Calculating the Single Rate Tax for a Balanced Budget with Increased Personal Exemption and Deductions

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Introduction

The current Federal income tax exemption of $3,400 and $5,350 standard deduction for a single individual in the United States at $8,750 is below the poverty level for that same individual. Adding insult to injury, Social Security and Medicare taxes are not netted out before the exemption and standard deduction is subtracted from taxable income — meaning that more than $650 is taxed away if someone makes just enough wage income to be covered by the exemption and standard deduction, leaving $8,100 on which to live. That is nearly $2,000 below the poverty level of $9,975 for a single individual.

That translates into a Social Security and Medicare tax that takes away $650 of desperately-needed income from someone who doesn't make enough money to qualify as "poor." Further, income taxes are paid on the $1,225 by which the poverty level exceeds the exemption plus standard deduction. At the lowest marginal tax rate of 10%, this amounts to $122.50 — a lot of money for somebody making wage income of $9,975 in a year, to say nothing of the additional Social Security and Medicare tax of approximately $90.

This makes the tax burden on someone making wage income of $9,975 (exclusive of state and local taxes, any property taxes, gasoline taxes, and sales taxes) more than $850 per year. If everyone defined as living in poverty in the United States was single and made wage income sufficient to put him or her exactly at the poverty level, this would translate into approximately $31.5 billion, or about 1% of the $3 trillion federal budget, two-thirds of which is Social Security, Medicare, and other entitlements.

Someone who was born January 1, 1943 and retired January 1, 2008 would, according to the "calculator" provided on the web site of the Social Security Administration,[1] receive $469 a month in benefits, or $5,628, on retirement if he or she had never made more than the poverty level of $9,975.

The politicians in Washington may think it is somehow just to tax people on what is desperately needed to live on, but we feel it would be much better if that same individual:

- Paid no taxes of any kind (*including* payroll taxes) until total income from all sources was more than $30,000 for a non-dependent and $20,00 for a dependent;
- Could accumulate $462,000 of income-generating assets on a tax-deferred basis by age 65;
- Enjoyed an after-tax income of $45,000 or more each year by age 65; and
- From birth to age 65 had total after-tax ownership income of nearly $1.6 million.

For this reason, assuming the tax reforms under our proposed Capital Homestead Act became law, the level of untaxed income remaining in the pockets from exemptions and deductions to meet reasonable quality-of-life standards would be raised to **$30,000** for a non-dependent, and **$20,000** for a dependent. Except for health care deductions up to $7,000 per person and education deductions of $3,000 for each household member that a taxpayer could aggregate on a tax return, most if not all other personal deductions could be eliminated. All payroll taxes on workers and their employers would be eliminated, increasing the available incomes to most workers to meet their own health insurance and education costs. Social Security, Medicare and other entitlement "promises" already made under today's laws, plus vouchers for the poor, would continue to be paid from general revenues. A

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[1] http://www.ssa.gov/OACT/quickcalc/index.html

single general tax rate calculated to balance the current Federal budget would be imposed on all taxable income from all sources above these exempted levels, including labor incomes, dividends, interest, and inflation-indexed capital gains.[2] The single tax rate above $30,000 for a single individual or **$100,000** for a "typical" family of four is be **48%** under the assumptions given below.

[2] The justification for exempting dividends and capital gains is the assumption that such income is necessary to provide financing for replacement of old capital and additional new capital formation. Per the analysis in *The Formation of Capital* (1935) by Dr. Harold G. Moulton, this is an erroneous assumption that actually inhibits sound and stable economic growth. All financing for new capital formation (replacement capital is a separate case) should be obtained through the use of pure credit, obtained through commercial banks and discounted at the central bank, as described in *The New Capitalists: A Proposal to Free Economic Growth from the Slavery of Savings* (1961), by Louis O. Kelso and Mortimer J. Adler.

Part I: Exemptions and Deductions

The factors making up the exemption and deduction package are as follows:

Chart I: Non-Dependent Exemption Plus Deductions

Poverty Level, Single Individual	$10,000.00
Per Capita Health Care	$7,000.00
Per Capita Education	$3,000.00
Quality of Life Factor	$10,000.00
	$30,000.00

Chart II: Dependent Exemption Plus Deductions

Poverty Level, Single Individual	$5,000.00
Per Capita Health Care	$7,000.00
Per Capita Education	$3,000.00
Quality of Life Factor	$5,000.00
	$20,000.00

These factors are calculated as follows:

Poverty Level

We start with the latest published figures from the Bureau of the Census. These figures are published every five years.

Chart III: 2005 Poverty Levels

Unrelated individuals	$9,973.00
Family of two	12,755.00
Family of three	15,577.00
Family of four	19,971.00
Average	14,569.00

We begin by rounding up the $9,973.00 for unrelated individuals to **$10,000**. This gives us our basic "poverty level factor" for a single, non-dependent individual. In attempting to derive a figure for a dependent, however, we run into a problem. One plus one does not equal two in these figures. As can be seen, doubling the number of individuals in a family from one to two (a 100% increase) only increases the poverty level by 27.9%, or $2,782.00, and that is presumably for two non-dependents.

It is evident that some expenditure items can benefit more than one person at the same time, such as housing, certain utilities, and so on. These thus apply equally to each person. The additional increment applies to those expenditure items that relate solely as the result of adding more people, but not to "common" expenditure items. We believe we can therefore determine a reasonable poverty level factor for a dependent by dividing the poverty level figures by the total number of individuals to which they apply, thereby taking into account both the "exclusive" amounts that result from adding more people, and the pro-rated amounts that apply equally to all. This gives us:

Chart IV: Allocating the Poverty Level Factor

	POVERTY LEVELS	AVERAGE
Unrelated individuals	$9,973.00	$9,973.00
Family of two	12,755.00	$6,377.50
Family of three	15,577.00	$5,192.33
Family of four	19,971.00	$4,992.75

A conservative "poverty level factor" of **$5,000** for a dependent thus appears reasonable, being exactly half of the poverty level factor for a non-dependent.

Per Capita Health Care Factor

Calculating the premium for universal comprehensive health insurance presents something of a problem. The United States Census Bureau, www.census.gov, publishes statistics on total health care costs for every year that ends in "2" or "7," or every five years. As of this writing, the latest figures available are from 2002, when the estimated population of the United States was 288,368,698.

At that time, the total cost figure for "Health Care and Social Assistance" was $1,207,299,734,000, or (roughly) $1.21 trillion, including the costs of malpractice insurance, hospices, health insurance, prescription drugs, preventive care — everything — and support systems for health delivery. Backing out the reported figure of $91,412,364,000 ($91.41 billion) for "Social Assistance" (which includes such line items as day care and pre-school), leaves an adjusted figure for purely health care costs for 2002 of $1,115,887,370,000, or $1.12 trillion.

Dividing the cost by the 2002 estimated population gives a *per capita* health care cost for that year of $3,870, or nearly $4,000 per man, woman, and child in the United States. The "population clock" on the Census Bureau web site for July 24, 2007 gave an estimated total population for the United States as 302,426,525, which when multiplied by $3,870 gives an estimated total health care cost for the United States for 2007 as $1.17 trillion — assuming no increases. Some alarmists are predicting that health care costs will increase by 300% to 1,000% over the next five years, but without verifying their figures or explaining how they arrive at their estimates.

This would give us a rounded annual *per capita* cost of health care in the United States of $4,000, or an amount to pay for a *per capita* health insurance premium of $3,000, assuming a $1,000 deductible. While these figures seem reasonable, however, the United States Department of Health and Human Services gives a substantially larger annual *per capita* cost of health care. Although we were unable to verify the figures, the "Health Care Costs Fact Sheet" posted on the agency's web site states that, "In 1960 . . . health care expenditures accounted for about 5 percent of the GDP; by 2000, that figure had grown to more than 13 percent."[3]

Raising the figure to 15%, we think we can come up with a figure that will satisfy any potential critics and be extremely conservative at the same time. Using the 2006 reported GDP of $13.25 trillion, we calculate total health care costs of $1.99 trillion, which we will round up to $2 trillion. Dividing by an estimated total population of 300 million, we arrive at an annual *per capita* health care cost of $6,666.67, which we round up to **$7,000**. We then revise our estimated *per capita* insurance premium to $6,000, and provide a "standard deductible" or co-payment of $1,000.

[3] http://www.ahrq.gov/news/costsfact.htm

Per Capita Education Factor

Education is another area of concern. Without a good education within the reach of people of moderate means, the United States faces the creation of an extremely stratified society, divided into an educated elite and a large mass of unemployable unskilled workers. More importantly, without a grounding in the ability to learn and think, creativity dries up, as it has in many respects already as institutions of higher learning have been transformed into job training centers, distributing the necessary admission ticket to a "good job." We should now calculate the per capita expenditure for education by taking the total amount spent on education and dividing it by the total population:

Chart V: *Per Capita* Cost of Education

All Educational Institutions, Pre-K through Graduate: (000s of dollars, U.S. Department of Education for 2003)	826,600,000
All other education (000s of dollars, 2002, Census Bureau)	30,754,109
Total	857,354,109
Per capita cost of education:	2,857.85

This we round to an even **$3,000**. We must be aware, however, that not everyone may spend this much on education each year — or this little. We can, however, qualify such things as savings for education and payment of student loans (both principal and interest) by including them as expenditures. Further, we propose the ability to aggregate family income and expenditures for tax purposes, so that adults who have completed their education can apply their deduction to the children.

Quality of Life Factor

Obviously, expecting people to live at a State-determined poverty level supplemented with per capita amounts for health care and education is unrealistic; it puts the "average" person at subsistence level or below as a matter of course. We therefore need to add a factor to the basic exemption to allow for something above bare subsistence, a "quality of life" factor to allow people to meet their living expenses in a manner befitting the demands of human dignity.

We will begin by listing the items normally considered as included in the poverty level factor, and find out what the average amounts are for a typical individual. From that we will subtract the poverty level factor to avoid "double counting" of the amounts. This will give us the "additional" amount above the poverty level that an ordinary person typically expends to meet common needs in a decent manner.

The items we need to consider are Food, Clothing, Transportation, and Shelter. To Shelter we need to add the expenditures that accompany mere shelter. These are Utilities and Fuels, Household Operations, Supplies, and Furniture and Equipment. All of these are categories of expenditure items given in the Census Bureau's "Table 662. Average Annual Expenditures of All Consumer Units by Type of Expenditure: 1990 to 2005."

According to the Census Bureau, a "Consumer Unit" is a single independent individual or discrete family group. Approximately a third of the population is made up of single individuals, while the other two thirds is families, which we round down to two individuals for ease in calculation. The aggregate figures on Table 662 are given by "Consumer Units," so to arrive at a reasonable figure for a single non-dependent individual we divide by 3 and multiply by two — testing the result by performing the same calculation on the average poverty level given in Chart III above:

$14,569.00/3 x 2 = $9,712.67

$9,712.67 being close to the official poverty level figure of $9,973.00 for a single individual, we conclude that our assumption is valid and a reasonable method for determining the amounts for a single individual from the aggregate amounts given in Table 662. We will therefore divide the aggregate amounts given in Table 662 for selected items by 3 and multiply them by 2 to arrive at the amount for a single non-dependent individual.

We omit items such as Health Care and Education (covered by separate line items), as well as Entertainment, Pension Savings, Insurance, Charitable Contributions, and a variety of other personal items, as well as taxes. These aggregate to approximately $15,000 according to Table 662, but preliminary calculations revealed that attempting to exempt the income used for such items from taxation resulted in a single tax rate of 117% when trying to arrive at a balanced federal budget and eliminate government borrowing except out of existing pools of savings.

We further assume that (as we discovered with the basic poverty level factor above) the amounts that make up the quality of life factor for a dependent are half of the amounts for a non-dependent. Using the basic figures for 2005 from Table 662, then, we get the following results:

Chart VI: Quality of Life Factor Calculation

ITEM	TOTAL	INDIVIDUAL	ROUNDED	DEPENDENT
Food	$5,931.00	$3,954.00	$4,000.00	$2,000.00
Clothing	$1,886.00	$1,257.33	$1,000.00	$500.00
Transportation	$8,344.00	$5,562.67	$5,000.00	$2,500.00
Shelter	$8,805.00	$5,870.00	$6,000.00	$3,000.00
Utilities, fuels	$3,183.00	$2,122.00	$2,000.00	$1,000.00
Household ops.	$801.00	$534.00	$500.00	$250.00
Supplies	$611.00	$407.33	$500.00	$250.00
Furniture/equip.	$1,767.00	$1,178.00	$1,000.00	$500.00
			$20,000.00	$10,000.00
		Less: Poverty level factor for same items:	$(10,000.00)	$(5,000.00)
		Quality of Life Factor:	$10,000.00	$5,000.00

Part II: The Single Tax Rate

According to the United States Bureau of Economic Analysis,[4] the Gross Domestic Product (GDP) of the United States in 2007 was $13.8 trillion. This amount is substantiated by figures supplied by the United Nations, which reports *per capita* U.S. GDP at $46,000. When multiplied by the estimated U.S. population of 300 million, we get the same figure: $13.8 trillion — suggesting that the UN accepted the figure supplied by the U.S. Bureau of Economic Analysis.

Now we need to come up with a reasonable figure for government expenditures per year. From the Office of Management and Budget we find the following projections for the Federal Budget in billions of dollars:

Chart VII: Historic and Projected Federal Budget (In Billions) (in Billions)

YEAR	RECEIPTS	DISBURSEMENTS
2005	2,154.00	2,472.00
2006	2,285.00	2,709.00
2007	2,416.00	2,770.00
2008	2,590.00	2,814.00
2009	2,714.00	2,922.00
2010	2,878.00	3,061.00
2011	3,035.00	3,240.00
Rounded		3,000.00

That is, the estimated annual federal budget is $3 trillion, of which $2 trillion consists of entitlements.

We begin by assuming that the standard exemption plus health and education deductions for a non-dependent individual should be $30,000, while that for a dependent individual should be $20,000, neither of which includes $10,000 annually that every person that could be accumulated from current earnings or capital credit under the proposed Capital Homestead Act. This is because the Capital Homesteading amount is a deferral. Assets sold (and not re-invested) or otherwise distributed from a Capital Homestead Account will be fully taxable as ordinary income to the recipient.

It is anticipated that Capital Homesteading Accumulations will largely be disbursed through inheritance on the death of the homesteader, with inheritance and gift tax laws shifted to taxation of the recipients with Capital Homestead Accounts rather than on large estates of our most affluent citizens. In the early stages, taxpayers who have accumulated wealth will take full advantage of the $1 million tax-sheltered deferral immediately. Those holding such large estates tend to be older individuals. Upon their deaths, all bequeathed accumulations over the $1 million tax-sheltered accumulation ceiling per recipient will be taxed as ordinary income to the heirs or other favored individuals, unless transferred to the Capital Homestead Account(s) of other heirs or favored recipients, but will not be included in GDP.

Thus, the amounts not taxed under Capital Homesteading should constitute a "wash" with respect to the tax base. Further, since the ability to deduct contributions to foundations from personal income will no longer exist in a society committed to avoiding inter-generational depersonalized monopolistic accumulations and to diffusing broadly access to future ownership opportunities, tax revenues should dramatically increase for a generation as a result of the loss of the tax shelter now available to foundations. In order to be as conservative as possible, however, the Capital Homestead deferral will be considered a dollar-for-dollar wash without regard to anticipated tax revenues from inheritance being treated as ordinary income.

[4]National Economic Accounts: Gross Domestic Product (GDP) "Current-dollar and 'real' GDP"

Assuming that half the population is non-dependent, we therefore get the following results:

Chart VIII: Calculation of Single Tax Rate

Population			300,000,000
Per Capita GDP			46,000
Gross GDP (in millions)			13,800,000
Non-Dependent Exemption			30,000
Dependent Exemption			20,000
Assume: Entire population consists of typical four-person families			
Thus, a typical "family of four" would have an aggregate exemption of:			$100,000.00
150,000,000	Non-dependents	(in millions)	$4,500,000.00
150,000,000	Dependents	(in millions)	$3,000,000.00
		Total Exempted Income	$7,500,000.00
		Total Taxable Income	6,300,000.00
Federal Budget (in millions)			3,000,000.00
		Tax Rate	47.62%

This we round up to 48% for ease in calculations. While this might seem high, the current maximum marginal tax rate of 35% plus Social Security and Medicare of 15% add up to 50%. Moreover, the burden of entitlement spending in these pay-as-you-go programs is projected to increase tax rates on taxable incomes further as the proportion of retired population in these pay-as-you-go programs rise faster than that of the workers who will be paying for such entitlements. This leads to the inescapable conclusion that increasing exemptions and deductions to a realistic level, merging Social Security and Medicare into the general tax rate, and taxing all income above the exemptions and deductions at the same rate will actually decrease overall taxes for the vast majority of Americans. This results in large measure from shifting the burden of Social Security and Medicare from a capped amount imposed most heavily on individuals in the lower income brackets to a sharing of these future costs by those whose income from property contribute nothing to these entitlement programs. Such a solution to entitlement programs that David Walker, the highly respected recently retired Comptroller General, called “unsustainable”, would spread the burden out more equitably, solve the problem of funding for the promises already made by the government, and provide future dividend incomes from Capital Homestead Accounts for every citizen that over time would allow the phasing out of taxpayer-supported entitlement incomes.

Part III: Effective Tax Rates

We can expect that individuals in the upper brackets will protest that the bulk of their income derives from dividends and capital gains, which are usually taxed at more favorable rates than wage incomes. The underlying rationale for this position is to encourage reinvestment of corporate profits in order to finance economic growth and provide wage system jobs — which can then be taxed instead of dividends and capital gains. Is that, however, the most efficient and cost-effective means of financing more universal participation in economic growth and capital formation? Not according to Dr. Harold Moulton in his classic 1935 study of financing investment, *The Formation of Capital*.[5] As we pointed out above, by cutting consumption (which is what, effectively, reinvestment is), economic growth is slowed dramatically. In extreme cases, where money is created for non-productive uses and reinvested in speculation or gambling (as was the case in 1929), the resulting "readjustment" in the economy can be devastating in its effects.

As we will point out, the Capital Homestead Act will offer a better alternative for financing faster non-inflationary rates of capital formation and private sector jobs than can possibly be achieved by virtually total reliance on past savings. Louis O. Kelso, the lawyer-investment banker-economic theorist who invented the "leveraged Employee Stock Ownership Plan" or "ESOP" challenged the assumptions of conventional schools of economics and Wall Street investment bankers by proving that a market economy could grow faster and create a nation of capital owners through "new asset-backed money" channeled into feasible leveraged acquisitions of new and transferred capital assets, based on the principle of self-liquidating capital credit repayable with "future savings." (See *The New Capitalists: A Proposal to Free Economic Growth from the Slavery of Savings* by Louis O. Kelso and Mortimer J. Adler, Random House, 1961; also "A New Look at Prices and Money: The Kelsonian Binary Model for Achieving Rapid Growth Without Inflation" by Norman G. Kurland, *The Journal of Socio-Economics*, vol. 30, 2001 and *Binary Economics: The New Paradigm* by Robert Ashford and Rodney Shakespeare, University Press of America, 1999.)

For comparison, let's first assume that Capital Homesteading will not decrease the Federal budget at all, and that the single tax rate is 48%. Further assume, however, that (1) the personal exemption plus deductions leaves available for consumption $30,000 per non-dependent, and $20,000 per dependent; (2) corporate dividends, interest and inflation-indexed capital gains are taxed *once* as ordinary income at the individual level, and not at all at the corporate level (*i.e.*, dividends would be tax deductible at the corporate level under the Capital Homestead Act);(3) that capital credit reforms under the Capital Homestead Act would supply self-liquidating credit for financing all the new capital formation needs of the American economy, thereby increasing the consumption spending of the wealthiest Americans and generating millions of new private sector jobs ; (4) the poor would be supplied with vouchers to make up deficiencies in their incomes to meet their health, education and other basic needs until supplemental incomes from new jobs and Capital Homesteading dividends enabled today's poor to become income independent of welfare or charity; and, very important, (5) social units ("Consumer Units") such as families can aggregate their exemptions and deductions. We get the following results for the effective tax rate for a family of four:

Chart IX: Effective Reformed Tax Rates on Wage Income Under Current Federal Budget

INCOME	TAX PAID	EFFECTIVE RATE
25,000.00	-	0.00%
50,000.00	-	0.00%
75,000.00	-	0.00%
100,000.00	-	0.00%

[5] *Ibid*.

125,000.00	12,000.00	9.60%
150,000.00	24,000.00	16.00%
175,000.00	36,000.00	20.57%
200,000.00	48,000.00	24.00%
300,000.00	96,000.00	32.00%
400,000.00	144,000.00	36.00%
500,000.00	192,000.00	38.40%
600,000.00	240,000.00	40.00%
700,000.00	288,000.00	41.14%
800,000.00	336,000.00	42.00%
900,000.00	384,000.00	42.67%
1,000,000.00	432,000.00	43.20%

As we can see, even without reductions in the Federal budget, the effective tax rate on incomes of less than $150,000 is under 16% — substantially less than now. Still — an effective rate of more than 43.2% on incomes of $1,000,000 or more is pretty high — much higher than the approximately 15% rate for qualified dividends and capital gains currently paid, especially considering that wage income above $1 million is relatively rare, and that most people with incomes at that level receive it in the form of dividends and capital gains — on which they receive extremely favorable tax treatment.

Given the actual "double taxation" of dividends and the effective double taxation of capital gains (presumably a reflection of the value of retained earnings, which represent undistributed corporate income on which taxes have been paid), is the favorable tax treatment for dividends and capital gains all that "favorable"? Looking at how dividends and capital gains are currently taxed for a single individual gives a somewhat different picture. Assuming a 15% tax on dividends and capital gains, and a 35% tax on corporate profits, we get the following:

Table X: Total Taxes Paid on Earnings Passed Through to Shareholders

CORPORATE INCOME	CORPORATE TAX @ 35%	GROSS TO TAXPAYER	PERSONAL TAX @ 15%	NET TO TAXPAYER	EFFECTIVE TAX RATE
30,000.00	10,500.00	19,500.00	2,925.00	16,575.00	44.75%
60,000.00	21,000.00	39,000.00	5,850.00	33,150.00	44.75%
90,000.00	31,500.00	58,500.00	8,775.00	49,725.00	44.75%
150,000.00	52,500.00	97,500.00	14,625.00	82,875.00	44.75%
200,000.00	70,000.00	130,000.00	19,500.00	110,500.00	44.75%
300,000.00	105,000.00	195,000.00	29,250.00	165,750.00	44.75%
500,000.00	175,000.00	325,000.00	48,750.00	276,250.00	44.75%
700,000.00	245,000.00	455,000.00	68,250.00	386,750.00	44.75%
800,000.00	280,000.00	520,000.00	78,000.00	442,000.00	44.75%
1,000,000.00	350,000.00	650,000.00	97,500.00	552,500.00	44.75%

The first thing we note is that, regardless of the amount of income derived from dividends and capital gains, if the 15% rate is applied across the board and the minimum corporate tax rate of approximately 35% for income over $75,000 is the maximum that is paid (which is not the case, as the corporate tax rate increases as earnings increase — up to a point[6]), there is an effective "single rate tax" for "non-wage" income in the form of dividends and capital gains of 44.75% — more than the effective rate of 43.2% under the single rate tax.

[6] As if to emphasize the irrational nature of the current tax system, the Federal corporate tax rate schedule is partly progressive and partly regressive. The rate below $50,000 is 15%; from $50,000 to $75,000, 25%; from $75,000 to

We also discover the rather surprising result that people who receive "favorable" treatment of capital gains and dividends have already paid 35% in taxes *before* receiving a dime. When personal taxes of 15% are added in, the recipient of dividends and capital gains under the current system pays an effective rate *greater* than individuals earning $1,000,000 of wage income under a reformed Capital Homesteading single rate tax with high exemptions but no reductions in the Federal budget!

These figures do not materially change when we factor in the current level of personal exemptions and the standard deduction — many rentiers (small investors) do not qualify for itemization if they've been financially prudent. The figures do, however, *increase* if we factor in a corporate tax rate greater than the 35% minimum we used in the calculation. The "favorable" tax treatment under the current double- and triple-taxation is not quite as "favorable" as many people suppose. Finally, if we remove the extremely unpopular favorable tax treatment of dividends and capital gains and tax such income at the highest marginal rate of 35%, adding that 35% to the 35% corporate tax levied on corporate income in excess of $18.3 million results in an effective tax rate on the wealthy of 70% — more than half again as much as the proposed estimated 48% single rate under Capital Homesteading.

Reducing the Federal Budget: Looking Forward to 2050

All of the above assumes as a given that the current estimated federal budget will not decrease in any way; that any decreases in expenditure will be applied to reducing the debt or meeting the estimated $74 trillion shortfall in Social Security and Medicare.[7] We have to remember, however, that the income generated by individual Capital Homestead Accounts will at first supplement, and eventually replace virtually all transfer payments, Social Security, Medicare, and other entitlements once all current promises have been kept, and that the personal exemption or vouchers will be taking care of education and health care. Private charity will be able to handle much of what remains in hard cases, so that government welfare payments and entitlements will, over two generations, diminish to the absolute minimum necessary to maintain an emergency "social safety net." Taking current expenditures in these areas as our guide, and being as conservative as possible, the Federal Budget should decrease by,

Table XI: Reductions from the Federal Budget

Reductions (in millions)	
Federal Funds for Education	68,085
Federal Funds for Health Care (Including Medicare & Medicaid)	67,200
Government Transfer Payments	1,361,700
Federal Food Programs	46,009
Social Security	520,561
Supplemental Social Security Income	36
Total	2,063,591
Round	2,000,000

$100,000, 34%; from $100,000 to $335,000, 39%; $335,000 to $10,000,000, 34% again; from $10,000,000 to $15,000,000, 35%; from $15,000,000 to $18,333,333, it goes up to 38%; from $18,333,333 on up it goes down again to 35%. "Small" business is given a minor break, "big" business pays a heavier *pro rata* tax burden, while "ultra big" business pays a lower rate than "big" business. The tax system thereby supports the use of existing savings to form capital, inhibiting or preventing anyone without existing savings from participating in ownership to any significant degree. We therefore use 35%, as most companies paying out dividends in significant amounts must generate income after taxes — out of which dividends are paid — in excess of $10,000,000 in order to retain sufficient earnings to replace worn out assets and invest in growth.

[7] See Thomas R. Saving, "$74 Trillion = Crisis," *The Wall Street Journal*, March 9, 2005, p.A20.

Note that the potential reduction in the Federal budget — $2 trillion — is (coincidentally) approximately equal to the annual "growth ring" of new capital added to the U.S. economy. It is also consistent with recently retired U.S. Comptroller David Walker's statement that entitlements make up two-thirds of the Federal budget. We need, however, to add in a provision for the negative income tax, whether in the form of direct cash payments or vouchers. Realistically, this would be taken care of by the increase in the tax base combined with decreases in federal spending, but we are, again, being as conservative as possible.

Assuming that the average income below the new individual "basic adequacy level"[8] of $30,000 (the amount of exempted personal incomes) is exactly half of the new poverty level gives us $15,000. This happens to be almost exactly the average amount of the current poverty level, suggesting that Capital Homesteading reforms will not increase federal levels of expenditure for welfare or entitlements, nor will it increase the number of people defined as living in poverty. Merging Social Security and Medicare taxes into the general single tax rate should even lift some people out of poverty, as they would no longer be taxed on "dollar one" of their earnings for redistribution to others.

Also consider the fact that the Federal Reserve Board estimated total consumer debt as of 9/30/07 at $2.482 trillion, or approximately $8,000 *per capita*.[9] (Recent news reports indicate that this has increased to $9,000, but this has not been verified.) Adding in mortgage debt (characterized by former Federal Reserve Chairman Alan Greenspan as a "bubble" and substantiated by the sub-prime mortgage crisis) of $3.001 trillion[10] gives an additional $10,000 of *per capita* debt, much of which has been revealed recently to exceed the value of the homes on which the mortgage was made.

In effect, each American family of four has a debt burden of $72,000. We are forced to conclude that families are spending far beyond their actual incomes, and are already effectively, if not officially, living in poverty. The needs of these individuals and families are being met out of non-existent savings (increases in debt) or by various forms of State welfare or redistribution.

Taking only the "non-revolving" consumer debt figure of $1.5 trillion supplied by the Federal Reserve for September of 2007[11] ("non-revolving" meaning debt that must be paid in the current period, and not renewable, or "revolving"), gives a *per capita* amount by which each individual lives beyond his or her means each year of $5,000 ($20,000 for a family of four). Subtracting $5,000 from the basic poverty level factor of $10,000 plus the health care deduction of $7,000, and assuming that there are no education expenditures or Capital Homestead investment gives $12,000. This amount is close to the current "poverty level" of $9,973 for an "unrelated individual" we saw in "Chart III," and slightly under the $12,755 for a "Family of Two."

Now consider that a significant amount of the "increased" income that results from reforming the tax system (actually taxes that are not paid until income from all sources exceeds $30,000) will thus result from folding Social Security and Medicare taxes — currently at around 15%[12] — into the general, single tax rate, and not on all wage income below the existing statutory limit. This will mean an effective increase in consumable income of $4,500 on wage incomes of $30,000. This is, ironically, almost the same as the reported *per capita* annual borrowing for consumer goods and services! (The possibly unwelcome conclusion resulting from this analysis is that the Social Security and Medicare taxes are in some measure causing the very conditions they are intended to ameliorate, as de Tocqueville predicted in his *Memoir on Pauperism* in 1835.)

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[8] "Subsistence Level" would be more accurate, but "Poverty Level" is the accepted terminology.
[9] http://www.federalreserve.gov/releases/G19/Current/
[10] http://www.mortgagebankers.org/NewsandMedia/PressCenter/55116.htm
[11] *Op. cit*.
[12] Currently individuals pay half, or approximately 7.5% of the Social Security and Medicare tax, while employers pick up the other half. By folding Social Security and Medicare into the general tax rate on individuals, employers will no longer be charged the other half of Social Security and Medicare taxes. This will free up profits to pay out as dividends, or increase wage incomes, both of which would increase consumption incomes under Capital Homesteading.

Multiplying our new "adequacy" level of $15,000 by 40 million persons (37 million per official figures, but rounded up) gives us an "add back" to the Federal budget of $600 billion in negative income taxes and vouchers. We round this down to $500 billion due to the fact that we originally rounded up the number of people in poverty. We also did not take into account that there are probably no individuals receiving absolutely no income, and, as the economy gears up for full production, far fewer people will receive the negative income tax and vouchers, and those in decreasing amounts as personal income rises with the creation of jobs in a fast-growth economy combined with increased capital income from Capital Homestead Accounts.

Adding $500 billion back into the reductions of $2 trillion leaves us with a rough estimate of the Federal Budget under Capital Homesteading of $1.5 trillion — half the current anticipated budget. Using these new figures to calculate the single tax rate once Capital Homesteading has empowered individuals and families to accumulate a significant amount of income-generating assets (less than 40 years, given the anticipated increase in economic growth) gives us $1.5 trillion divided by taxable GDP of $6.3 trillion, or 23.81%. This is a much more palatable figure, less than the current corporate tax for larger businesses, or the individual marginal tax rate of persons in the higher brackets — and remember that if a family of four pays no taxes on aggregate income of less than $100,000, paying taxes at all means a family is *already* in what is today regarded as a "higher bracket" before it begins paying taxes.

If it were possible to eliminate all welfare (an unrealistic expectation, of course), we would have a tax rate calculated by dividing $1 trillion by $6.3 trillion, or 15.87%. Still, being able within a generation to reach the hitherto "unreachable star" of full employment by including full employment of capital combined with widespread ownership thereof, should eliminate poverty as a permanent condition of life for an estimated 13% of Americans, leaving the negative income tax and vouchers to succor the truly unfortunate, instead of trapping people into an unbreakable cycle of poverty.

This version of the single rate tax represents a revolutionary restructuring of the Welfare State based on class warfare and redistribution, to a welfare state based on the economic empowerment through capital ownership of every citizen as a fundamental right of citizenship and self-governance. This, of course, would make the State more dependent on the citizens, rather than having the citizens increasingly dependent on a "Big Brother" form of government.

A tax rate of 23.81% (rounded up to 25% for ease in calculation) is, however, still a high figure — but what does it really mean? The median income in many states today is below $40,000, according to the Census Bureau (the average median income of all 50 states, the District of Columbia, and Puerto Rico is a little over $50,000), so what would the real or "effective" tax rate be? Let us assume that people making less than $100,000 take all their income in the form of wages. This is actually not too unrealistic, for most middle class investors do not spend any dividend and capital gain income, choosing to reinvest what they might have for retirement.

Let us further assume that, in an attempt to meet the present value of the projected shortfall in Social Security and Medicare, the $74 trillion[13] or so will be raised (or will try to be raised) by levying the approximately 15% tax on all wage income up to $100,000, of which the employer pays half, or 7.5%. Using the tax rates established for 2006, a "typical" family of four would pay the following in taxes:

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[13] Thomas R.Saving, "$74 Trillion=Crisis", *The Wall Street Journal*, March 9, 2005, p. A20. Mr. Saving, a senior fellow at the National Center for Policy Analysis, is the director of the Private Enterprise Research Center at Texas A&M.

Chart XII: Current Effective Tax Rates for Family of Four, Wage Income Only

GROSS INCOME	EXEMP-TION	STANDARD DEDUCT.	TAXABLE INCOME	SOCIAL SECURITY	INCOME TAX	TOTAL TAX	EFFECT. RATE
30,000.00	13,200.00	10,300.00	6,500.00	2,250.00	650.00	2,900.00	9.67%
60,000.00	13,200.00	10,300.00	36,500.00	4,500.00	4,720.00	9,220.00	15.37%
90,000.00	13,200.00	10,300.00	66,500.00	6,750.00	9,740.00	16,490.00	18.32%
120,000.00	13,200.00	10,300.00	96,500.00	7,500.00	17,240.00	24,740.00	20.62%
125,000.00	13,200.00	10,300.00	101,500.00	7,500.00	18,490.00	25,990.00	20.79%
150,000.00	13,200.00	10,300.00	126,500.00	7,500.00	24,824.00	32,324.00	21.55%
175,000.00	13,200.00	10,300.00	151,500.00	7,500.00	31,824.00	39,324.00	22.47%
200,000.00	13,200.00	10,300.00	176,500.00	7,500.00	38,824.00	46,324.00	23.16%
300,000.00	13,200.00	10,300.00	276,500.00	7,500.00	71,226.50	78,726.50	26.24%
400,000.00	13,200.00	10,300.00	376,500.00	7,500.00	105,025.50	112,525.50	28.13%
500,000.00	13,200.00	10,300.00	476,500.00	7,500.00	140,025.50	147,525.50	29.51%
600,000.00	13,200.00	10,300.00	576,500.00	7,500.00	175,025.50	182,525.50	30.42%
700,000.00	13,200.00	10,300.00	676,500.00	7,500.00	210,025.50	217,525.50	31.08%
800,000.00	13,200.00	10,300.00	776,500.00	7,500.00	245,025.50	252,525.50	31.57%
900,000.00	13,200.00	10,300.00	876,500.00	7,500.00	280,025.50	287,525.50	31.95%
1,000,000.00	13,200.00	10,300.00	976,500.00	7,500.00	315,025.50	322,525.50	32.25%

The Goal: Effective Tax Rates Under the Proposed Capital Homestead Act

Now we compare today's taxes with what would be paid after the system has been in place for a generation, assuming that the Capital Homestead reforms are adopted in their entirety. Assuming a family of four, the aggregation of personal exemptions, a single personal tax rate of 25%, and Social Security and Medicare merged into the general single tax rate gives us the following effective tax rates:

Table XIII: Effective Capital Homesteading Tax Rates for Family of Four, All Income

INCOME	TAX PAID	RATE
25,000.00	-	0.00%
50,000.00	-	0.00%
100,000.00	-	0.00%
125,000.00	6,250.00	5.00%
150,000.00	12,500.00	8.33%
200,000.00	25,000.00	12.50%
300,000.00	50,000.00	16.67%
400,000.00	75,000.00	18.75%
500,000.00	100,000.00	20.00%
800,000.00	175,000.00	21.88%
900,000.00	200,000.00	22.22%
1,000,000.00	225,000.00	22.50%

Four-person families with an aggregate income of $100,000 or less would pay no taxes. Within a generation it would not be until a family had aggregate income of more than $300,000 that the family's entire tax rate would be even close to the current Social Security tax (of which self-employed individuals pay both "halves," whether they make $1 or $100,000), much less today's income tax.

The effective tax rate only gets above 20% for incomes in excess of $500,000, while someone making a million dollars in annual income would pay less than 25% — significantly less than the current marginal tax rate of approximately 35% on wage income in that bracket, and substantially less than the nearly 70% paid on "non-wage" income in the form of capital gains and ordinary dividends once the politically and economically non-viable favorable tax treatment is removed.