau, Citizens for Tax Justice, and other reliable sources, we have updated Garfinkel's 1994 data. We have found 138 separate tax loopholes (officially called "tax expenditures") which could theoretically be eliminated to help pay for a BIG.

And we have targeted over 100 welfare and social programs which would not be needed under a BIG.

We are proposing what some call a "full BIG" or a "big BIG" of an annual \$10,000 per adult and \$2000 per child.

So What's the BIG Deal?

Each adult who files an income tax return receives an annual "BIG" or "refundable tax credit" of \$10,000 – the approximate 2004 poverty level for one person. Each child gets an annual refundable tax credit of \$2000 – double the current \$1000 child tax credit.

The "refundable tax credit" is available to everyone, rich or poor, similar to Social Security, which enjoys wide support. (In contrast, the "Negative Income Tax" plans of the 1970s would have gone only to those in need, similar to welfare, which does *not* enjoy wide support.)

All income other than this credit is taxed. If a person has no income at all, he/she keeps the full credit and pays no taxes. If a person has income of any kind (other than the credit) he/she must pay taxes. If the income is low, the amount to be paid in taxes will be less than the credit; the person will keep the difference and receive, in effect, a net transfer from the government. If a person's income is in the middle range, what is paid in taxes will be quite close to the amount of the credit and he/she will break even (as though no taxes were paid and no transfer received). If a person's income is high, the amount to be paid in taxes will be larger than the credit received and, in effect, the person will pay out the difference in positive taxes.

The important point is that the system is universal – everyone files a tax return, everyone gets a tax credit, and everyone with any income pays taxes. There is no means test, no work requirement and no explicit eligibility criteria. No one receives a net transfer from the government unless the taxes on the person's income from all sources are lower than the tax credit.

Benefits under this program are paid as a matter of right rather than privilege and in a way that does not segregate and stigmatize the poor. The vital point about the BIG plan is that it involves a merger of the welfare system and the tax system. The plan is administered by the Internal Revenue Service as an extension of the positive tax system.

Each recipient's grant is electronically deposited monthly into a bank account, similar to the way the Social Security system operates.

Recipients of Social Security and other federal retirement programs receive either their current benefits or the BIG, whichever is larger.

Based on the 2003 U.S. Census Bureau population reports, there are 291 million people living in the U.S. The gross cost of a BIG would be just under \$2 trillion. See chart below.

Based on data from the Alaska Permanent Fund and from IRS statistics, we estimate 2% of eligible recipients will not bother to file an income tax return. Two million prisoners will not receive the BIG. The BIG will be limited to those citizens who have lived in the U.S. at least five years, which, according to the Census Bureau, eliminates an estimated 3.2 million adults and 1.3 million children from the plan. Some social welfare programs will remain in place to handle those 4.5 million people.

Thus, the net cost of the BIG is \$1.9 trillion.

COST OF A BIG:

	(billions)
180 million adults (age 18-64) x \$10,000 =	\$1,800.0
75 million children (age 0-17) x \$2,000 =	150.0
36 million seniors (age 65+) receive Social Security	0
*Senior bonus	40.0
Total Cost	\$1,990.0
Less:	
Those who don't apply (estimated 2%)	- 39.8
2 million prisoners x \$10,000 =	- 20.0
Non-citizens in USA less than five years:	
3.2 million adults x \$10,000 =	- 32.0
1.3 million children x \$2000 =	- 2.6
Net Cost	\$1,895.6

*Recipients of Social Security and other federal retirement programs receive either their current benefits, or the BIG, whichever is higher. (Garfinkel calculated a Senior bonus would cost \$37.1 billion if a BIG was set at \$8000. Clark estimated Senior "top-up payments" of \$34.2 billion at a BIG level of \$9359. While the Senior bonus should theoretically cost less with a \$10,000 BIG, we have conservatively allowed for a cost of \$40 billion because of inflation and the increase in the Senior population from 30 million in 1994 to 36 million in 2003. The Social Security system will be gradually phased into the BIG program in about five years.)

How Can the U.S. Afford Nearly Two Trillion Dollars?

So how can the U.S. afford \$1,895.6 billion? It's a scary number.

First, by eliminating 138 tax loopholes. These include individual tax breaks, such as the deduction on home-owner mortgage interest, property taxes, and charitable contributions; and corporate tax breaks, such as employer contributions for medical premiums and pensions. (See complete list in Appendix.) This saves \$740.8 billion per year.

Second, by eliminating the standard deduction and personal exemption from the tax code. This saves an additional \$244.4 billion (see Appendix for calculations).

So those two categories provide a total increase in annual tax revenues of \$985.2 billion.

Third, by cutting more than 100 welfare programs which will not be needed under a BIG. These include the Earned Income Tax Credit, Farm Subsidies, Child Tax Credit, and a variety of programs with heavy administrative costs which economist Milton Friedman calls "a ragbag of specific welfare programs" which have sprouted up over the years. (See complete list in Appendix.) This saves \$375.5 billion.

Finally, by cutting the defense budget from its current \$455.9 billion per year to its 2000 level of \$295.0 billion. This saves another \$160.9 billion.

So the total savings come to \$1,521.6 billion.

Here's how it looks (all figures in billions):

BIG SAVINGS*

A. ELIMINATION OF TAX LOOPHOLES

1. Exclusions from Income:

Personal \$ 218.5

Corporate 274.5

2. Adjustments to Income 36.7

3. Itemized Deductions 173.8

4. Tax Credits 37.3

Subtotal "A" \$ 740.8

5. Standard Deduction 98.9

6. Personal Exemption 145.5

Total "A" \$ 985.2

B. ELIMINATION OF FEDERAL PROGRAMS;

1. Reduce Defense to 2000 level of \$295 billion \$ 160.9

2. Farm Subsidies 11.2

3. Community Development 8.5

4. Education, Training & Employment 83.4

5. Income Security 239.4

6. Veterans Income Security 33.0

Total "B" \$ 536.4

Total Savings \$ 1,521.6

*See Appendix for complete list

Since a BIG will cost \$1,895.6 billion and our savings are only \$1,521.6 billion, where do we find the extra \$374.0 billion?

First, by reversing the Bush tax cuts of 2001-03. This raises an estimated \$270 billion in taxes, according to the Institute on Taxation and Economic Policy.

Second, by going back to the higher income tax rates of 1994, which were 2.3% to 12% higher than the 2001 rates. This raises an estimated \$30 billion.

Third, by further simplifying the tax code by eliminating the separate tax rates for "Married Filing Jointly," "Married Filing Separately," and "Head of Household." Since the BIG is granted on an individual basis, there is no need for a variety of tax rates. We simply use the "single" tax

rates from 1994, which were 1.2% to 31.7% higher than the “married filing jointly” rates. This raises an estimated \$60 billion.

Fourth, by adding a surcharge of 20% to incomes of over \$1 million. This raises an additional \$59 billion. (See Appendix for calculation.)

Fifth, by extending the 12.4% payroll tax to *all* earned income, not just to those incomes under \$90,000 a year. This raises another \$220 billion. (See Appendix for calculation.)

So that’s \$639 billion in additional revenue to the Treasury, enough to fund a BIG with \$265 billion left over.

However, there’s another matter of the current budget deficit of \$412 billion. Can we do anything about that?

One solution is to institute a two percent tax on wealth. In their 1999 book: *The Stakeholder Society*, Bruce Ackerman and Anne Alstott calculated this would generate \$378 billion a year. Allowing for inflation since 1999, such a tax should now generate an estimated \$410 billion a year. Combined with our other savings, it’s enough to wipe out the deficit and provide an annual surplus of \$263 billion.

Here’s how the plan works for a single person, using the “single” tax rates of 1994:

Income	Tax	Tax Credit (BIG)	Net Tax	Net Income	Income Tax Rate
0	0	10,000	- 10,000	10,000	0
10,000	1,500	10,000	- 8,500	18,500	0
20,000	3,000	10,000	- 7,000	27,000	0
30,000	5,450	10,000	- 4,550	34,550	0
40,000	8,250	10,000	- 1,750	41,750	0
50,000	11,050	10,000	1,050	48,950	2.1
100,000	26,390	10,000	16,390	83,610	16.4
500,000	178,639	10,000	168,639	311,361	33.7
1,000,000	376,639	10,000	366,639	633,361	36.7
2,000,000	972,639*	10,000	962,639	1,037,361	48.1

* Includes a 20% surcharge on incomes over \$1 million.

The break-even point under this plan is \$46,250.

For a comparison of how the plan compares to 2004 tax rates for typical individuals and families, please see the Appendix.

Here is a summary showing the fiscal year 2004 government revenues and expenses, the proposed changes, and the revenues and expenses under the BIG plan.

GOVERNMENT REVENUES AND EXPENSES – CURRENT AND PROJECTED

(All figures in billions)

	FY 2004	Proposed Changes*	BIG Plan
REVENUES:			
Individual Income Tax	\$809.000	\$710.753	\$1,519.753
Corporation Tax	189.400	274.500	463.900
Employment Tax	733.400		733.400
Estate & Gift Tax	24.800		24.800
Excise Tax	69.900		69.900
Customs Tax	21.100		21.100
Miscellaneous	32.600		32.600
POTENTIAL NEW REVENUES:			
2% Wealth Tax		410.000	410.000
Reverse Bush tax cuts		270.000	270.000
Roll back tax rates to 1994 level		30.000	30.000
Change all tax rates to “single”		60.000	60.000
Surcharge on high earners		59.000	59.000
Expand payroll taxes to all earnings		220.000	220.000
TOTAL REVENUES	\$1,880.200	\$2,034.253	\$3,914.453
EXPENSES:			
Defense	455.908	- 160.908	295.000
International Affairs	26.891		26.891
General Science & Space	23.053		23.053
Energy	- .166		- .166
Environment	30.725		30.725
Agriculture	15.440	- 11.186	4.254
Commerce	5.273		5.273
Transportation	64.626		64.626
Community Development	15.797	- 8.496	7.301
Education, Training, Employment	87.945	- 83.448	4.497
Health Care	240.134		240.134
Medicare	269.360		269.360
Income Security	332.837	- 239.353	93.484
Social Security	495.548		495.548
Veterans	59.779	- 32.996	26.783
Administration & Justice	45.535		45.535
General Government	21.822		21.822
Net Interest	160.245		160.245
Offsets	- 58.537		- 58.537
EXPENSES	2,292.215	- 536.387	1,755.828
COST OF A BIG		1,895.600	1,895.600
TOTAL EXPENSES	2,292.215	1,359.213	3,651.428
SURPLUS (DEFICIT)	\$(412.015)	\$ 675.040	\$ 263.025

*See Appendix for detail

Thus, by eliminating tax loopholes, cutting the defense budget to 2000 levels, cutting some welfare programs, instituting a 2% wealth tax, reversing the Bush tax cuts, rolling back the tax rates to 1994 levels, adding a surcharge on the highest incomes, and expanding the payroll tax to all incomes, we can not only finance a BIG, we can eliminate the current annual deficit of \$412 billion.

Financing an Alternative BIG Proposal with a 35% Flat Tax

What happens if we don't eliminate all the tax loopholes and don't institute a wealth tax?

Our estimates show we can still finance a BIG through a 35% flat income tax, but we cannot also cure the 2004 deficit of \$412 billion.

The current U.S. total individual income, according to the IRS, is \$6.2 trillion. Multiplying that by a flat tax rate of 35%, we get revenues of \$2,170 billion, more than double today's individual tax revenues of \$809 billion. If we add a 20% surcharge to incomes over \$1 million, that boosts revenues by an additional \$59 billion (see Appendix for calculation).

Adding to that the other current revenues (corporate income tax, excise tax, etc.), we end up with total revenues of \$3,300 billion.

The cost of a BIG is \$1,895.6 billion. Deducting the same expense savings as in the main BIG plan, we save \$536.4 billion. That leaves us with total government expenses of \$3,651.4 billion, the same as in the main plan. So we get a deficit of \$351.2 billion, about the same as today.

Here's how it might work for a single person, assuming a flat tax of 35%.

Income	35% Flat Tax	Tax Credit (BIG)	Net Tax	Net Income	Income Tax Rate
0	0	10,000	-10,000	10,000	0
10,000	3,500	10,000	-6,500	16,500	0
20,000	7,000	10,000	-3,000	23,000	0
30,000	10,500	10,000	500	29,500	1.7
40,000	14,000	10,000	4,000	36,000	10.0
50,000	17,500	10,000	7,500	42,500	15.0
100,000	35,000	10,000	25,000	75,000	25.0
500,000	175,000	10,000	165,000	335,000	33.0
1,000,000	350,000	10,000	340,000	660,000	34.0
2,000,000	910,000*	10,000	890,000	1,100,000	44.5

*Includes a 20% surcharge on incomes over \$1 million.

The break-even point under this flat-tax plan is \$28,572.

For a comparison of how the flat-tax plan compares to 2004 tax rates for typical individuals and families, please see the Appendix.

Here's a summary showing the current fiscal year 2004 government revenues and expenses, the proposed changes, and the revenues and expenses under a 35% flat tax plan. (All figures in billions.)

	FY 2004	Proposed Changes	35% Flat Tax Plan
REVENUES:			
Individual Income Tax	\$ 809.000	\$1,361.000	\$2,170.000
Surcharge on High Earners		59.000	59.000
Corporation Tax	189.400		189.400
Employment Tax	733.400		733.400
Estate & Gift Tax	24.800		24.800
Excise Tax	69.900		69.900
Customs Tax	21.100		21.100
Miscellaneous	32.600		32.600
TOTAL REVENUES	\$1,880.200	\$ 1,420.000	\$ 3,300.200
EXPENSES (see page 10)	2,292.215	- 536.387	1,755.828
COST OF A BIG		1,895.600	1,895.600
TOTAL EXPENSES	2,292.215	1,359.213	3,651.428
SURPLUS (DEFICIT)	\$ (412.015)	\$ 60.787	\$ (351.228)

Conclusion

Naturally, this paper is only a guideline as to how a full BIG might be financed. There are hundreds of possible variables.

Most of the 138 tax loopholes have powerful constituencies which may not take kindly to losing their windfalls. The tax laws are deliberately complex so that everyone has plenty of deductions, or "loopholes." Many of us have our own special loophole. We don't like to call it a loophole when it's *our* loophole. We call it a legitimate tax deduction. Someone else has the loophole.

Whatever we call it, taxes avoided by one group of taxpayers must be made up by others. This is a crucial point too often overlooked. There is a blissful tendency to regard the IRS as some alien entity, and to ignore the harsh fact that when someone else pays less, the rest of us pay more.

On the other hand, some of those tax breaks have worthwhile purposes and, perhaps, should be retained, even under our BIG plan.

While one goal of BIG is to replace the hodgepodge of paternalistic and inadequate welfare programs that have sprung up over the years, perhaps some should be left in place. Conversely, some government programs left untouched in this proposal perhaps deserve to be axed.

The 2004 tax expenditures and government program figures are hopefully dead on. But some of our figures are best estimates, such as the revenues to be gained by dropping the personal

exemption, instituting a wealth tax, or reversing the Bush tax cuts. Moreover, if all 138 tax expenditures were changed simultaneously, the grand total could be different because of potential interactions among items.

Another debating point is the 35% flat tax. Except for Steve Forbes, few people seem to like the concept of a flat tax. It's not as favorable to low-and-middle-income folk as is our main proposal. Still, it's certainly an important idea worth talking about, which is why we included it in our calculations as an alternative plan.

Yet another variable is: how long should people live in the U.S. before becoming eligible for a BIG? A year? Ten years? Based on models in Australia and other countries, we arbitrarily chose five years.

We did not touch the huge health care costs in the current federal budget. Needless to say, the U.S. should adopt a national, single-payer health plan – “Medicare for All.” Some experts argue that the costs of such a plan would actually save money from the current U.S. health-care system, but those figures and that debate are beyond the scope of this paper.

Again, there are hundreds of possible variations. But the main purpose of this paper is to show that it is not impossible to provide a full BIG to all Americans.

Adopting a Basic Income Guarantee also saves money in many other ways. The social costs of allowing poverty to exist are enormous. It costs more to care for the physically-stunted and mentally-damaged victims of poverty than it would cost to feed them as babies. It costs more to build prisons than it would cost to feed poverty-stricken, no-hope children early in their lives.

A BIG would virtually end hunger and poverty in America and provide economic freedom and security to everyone.

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APPENDIX

BIG SAVINGS

A. ELIMINATION OF TAX LOOPHOLES (2004 government figures in millions of dollars).
Based on the official list of tax expenditures compiled by the IRS

1. Exclusions from Income – Personal

National Defense:

1. Benefits and allowances to armed forces personnel 2,460

International Affairs:

2. Income earned abroad by U.S. citizens 2,680

3. Allowances for federal employees abroad 850

4. Extraterritorial income 5,500

5. Inventory property sales source rules exception 1,500

Agriculture:

6. Expensing of certain capital outlays 100

7. Expensing of certain multi-period production costs 50

8. Treatment of loans forgiven for solvent farmers 10

9. Capital gains treatment of certain income 670

10. Income averaging for farmers 40

11. Deferral of gain or loss on farm refiners 10

Commerce:

12. Interest on life insurance savings 20,830

Housing:

13. Capital gains on home sales 29,730

14. Imputed rental income on owner-occupied homes 24,590

15. Exception from passive loss rules for \$25,000 of rental loss 5,030

16. Credit for low-income housing investments 3,660

17. Accelerated depreciation on rental housing 750

Commerce:

18. Cancellation of indebtedness 30

19. Exceptions from imputed interest rules 50

20. Capital gains (except agriculture, timber, iron ore, and coal) 25,150

21. Capital gains exclusion of small corporation stock 160

22. Step-up basis of capital gains at death 24,200

23. Carryover basis of capital gains on gifts 210

24. Accelerated depreciation of buildings other than rental housing - 3,250

25. Expensing of certain small investments 1,520

Transportation:

26. Interest for airport, dock, and similar bonds 850

27. New markets tax credit 290

28. Expensing of environmental remediation costs 80

Other:

29. Parental personal exemption for students age 19 or over 3,200

Education, Training, Employment, and Social Services:	
30. Scholarship and fellowship income	1,320
31. Assistance for adopted foster children	290
32. Certain foster-care payments	440
33. Parsonage allowances	430
Health:	
34. Interest on hospital construction bonds	1,870
Income Security:	
35. Railroad retirement system benefits	400
36. Workers' compensation benefits	5,490
37. Public assistance benefits	410
38. Special benefits for disabled coal miners	80
39. Military disability pensions	100
Social Security:	
40. Social Security benefits for retired workers	19,200
41. Social Security benefits for disabled	3,580
42. Social Security benefits for dependents and survivors	4,140
Veterans Benefits and Services:	
43. Veterans death benefits and disability compensation	3,330
44. Veterans pensions	110
45. GI Bill benefits	130
46. Interest on veterans housing bonds	50
General Purpose:	
47. Interest on public-purpose State and local bonds	26,150
48. Deferral of interest on U.S. savings bonds	50
Total Exclusions from Income – Personal	218,520

Exclusions from Income - Corporate

International Affairs:	
49. Deferral of income from controlled foreign corporations	7,240
50. Deferred taxes for financial firms on income earned overseas	2,130
General Science, Space, and Technology:	
51. Expensing of research and experimentation expenses	2,330
52. Credit for increasing research activities	4,680
Energy:	
53. Expensing of exploration and development costs, fuels	260
54. Excess of percentage over cost depletion, fuels	1,320
55. Alternate fuel production credit	1,040
56. Exception from passive loss limitation in oil and gas properties	20
57. Capital gains treatment for royalties on coal	70
58. Interest on energy facility bonds	100
59. Enhanced oil recovery credit	330
60. New technology credit	330

61. Alcohol fuel credits	30
62. Tax credit and deduction for clean-fuel burning vehicles	70
63. Conservation subsidies provided by public utilities	100
Natural Resources and Environment:	
64. Expensing of exploration and development costs	230
65. Excess of percentage over cost depletion, non-fuel minerals	0
66. Interest on bonds for water, sewage, and hazardous waste facilities	500
67. Capital gains treatment of certain timber income	70
68. Expensing of multi-period timber growing costs	340
69. Tax incentives for preservation of historic structure	300
Financial:	
70. Exemption of credit union income	1,270
71. Excess bad debt reserves of financial institutions	- 20
72. Alternative tax on small property and casualty insurance companies	10
73. Tax exemption of certain insurance companies	180
74. Small life insurance company deduction	80
Commerce:	
75. Loss from small business corporation stock sale	50
76. Accelerated depreciation of machinery and equipment	44,690
77. Amortization of start-up costs	80
78. Graduated corporation income tax rate	2,450
79. Interest on small-issue bonds	450
Transportation:	
80. Deferral of tax on shipping companies	20
81. Reimbursed employee parking expenses	2,470
82. Employer-provided transit passes	410
Community Development:	
83. Investment credit for rehabilitation of structures (other than historic)	40
84. Exemption of certain mutuals and cooperatives income	60
85. Empowerment zones, enterprise and renewal communities	1,080
Education:	
86. Employer-provided educational assistance	530
87. Work opportunity tax credit	280
88. Welfare-to-work tax credit	60
89. Employer-provided child care	600
90. Employer-provided child-care credit	
Health:	
91. Employer contributions for medical insurance premiums and care	102,250
92. Tax credit for orphan drug research	180
93. Blue Cross/Blue Shield deduction	400
Income Security:	
94. Pension Contributions on employer plans	46,970
95. Pension contributions on 401(k) plans	47,730
96. Employer-paid premiums on group term life insurance	2,070
97. Employer-paid premiums on accident and disability insurance	260
98. Small business retirement plan credit	80

99. Income of trusts to finance supplementary unemployment benefits	20
100. Special ESOP rules	1,920

General Purpose:

101. Tax credit for corporations receiving income from doing business in U.S. possessions	1,000
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Total Exclusions from Income - Corporate 274,500

2. Adjustments to Income

The following 13 items are listed on Form 1040 as “Adjustments to Income.”

Education, Training, Employment and Social Services:

102. Education individual retirement accounts	110
103. Deductibility of student loan interest	760
104. Deduction for higher education expenses	1,280
105. State prepaid tuition plans	210
106. Interest on student-loan bonds	290
107. Interest on bonds for private nonprofit educational facilities	970
108. Credit for holders of zone academy bonds	90
109. Interest on savings bonds redeemed to finance educational expenses	10
110. Deduction for teacher expenses	150

Health:

111. Self-employed medical insurance premiums	3,330
112. Medical savings accounts/health savings accounts	620

Income Security:

113. Individual retirement accounts	20,060
114. Keogh plans	8,830

Total Adjustments to Income 36,710

3. Itemized Deductions:

The following 14 items are listed on Form 1040, Schedule A, as “Itemized Deductions”

Housing:

115. Interest on owner-occupied mortgage subsidy bonds	1,020
116. Interest on rental housing bonds	360
117. Deductibility of mortgage interest on owner-occupied homes	61,450
118. Deductibility of property tax on owner-occupied homes	19,930
119. Deferral of income from post-1987 installment sales	1,100

Charitable Contributions:

120. Deductibility of charitable contributions (health)	3,090
121. Deductibility of charitable contributions (education)	3,690
122. Deductibility of charitable contributions (other)	27,370

Other Deductions:

123. Employee meals and lodging	810
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Health:	
124. Deductibility of medical expenses	7,380
Income Security:	
125. Deduction for the blind	30
126. Deduction for the elderly	1,700
127. Deductibility of casualty losses	550
General Purpose:	
128. Deductibility of non-business state and local taxes other than on owner-occupied homes	45,290
Total Itemized Deductions	173,770

4. Tax Credits:

The following 10 items are listed on Form 1040 as "Tax Credits"

Education, Training, Employment, and Social Services:	
129. Hope tax credit	3,320
130. Lifetime learning tax credit	2,190
131. Adoption credit and exclusion	450
132. Child tax credit	22,400
133. Credit for child and dependent care expenses	2,990
134. Credit for disabled access expenditures	30
Health:	
135. Tax credit for health insurance purchased by certain displaced and retired individuals	50
Income Security:	
136. Low and moderate income savers credit	970
137. Tax credit for the elderly and disabled	20
138. Earned Income tax credit	4,890
Total Tax Credits	37,310

SUB-TOTAL OF 138 TAX LOOPHOLES 740,810

5. Standard Deduction 98,872

The IRS does not calculate a tax expenditure for the Standard Deduction. We estimated this figure by multiplying the 2002 standard deductions taken (494,361) by 20% (the average tax rate paid by individuals) to get 98,872.

6. Personal Exemption 145,571

The IRS does not calculate a tax expenditure for the Personal Exemption. We estimated this figure by multiplying the 2001 Personal exemptions taken (727,855) by 20% (the average

tax rate paid by individuals) to get 145,571.

TOTAL TAX LOOPHOLES TO BE ELIMINATED **985,253**

B. ELIMINATION OF FEDERAL PROGRAMS

1. Reduce Defense to 2000 level of \$295 billion **160,908**

FY 2004 defense spending was 455,908. Rolling it back to 2000 levels will save 160,908.

2. Farm Subsidies

Agriculture credit loan program	478
P.L.480 market development activities	125
Administrative expenses	1,084
Outreach for socially disadvantaged farmers	4
Commodity Credit Corporation	8,668
Crop insurance and other farm credit activities	2,601
Agricultural credit insurance	- 979
Credit liquidating accounts (ACIF and FAC)	- 795

Total Farm Subsidies **11,186**

3. Community Development

Community development fund and loan guarantees	6,167
Area and regional development	2,329

Total Community Development **8,496**

4. Education, Training & Employment

Education for the Disadvantaged	12,486
Impact Aid	1,239
School improvement	7,260
English language acquisition	645
Special education	9,749
Vocational and adult education	1,945
Indian education	585
Innovation and improvement	60
Safe schools and citizenship education	21
Education reform and reading excellence	214
Other	133
Student Financial Assistance	14,854
Higher education	2,041
Student aid administration	115
Other higher education programs	423
Training and employment services	5,606
Older Americans employment	439
State employment services and national activities	1,392
Other employment and training	115
Rehabilitation services	441

Corporation for National and Community Service	759
Children and families services programs	8,677
Aging services program	1,342
Other services	113
Federal direct loan program – higher education	3,246
Other higher education programs	5,060
Credit liquidating account	- 475
Research and general education aids	18
Trade adjustment assistance, training	179
Welfare-to-work grants	181
Other labor services	9
Social services block grant	1,752
Rehabilitation services	2,453
Promoting safe and stable families	336
Other social services	15
Total Education, Training & Employment	83,448

5. Income Security

Railroad retirement	5,280
Employee benefits Security Administration and other	124
Civilian retirement and disability	120
Armed forces retirement home	68
Foreign service national retirement and separation	1
Unemployment insurance program administrative expenses	2,610
Section 8 rental assistance	22,356
Public housing operating fund	3,434
Public housing capital fund	3,414
Homeless assistance	1,238
Other HUD programs	5,265
Rural housing assistance	867
Food program for women, infants, and children (WIC)	4,858
Other nutrition programs	470
Refugee assistance	511
Low income home energy assistance	1,891
Child care and development block grant	2,138
Supplemental security income (SSI) administrative expenses	2,673
Office of the Inspector General Social Security Administration	16
Railroad retirement	5,056
Special benefits for disabled coal miners	785
Pension Benefit Guarantee Corporation (PBGC)	- 247
District of Columbia pension funds	487
Special worker' compensation program	144
Unemployment insurance (UI) programs	41,864
Trade adjustment cash assistance	520
Housing assistance programs	- 6
Food stamps	28,604
State child nutrition programs	11,195
Funds for strengthening markets, income and supply	885
Supplemental Security Income (SSI)	33,725
Child support and family support programs	3,815
Federal share of child support collections	- 1,096
Temporary Assistance for Needy Families (TANF)	17,725

Child care entitlement to states	2,695
Foster care and adoption assistance	6,340
Earned Income Tax Credit	33,134
Child Tax Credit	8,857
Other assistance	34
SSI recoveries and receipts	- 2,497
Sub-total Income Security	249,353
Retain welfare programs for non-citizens	- 10,000
Total Income Security	239,353

6, Veterans Income Security

Veterans disability, compensation, administration	668
Veterans pensions, administration	135
Veterans insurance	2
Education administration	72
Veterans employment and training	136
Housing program loan administrative expenses	156
General administration	271
Other operating expenses	370
Veterans disability compensation	26,297
Veterans pensions	3,334
Veterans burial benefits	153
General benefits for certain World War II veterans	10
National service life insurance trust fund	1,230
All other insurance programs	30
Insurance program receipts	- 205
Education benefits, including Montgomer GI Bill	2,133
Vocational rehabilitation and employment	551
Post-Vietnam era education	3
All-volunteer force educational assistance trust fund	- 144
Veterans housing	- 2,136
National homes, Battle Mount contributions and other	- 70
Total Veterans Income Security	32,996

TOTAL FEDERAL PROGRAMS TO BE ELIMINATED **536,387**

TOTAL BIG SAVINGS **1,521,640**

Surcharge

We estimated that a 20% surcharge on incomes over \$1 million would bring in an extra \$59 billion to the Treasury. The number of income tax returns filed in 2002 with incomes over \$1 million was 168,977. The total amount of adjusted gross income in 2002 for incomes over \$1 million was \$465,832,545,000. Thus, \$465,832,545,000 less \$168,977,000,000 = \$296,855,545,000 x 20% = \$59,371,109,000.

Wealth Tax

One solution to wiping out the 2004 deficit of \$412 billion and helping to pay for a BIG is to institute a two percent tax on wealth. In their 1999 book: *The Stakeholder Society*, Bruce Ackerman and Anne Alstott of Yale Law School calculated this would generate \$378 billion a year. Allowing for inflation, such a tax should now generate an estimated \$410 billion a year.

Their wealth-tax income estimates were constructed by Mark Wilhelm, formerly an assistant professor in the Department of Economics at Penn State U. and then at Indiana-Purdue U. in Indianapolis. He used data from the Federal Reserve's 1995 Survey of Consumer Finances (SCF), the most recent and most comprehensive data on wealth available. His revenue estimates assume that the wealth tax would be imposed on net wealth (assets minus liabilities) and that it would include an exemption of \$80,000 per individual.

Payroll Tax

Under current tax law, employers and employees each contribute 6.2% of each employee's annual earnings, up to \$90,000, to the Social Security "Trust Fund." No payroll tax is deducted for annual incomes above \$90,000. Thus, millionaires pay only 0.3% of their income in payroll tax, while those under \$90,000 pay the full 6.2%. This proposal would tax all earnings at 6.2% for each employee and each employer.

According to 2002 IRS data, earnings above \$90,000 totaled \$1,771,011,000,000 (\$1.77 trillion). Multiplying that by 12.4% = \$219,605,364,000.

COMPARISON BETWEEN CURRENT SYSTEM AND PROPOSED NEW SYSTEM FOR TYPICAL INDIVIDUALS AND FAMILIES

The following tables show the lines of IRS Form 1040 that would be affected by this proposal. The plan both simplifies the current tax system and, as the bottom lines reveal, creates a substantial tax cut for those with the least incomes.

TABLE 1: SINGLE TAXPAYER – CURRENT SYSTEM (2004 Tax Rates)

Line on 1040									
6D No. of exemptions	1	1	1	1	1	1	1	1	1
37 Adjusted gross income	0	5,000	10,000	20,000	40,000	100,000	1,000,000	2,000,000	
39 Standard deduction	4,850	4,850	4,850	4,850	4,850	*18,000	*180,000	*360,000	
40 Subtract 39 from 37	0	150	5,150	15,150	35,150	82,000	820,000	1,640,000	
41 Exemptions	3,100	3,100	3,100	3,100	3,100	3,100	3,100	3,100	
42 Taxable income	0	0	2,050	12,050	32,050	78,900	816,900	1,636,900	
43 Tax	0	0	205	1,450	4,750	16,726	266,862	553,822	
65 Earned income tax credit	0	384	112	0	0	0	0	0	
71 Refund due	0	384	-	-	-	-	-	-	
74 Amount owed	-	-	93	1,450	4,750	16,726	266,822	553,822	

*Estimated itemized deductions

Approximate welfare benefits (varies widely by state):

TANF	0	0	0	0	0	0	0	0	0
Food stamps	1,200	800	200	0	0	0	0	0	0
General relief	2,400	0	0	0	0	0	0	0	0
Total welfare benefits	3,600	800	200	0	0	0	0	0	0
Tax and welfare benefits	3,600	1,184	107	0	0	0	0	0	0

SINGLE TAXPAYER – PROPOSED NEW PLAN BASED ON PROGRESSIVE INCOME TAX

37 Adjusted gross income	0	5,000	10,000	20,000	40,000	100,000	1,000,000	2,000,000	
43 Tax	0	750	1,500	3,000	8,250	26,390	376,639	972,639	
69 BIG tax credit	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	
71 Refund due	10,000	9,250	8,500	7,000	1,750	-	-	-	
74 Amount owed	-	-	-	-	-	16,390	366,639	962,639	
Increase/decrease	- 6,400	- 8,066	- 8,393	- 8,450	- 6,500	- 336	99,817	408,817	

SINGLE TAXPAYER – PROPOSED NEW PLAN BASED ON A 35% FLAT TAX

37 Adjusted gross income	0	5,000	10,000	20,000	40,000	100,000	1,000,000	2,000,000	
43 Tax	0	1,750	3,500	7,000	14,000	35,000	350,000	900,000*	
69 BIG tax credit	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	
71 Refund due	10,000	8,250	6,500	3,000	-	-	-	-	
74 Amount owed	-	-	-	-	4,000	25,000	340,000	890,000	
Increase/decrease	- 6,400	- 7,066	- 6,393	- 4,450	- 750	8,274	73,178	336,178	

*Includes 20% surcharge

TABLE 2: SINGLE PARENT WITH ONE CHILD – CURRENT SYSTEM (2004 Tax Rates)

Line on								
1040								
6D No. of exemptions	2	2	2	2	2	2	2	2
37 Adjusted gross income	0	5,000	10,000	20,000	40,000	100,000	1,000,000	2,000,000
39 Standard deduction	7,150	7,150	7,150	7,150	7,150	*18,000	*180,000	*360,000
40 Subtract 39 from 37	0	0	2,850	12,850	32,850	82,000	820,000	1,640,000
41 Exemptions	6,200	6,200	6,200	6,200	6,200	6,200	6,200	6,200
42 Taxable income	0	0	0	6,650	26,650	75,800	813,800	1,633,800
43 Tax	0	0	0	665	3,491	14,556	262,898	549,898
51 Child tax credit	0	0	0	665	1,000	1,000	0	0
62 Total tax	0	0	0	0	2,491	13,556	262,898	549,898
65 Earned income tax credit	0	1,709	2,604	1,652	0	0	0	0
67 Additional child tax credit	0	0	0	335	0	0	0	0
70 Add lines 65 and 67	0	1,709	2,604	1,987	0	0	0	0
71 Refund due	0	1,709	2,604	1,987	-	-	-	-
74 Amount owed	-	-	-	-	2,491	13,556	262,898	549,898

*Estimated itemized deductions

Approximate welfare benefits (varies widely by state):

TANF	4,800	3,000	1,200	0	0	0	0	0
Food stamps	2,400	1,500	600	0	0	0	0	0
Total welfare benefits	7,200	4,500	1,800	0	0	0	0	0
Tax and welfare benefits	7,200	6,209	4,404	1,987	0	0	0	0

SINGLE PARENT WITH ONE CHILD – PROPOSED NEW PLAN (PROGRESSIVE TAX)

37 Adjusted gross income	0	5,000	10,000	20,000	40,000	100,000	1,000,000	2,000,000
43 Tax	0	750	1,500	3,000	8,250	26,390	376,639	972,639
69 BIG tax credit	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
71 Refund due	12,000	11,250	10,500	9,000	3,750	-	-	-
74 Amount owed	-	-	-	-	-	14,390	364,639	960,639
Increase/decrease	-4,800	-5,041	-6,096	-7,013	-6,241	834	101,741	410,741

SINGLE PARENT WITH ONE CHILD – PROPOSED NEW PLAN (35% FLAT TAX)

37 Adjusted gross income	0	5,000	10,000	20,000	40,000	100,000	1,000,000	2,000,000
43 Tax	0	1,750	3,500	7,000	14,000	35,000	350,000	900,000*
69 BIG tax credit	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
71 Refund due	12,000	10,250	8,500	5,000	-	-	-	-
74 Amount owed	-	-	-	-	2,000	23,000	338,000	888,000
Increase/decrease	- 4,800	-4,041	-4,096	-3,013	- 491	9,444	75,102	338,102

*Includes 20% surcharge

