

## Appendix: A Flat-Tax Law

A BILL TO AMEND the Internal Revenue Code to implement a flat-rate tax system.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*

That (a) subtitle A of the Internal Revenue Code is amended to read as follows.

### SECTION 1. SHORT TITLE

This act may be cited as the “Tax Reform Act of 1995.”

### **Subtitle A—Income Taxes**

- Chapter 1. Computation of taxable income.
- Chapter 2. Determination of tax liability.
- Chapter 3. Exempt organizations.
- Chapter 4. Withholding.

### CHAPTER 1. COMPUTATION OF TAXABLE INCOME

- Sec. 101. Compensation defined.
- Sec. 102. Business receipts defined.
- Sec. 103. Cost of business inputs defined.
- Sec. 104. Cost of capital equipment, structures, and land defined.
- Sec. 105. Business taxable income defined.

**Sec. 101. Compensation defined**

- (a) In general. Compensation means all cash amounts paid by an employer or received by an employee, including wages, pensions, bonuses, prizes, and awards.
- (b) Certain items included. Compensation includes
  - (1) The cash equivalent of any financial instrument conveyed to an employee, measured as market value at the time of conveyance
  - (2) Workman's compensation and other payments for injuries or other compensation for damages
- (c) Certain items excluded. Compensation excludes
  - (1) Reimbursements to employees by employers for business expenses paid by the taxpayer in connection with performance by him or her of services as an employee
  - (2) Goods and services provided to employees by employers, including but not limited to medical benefits, insurance, meals, housing, recreational facilities, and other fringe benefits
  - (3) Wages, salaries, and other payments for services performed outside the United States

**Sec. 102. Business receipts defined**

Business receipts are the receipts of a business from the sale or exchange of products or services produced in or passing through the United States. Business receipts include

- (1) Gross revenue, excluding sales and excise taxes, from the sale of goods and services

- (2) Fees, commissions, and similar receipts, if not reported as compensation
- (3) Gross rents
- (4) Royalties
- (5) Gross receipts from the sale of plant, equipment, and land
- (6) The market value of goods, services, plant, equipment, or land provided to its owners or employees
- (7) The market value of goods, services, and equipment delivered from the United States to points outside the United States, if not included in sales
- (8) The market value of goods and services provided to depositors, insurance policyholders, and others with a financial claim upon the business, if not included in sales

**Sec. 103. Cost of business inputs defined**

- (a) In general. The cost of business inputs is the actual cost of purchases of goods, services, and materials required for business purposes.
- (b) Certain items included. The cost of business inputs includes
  - (1) The actual amount paid for goods, services, and materials, whether or not resold during the year
  - (2) The market value of business inputs brought into the United States
  - (3) The actual cost, if reasonable, of travel and entertainment expenses for business purposes
- (c) Certain items excluded. The cost of business inputs

excludes purchases of goods and services provided to employees or owners, unless these are included in business receipts.

**Sec. 104. Cost of capital equipment, structures, and land defined**

The cost of capital equipment, structures, and land includes any purchases of these items for business purposes. In the case of equipment brought into the United States, the cost is the market value at the time of entry into the United States.

**Sec. 105. Business taxable income defined**

Business taxable income is business receipts less the cost of business inputs, less compensation paid to employees, and less the cost of capital equipment, structures, and land.

CHAPTER 2. DETERMINATION OF TAX LIABILITY

- Sec. 201. Personal allowances.
- Sec. 202. Compensation tax.
- Sec. 203. Business tax.

**Sec. 201. Personal allowances**

- (a) In general. For the year 1995, personal allowances are
  - (1) For married taxpayers filing jointly, \$16,500. A taxpayer is considered married if he was married at the end of the year or his/her spouse died during the year.

- (2) For heads of households, \$14,000. A taxpayer is head of a household if he is not married and maintains as his home a household that is the principal home of a dependent son, stepson, daughter, stepdaughter, mother, or father of the taxpayer and the taxpayer provides more than half the support for the dependent.
- (3) For single taxpayers, \$9,500.
- (4) For each dependent, \$4,500. A dependent is a son, stepson, daughter, stepdaughter, mother, or father of the taxpayer for whom the taxpayer provides more than half support.
- (b) Adjustments. Each year, personal allowances rise by the proportional increase from the beginning to the end of the immediately preceding year in the Consumer Price Index.

**Sec. 202. Compensation tax**

Each individual employed at any time during the year will pay a tax of 19 percent of his compensation, less his personal allowance, or no tax if his compensation is less than his personal allowance.

**Sec. 203. Business tax**

- (a) Business defined. Each sole proprietorship, partnership, and corporation constitutes a business. Any organization or individual not specifically exempt under chapter 3, with business receipts, is a business.
- (b) Computation of tax. Each business will pay a tax of 19 percent of its business taxable income or zero if business taxable income is negative.

- (c) Filing units. A business may file any number of business tax returns for its various subsidiaries or other units, provided that all business receipts are reported in the aggregate and provided that each expenditure for business inputs is reported on no more than one return.
- (d) Carry forward of losses. When business taxable income is negative, the negative amounts may be used to offset positive taxes in future years. The amount carried forward from one year to the next is augmented according to an interest rate equal to the average daily yield on three-month Treasury Bills during the first year. There is no limit to the amount or the duration of the carry forward.

CHAPTER 3. EXEMPT ORGANIZATIONS

**Sec. 301. Exempt organizations**

Organizations exempt from the business tax are

- (1) State and local governments, and their subsidiary units
- (2) Educational, religious, charitable, philanthropic, cultural, and community service organizations that do not return income to individual and corporate owners

CHAPTER 4. WITHHOLDING

**Sec. 401. Withholding**

Each employer, including exempt organizations, will withhold from the wages, salaries, and pensions of its employees and remit to the Internal Revenue Service an amount computed as follows: 19 percent of the excess of compensation in each pay period over the employee's annual personal allowance, prorated for the length of the pay period. Every employee will receive a credit against tax for the amount withheld.

(b) The amendment made by this section shall apply to taxable years beginning after December 31, 1994.