The Simplified USA Tax (SUSAT)

Simplification – Encourages Savings - Competitiveness

GENERAL SUMMARY:

The Simplified USA Tax (SUSAT) Act reforms the current tax code, creating a pro-growth and taxpayer friendly system. Completely replacing the current corporate and personal income tax, SUSAT offers a two-tier approach:

- **An 8 to 12 percent business tax paid on cash flow;**

- **A 15, 25, and 30 percent progressive rate tax paid by individuals when they receive wages, interest, dividends and other income, offset by a payroll tax credit resulting in a tax rate of 7-17% for most Americans.**

SIMPLIFICATION:

Under SUSAT, individuals are taxed only once on their income, dramatically simplifying the current code. On the business side, SUSAT establishes a simple calculation of cash flows minus capital investments and input costs. In both the individual and the business provisions, the Alternative Minimum Tax (AMT) is permanently repealed, leading to dramatic gains and simplification. Further, because SUSAT eliminates extraterritorial taxation of business income and is fully border adjustable the bill virtually eliminates the outlandish complexity currently faced by U.S. employers attempting to do business abroad.

ENCOURAGES SAVINGS:

Providing a powerful anecdote to the national savings crisis, the English proposal offers unlimited Roth IRAs to encourage Americans to save their hard earned dollars. Individuals are taxed only once on their income, and would receive the full income tax credit that is allowed for the current Social Security and Medicare payroll tax. Because of the payroll tax credit, American workers would have immediate relief in their paychecks.

COMPETITIVENESS:

On the business side, SUSAT rewards, not punishes, the capital investment without which U.S. businesses can't compete internationally. The tax eliminates the bias against exports from domestic employers, creating a powerful incentive to move production and capital back to the U.S. Because SUSAT eliminates the current bias against savings, this reform expands the pool of capital for investment.

THE TWO-LEVEL USA TAX

Business-Level Tax

Rate: 8% on first $150,000 and 12% on excess
Tax Base: Sales Revenues from Domestic Operations (-) Exports (-) Purchases of Inventory (-) Purchases of Equipment & Services

Payroll Tax: Tax Credit for Employer-Paid Payroll Tax

Imports: 12% Tax on Imported Inventory, Equipment & Services

Wages | **Interest, Dividends & Sales of Stock**

Note: No Deduction for Wages Paid, Dividends Paid or Interest Paid

Individual-Level Tax

Rates: Progressive Rates of: 15, 25, and 30%.
Tax Base:
Wages + Interest + Dividends + Sales of Stock and Other Assets (-) Deductions + Credits

Universal Roth IRA/Savings: *No Deduction Allowed for Contributions, but Previously-Taxed Principal and Earnings on Principal Are Not Taxed when Withdrawn from USA Roth IRA. No Limit on Contributions and No Restrictions on Withdrawals. Preserves Limited Deductions Allowed under Current Code for 401(k), Other Employer-Sponsored Qualified Plans and Deductible IRAs.*

Other Deductions: *Deduction for Exempt Amount & Deductions for Home Mortgage Interest, Charitable Contributions & Secondary Education*

Family and Work Credit: *Families would get a non-refundable Family Credit with a base amount and $1500 for each child and $500 for each dependent. Some families would also get a refundable Work Credit designed to replace the EITC and Child Credit.*

Payroll Tax: *Credit for Employee-Paid Payroll Tax*

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Encourages Savings and Investment

THE USA INDIVIDUAL-LEVEL TAX

Under SUSAT, the average American will be able to fill out their tax forms, access savings and invest in the future without hassle. The system will be easy: (1) add up income; (2) subtract a few simple deductions; (3) apply USA's low tax rates to the balance; (4) take base Family Credit and additional amounts for children and dependents and take Work Credit if Family Credit amount exceeds tax liability; (5) take credit for employee-paid payroll tax and income taxes withheld by employers; and (6) pay the additional amount, if any, that is due.

USA ROTH IRA: THE CENTERPIECE OF THE INDIVIDUAL TAX

The USA Tax would eliminate the double tax on income that is saved, and, therefore, makes taxes a neutral factor in the choice between consuming income immediately or saving it in order to consume more later. USA accomplishes this feat in the simplest and fairest way possible by allowing everyone to contribute *after-tax* income to a USA Roth IRA patterned after the current Roth with certain modifications. Although called an "IRA", the USA version is in reality a universal savings vehicle that can be used for any purpose, not just retirement.

- *Everyone is eligible to contribute all or any portion of their current year's taxable income to a specially denominated account (like present IRA accounts at all banks and financial institutions).*

- *Because no deduction is allowed, the person must first pay the tax on all income and then contribute to the USA Roth IRA. Further, all contributions must be made in cash.*

- *Because all money that goes into the USA Roth IRA represents post-effective date after-tax income, no additional tax is imposed either on the accumulated principal amount or on the earnings on principal inside the account.*

- *Accumulated principal and earnings on principal can be withdrawn at any time and for any purpose.*

- *Not only does the USA Tax allow all Americans a fair opportunity to save and invest, it repeals the federal estate and gift taxes, allowing a fair opportunity to pass on accumulated savings to children and succeeding generations.*

OVERVIEW OF USA BUSINESS TAX

The USA business tax is a cash flow tax on all forms of business organization, corporate or unincorporated.[1] The calculation of a business's tax liability for the year is a simple five-step process:

Step One
Add up total sales during the year from operations in the United States;

Step Two
Exclude sales of goods and services for export;

Step Three
Deduct all purchases from other businesses, including expensing of capital equipment, inventory items, supplies, etc.;

Step Four
Apply the rate schedule to the remaining gross profit to determine tentative tax;

Step Five
Subtract from tentative tax a credit for the 7.65% employer-paid payroll tax.

The "gross profit" tax base in *step four* is the amount the business earns on a cash basis after expensing its capital equipment and paying its suppliers, but before paying its employees, stockholders and its creditors. Because the USA business tax allows no deduction for wages, dividends or interest, it collects a uniform tax on all forms of income -- labor and capital. Such "neutrality" is essential to basic fairness and economic efficiency. Under international treaties, it is also an essential ingredient of the important export and import features of the USA Tax.

[1] Like the present corporate income tax, however, the USA Tax exempts all religious, charitable and other nonprofit organizations described in section 501(c) of the current code.