

UNCLE SAM'S NICKEL



**THE FIVE PERCENT FLAT TAX
THAT WILL RESTORE
FREEDOM AND PROSPERITY
BY SUSAN SHELLEY**

Uncle Sam's Nickel:
The Five Percent Flat Tax that will Restore Freedom and Prosperity

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Contact the author at Susan@SusanShelleyForCongress.com

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Preface

This book is an illustration. Like a drawing that accompanies the text in an encyclopedia, it's intended to help the reader visualize something new and unfamiliar that otherwise would be unimaginable.

Introduction

Have you heard this, or said it yourself?

“There are a lot of people who have been unemployed so long that they’ll never be able to get back into the workforce.”

“The days of being able to support a family on one salary are gone forever.”

“Our children will not have the standard of living that we have.”

“I fear for the future.”

“There’s no way for the country to pay its bills except by cutting Social Security and Medicare.”

“America is finished.”

Statements like these are symptoms of the chronic state of crisis that has worn down the natural optimism and spirit of the American people. We have lived for so long in a shrinking job market that we have lost the ability to see the failed government policies that are causing the crisis. The policies, and the failed ideas on which they are based, seem as much a part of the landscape as the sky—inescapable and always hanging over our heads.

The American people are told daily that painful choices are ahead, that no good options exist, and that the only question is one of allocating the suffering in a manner that is fair, or at least bearable.

What if that’s wrong?

What if we question those assumptions and think in new ways about our problems and our choices?

Try this experiment in new thinking:

What would you do tomorrow if you knew you could keep 95 percent of the money you made doing it?

You, personally.

Would you start a business? Expand one? Invest in one?

Would you get together with some friends, buy foreclosed houses, and rent them for the extra income?

Would you go to school to learn a new skill or enter a different profession, confident that when you came out of school your investment would pay off quickly?

Suppose the United States threw out the entire federal tax code and replaced it with a five percent flat tax on income of any kind, with an exemption for low income that would be set annually by Congress.

If the federal income tax rate was a flat five percent, would you be better off? Immediately?

You, personally.

If you have a job, would your employer be better off? Would that make it more likely that you’ll continue to have a job?

Would every business in America immediately be more profitable? Would new businesses start up?

If the United States turned itself into the greatest tax haven on earth, would companies currently headquartered in other countries pack up and move to the United States to get in on the deal?

Would Americans of every skill level and in every occupation suddenly become the object of a national bidding war for new employees?

Suppose it was possible to adopt a tax policy that created the biggest economic boom in America since the post-war era. Should we think about it, or should we dismiss the idea because we’re

afraid we might not be able to maintain the federal government at its current size?

Don't be afraid. We're just thinking.

Chapter One

The History of the Income Tax

The first income tax ever signed into law in the United States was the Revenue Act of 1861. Abraham Lincoln needed the money to pay for the Civil War.

The Revenue Act of 1861 put a 3% flat tax on income above \$800 and a 5% flat tax on the income of individuals living outside the United States.

Within a year, Congress threw out that law and replaced it with the Revenue Act of 1862, which collected the 3% tax on income above \$600 and increased the tax rate to 5% on income above \$10,000.

The law said the tax was temporary.

In 1880, the U.S. Supreme Court heard a challenge to the constitutionality of the income tax. Article 1, Section 9, of the U.S. Constitution prohibited direct taxation of the American people by the federal government, "unless in proportion to the Census." The challenge contended that the federal income tax was an unconstitutional direct tax.

The U.S. Supreme Court didn't agree, ruling that the income tax was actually an excise tax, which the Constitution allowed. It didn't matter at the time, because the temporary income tax had already expired.

In 1894, Congress passed another income tax, and again it was challenged as unconstitutional. This time the Supreme Court

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agreed. In a 5-4 decision, the justices said the Wilson-Gorman tariff, which put a 4% tax on income above \$4,000, was a direct tax that violated Article 1, Section 9, of the U.S. Constitution.

Of course, that wasn't the end of it.

Fifteen years later, Congress mustered a two-thirds majority in the House and Senate to pass the Sixteenth Amendment, a proposed change to the Constitution which would allow Congress to pass an income tax. It took four years for the Sixteenth Amendment to be ratified by three-quarters of the states, and in 1913 the income tax amendment officially became part of the U.S. Constitution.

The Sixteenth Amendment didn't set the rates of the income tax. That was left to the discretion of Congress.

The Revenue Act of 1913 put a 1% tax on income greater than \$3,000, with the rate gradually rising to 7% on income greater than \$500,000.

If those rates had been written into the Sixteenth Amendment, Congress would not have been able to change them. An increase in the income tax rates would have required another constitutional amendment, which would have required the approval of three-quarters of the states once again.

Most Americans might still be paying 1% of their income above \$3,000.

Instead, the income tax has metastasized into a freedom-sucking monster that has enabled the federal government to grow exponentially. It has become the means for the federal government to redistribute income. It has become a massive behavior-modification system used by government officials to pressure Americans into doing things they wouldn't otherwise do, just to get their taxes down to a manageable level.

Today the income tax code fills more than ten thousand pages.

Today businesses and interest groups employ lobbyists to secure favorable provisions in the tax code or ward off unfavorable ones.

Today Americans of the most modest means are required to comply with tax laws so complex and incomprehensible that even the head of the Internal Revenue Service had to hire a paid tax preparer.

Almost a hundred years after the people of the United States made the Sixteenth Amendment the law of the land, the people of the United States have the same right and the same power to change the Constitution again.

With the benefit of hindsight and the knowledge of unintended consequences, we can change the Sixteenth Amendment—and this time, we can get it right.

Chapter Two

A Method to the Madness

Is it crazy to think about amending the Constitution?

George Washington didn't think so.

"If in the opinion of the People, the distribution or modification of the Constitutional powers be in any particular wrong, let it be corrected by an amendment in the way which the Constitution designates," President Washington said in his Farewell Address, "But let there be no change by usurpation; for though this, in one instance, may be the instrument of good, it is the customary weapon by which free governments are destroyed."

If it seems like a far-fetched idea to amend the Constitution, it is because for the last eighty or so years, the American people have allowed the U.S. Supreme Court to update the Constitution through landmark decisions. The Court's opinions in these so-called "test cases" changed the meaning of the words in the Constitution, rather than changing the language in the founding document itself.

That's why the retirement of a Supreme Court justice is always an earth-shaking event. Civil rights, women's rights, Second Amendment rights, privacy rights, and the rights of anyone arrested by state authorities all could be eroded if new "test cases" reach the Court and landmark decisions are overturned.

The framers of the Constitution provided a method of updating the Constitution that doesn't involve the Supreme Court at all. It doesn't involve the president or any of the state governors. It even

includes a second method that doesn't involve the U.S. Congress. The framers were aware that there might be times when Congress was the problem, and they made sure Congress did not have the absolute power to block the American people from making a change to the Constitution.

In other words, it is possible to amend the U.S. Constitution even if the House, the Senate, the president, the Supreme Court, and all fifty state governors oppose the idea.

Under what circumstances might such drastic action be necessary?

It might be necessary in the case of a law or power that so dramatically benefits every federal government official that they become indifferent to the harm it is causing to every American citizen.

It might be necessary in the case of the income tax.

Suppose the American people wanted to amend the Constitution to repeal the Sixteenth Amendment and the entire income tax code and replace them with a new amendment that put a five percent flat tax on income of any kind, with a provision allowing Congress to set an exemption for low income.

If an amendment like that passed, Congress would lose much of the power it exercises on a daily basis. No longer would lawmakers be able to threaten or cajole industries and individuals with the prospect of higher or lower taxes.

With a flat tax locked into the Constitution, everyone would know in advance what their federal tax bill was going to be, and no one would need to donate to a politician's campaign committee in order to protect themselves from being hammered in the government's next piece of tax legislation.

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Obviously, no incumbent lawmaker is going to vote for that. Before a flat-tax amendment would get a two-thirds vote in the House and Senate, cows would fly to Mars to learn square-dancing.

If the American people wanted to amend the Constitution to replace the current tax code with a five percent flat tax, we would have to use the framers' alternate method and go through our state legislatures.

Under Article V of the U.S. Constitution, when two-thirds of the state legislatures request a constitutional convention to consider proposed amendments, Congress must call one.

Amendments approved by the convention go out to the states for ratification.

When three-quarters of the state legislatures have ratified an amendment, it becomes part of the Constitution even if the president, the Supreme Court, the House, the Senate and all fifty state governors oppose the idea. They have no role in the process.

This little-known provision in Article V gives the state legislatures, and the American people, something that is totally unfamiliar to them: Leverage over the federal government.

Imagine the reaction in Congress if a resolution supporting a flat-tax amendment was debated in state legislatures. Smirks. Eyebrows. Rolling. Ridicule.

Now imagine the reaction if the resolution passed in a few states. Imagine the reaction if it passed in thirty-four states, enough to request a constitutional convention. Imagine the reaction if it passed in thirty-eight states, enough to ratify a constitutional amendment over the objections of Congress.

We may never see cows square-dancing on Mars, but we might see frightened lawmakers scrambling to pass a flatter, simpler,

lower federal income tax that promotes economic growth and helps businesses create jobs in the United States.

Even if the amendment was never ratified, the process might achieve genuine tax reform.

There's nothing crazy about it.

Chapter Three

How to Cut Government Spending

Every so often, the federal government goes to the brink of a government shutdown over a budget stand-off.

At times like these, lawmakers assure their constituents that essential government offices will stay open and essential government workers will still be on the job. Every department in the government is required to maintain a list of essential offices and essential employees, just in case of a government shutdown.

Why don't we do that *all the time*?

Why are we paying for non-essential government offices and employees when our government is \$15 trillion in debt and we're borrowing money from China to cover our bills every month?

In the past, efforts at cutting government have gone something like this:

A government official announces that every government department must cut its budget by, say, ten percent.

Every government department puts out a press release saying it has no choice but to cut the equivalent of ambulance service, blood transfusions, and neo-natal care.

Panic ensues.

Nobody cuts anything.

Bureaucracies protect themselves. *Washington Monthly* founder Charles Peters called this the "Fire the Firemen First" principle of budget politics—threatening to cut the most popular or essential service performed by a department in order to frighten elected officials away from implementing budget cuts.

It works every time.

To defeat this bloat-preserving trick, let's try this:

Make public the list of essential offices and employees that was prepared for the most recent threatened government shutdown.

Hold public hearings on Capitol Hill in which the committees with jurisdiction over each government department listen to testimony about which other offices and employees should be retained.

Write legislation that cuts every government office and every government employee that can't be justified to the satisfaction of the representatives of the people of the United States.

Hold a roll-call vote on the legislation so every voter in America knows which lawmakers are serious about cutting the size of government, and which ones are so indebted to public employees' unions that they would rather cut their own wrists than a single government job.

The income tax has provided a convenient and generous river of cash to the federal government, yet there is never enough for all the spending that Congress has in its plans. No matter how much money comes in, Congress spends more.

That's why lawmakers sneer at tax cuts. "Impossible," they tell each other. "How are we supposed to pay for everything the last thirty Congresses did, plus everything we want to do?"

If the American people want to cut the size and cost of the federal government, we have to begin by limiting the unlimited flow of cash made possible by the federal income tax.

It is time to stop letting the government tell us how much it needs, and to start telling the government how much it can have.

Chapter Four

Turning Businesses Into Employers

It's a common sight on business news programs: an elected official thundering in outrage that corporate profits are up, yet jobs are still being cut and companies are not hiring.

Why?

That's what White House Budget Director Peter Orszag wanted to know, and he asked the Business Roundtable, an organization that was not unfriendly to the Obama White House, for an answer.

On June 21, 2010, the Business Roundtable sent Mr. Orszag a 49-page report titled "Policy Burdens Inhibiting Economic Growth."

Mr. Orszag resigned as White House Budget Director.

It's a very disturbing picture drawn by the Business Roundtable's report, which cites grave concern over the impact of policies on financial regulation, trade, labor issues, environmental issues, energy, health care, education and immigration. But at the top of the executive summary of the report was one word: Taxes.

The Business Roundtable pointed out that the U.S. has one of the highest corporate tax rates in the world and is one of the few countries that taxes businesses on their worldwide income.

If the corporate tax rate was cut to five percent from its current rate of nearly 40 percent, and if businesses had the certainty of knowing the rate was locked in a constitutional amendment and could not be changed with a simple majority vote of Congress, it

would go a long way to compensate for all the other burdens facing U.S. businesses.

A five percent corporate tax rate would make the United States the greatest tax haven on earth, igniting a gold rush of new businesses from overseas. We could keep our labor and environmental standards high and still out-compete other countries as the world's best place to do business.

More businesses means more jobs. More jobs means more competition for labor. More competition for labor means higher salaries and better benefits.

That's the way it works during an economic boom.

You're probably too young to remember.

Chapter Five

The Sound of Success

Would it work? Would a five percent flat tax really cause an economic boom?

You'll know it will work if you hear these objections to it:

"It will damage relations with our allies if we lure their businesses to the United States with a lower tax rate."

"It will damage the environment if businesses grow and expand, and if more people are commuting to their jobs every day."

"It will damage the economy if wages go up, because higher wages cause inflation."

"It will damage our educational system because instead of finishing college, kids will be dropping out to take jobs."

An economic boom may cause a few problems.

But a Great Depression is no picnic, either.

Imagine, if you can, what it would feel like to know that you can always get another job. Imagine having confidence that your kids will always be able to find a job. Imagine a job market where the demand for labor is so strong that no matter what your educational

background, you can find a new job because employers are willing to train new employees.

There was a time in America, not so long ago, when it was like that.

With a five percent flat tax, Americans would keep more of their earnings, which would be good for all the businesses they would patronize with that extra income. It would be good for people who want to start new businesses. It would be good for businesses that are currently not profitable enough to hire people. It would be good for everyone who wants to do something productive and enjoy the rewards of it.

It would not be good for politicians who want to control what Americans do with their lives and their money.

You can't please everybody.

Chapter Six

Saving Social Security and Medicare

One of the most unsettling things about the current economic mess is the constant threat by politicians of both parties to cut Social Security and Medicare benefits.

We must make a choice, we are told, between cutting benefits, raising taxes, or losing the programs entirely to the progressive insolvency that is engulfing them.

What if that's not true?

According to government statistics, in 2005 there were 3.3 workers for every retiree collecting Social Security benefits. Compare that to 1960, when there were 5.1 workers for every retiree.

More workers means more revenue coming in from the payroll taxes that fund Social Security benefits.

It's true that demographic changes, like the impending retirement of the Baby Boom generation, have caused strains on the system. Still, if there were enough workers out there in the workforce, the numbers would turn around and Social Security and Medicare would become gradually less insolvent.

As an illustration, look at what happened between 1980 and 2000: the number of workers per retiree actually went up. In 1980 there were 3.2 workers per retiree. The economy grew, jobs were created, and in 2000 there were 3.4 workers per retiree.

It would take a substantial amount of economic growth, and a lot of job creation, to make Social Security and Medicare solvent, but it is possible.

We need an economic boom that will create new jobs, and we need a labor shortage that will push salaries up. Then more people will be working for more money, while the number of retirees eligible for benefits is unchanged.

That's what it's going to take to save Social Security and Medicare.

Economic growth *is* the safety net.

Chapter Seven

Ending Perverse Incentives

Politicians love to use the tax code to create incentives. It's an easy way around the Constitution's limits on the power of the federal government. Nobody's forcing anybody to do anything, but if you'd like your taxes to be lower, the government has a list of things it would like you to do.

The trouble with incentives is that sometimes they are perverse incentives. For example, the government encourages Americans to bury themselves in mortgage debt, even in a declining market, by offering a generous tax deduction for mortgage interest. Renters get nothing except the satisfaction of sticking someone else with the bill for plumbing repairs.

The government offers generous refundable tax credits* to people with young children. A high school student who gets pregnant and drops out can look forward to an annual check from the government, while a student who gets an after-school job to save money for college is taxed.

The government encourages investments in some things and not others, leading sane people to plow money into things no sane person would invest in except that there's a tax break for it.

Why should the tax code be used to encourage borrowing over saving, or pregnancy over after-school jobs, or new technology over proven technology? Why should the government be an active

partner in every decision that's made by every individual and business in America?

What do politicians know that makes them better able than the rest of us to make our decisions?

They are experts in one thing: How to give away your money to people who give them campaign contributions.

Politicians do a nice business in campaign fundraising by offering subsidies to companies specializing in education, or green energy, or something else that sounds appealing to voters. On closer inspection, these companies are often run by cronies or crooks. Soon your money disappears, followed by the photos of the politician making a splashy visit to the company on the day your money arrived.

The interests of the people who run the government are not aligned with the interests of the taxpayer. Government officials benefit from having access to an unlimited stream of your money. They can hand it out to people who will contribute to their re-election campaign, and they can give it away to people who will vote for them.

It is in the taxpayers' interest to limit the money that goes to the government. You have your own bills to pay.

A five percent flat tax will create an incentive to work, to start a business, to invest, and to save. That's a formula to extract the untapped energy of the American people. Millions of talented, educated, hard-working Americans are wasting their days sending resumés through the websites of Human Resources departments to people who are not hiring.

Imagine what would happen if there were too many jobs and not enough resumés.

Americans would be working, making money, buying things and investing.

How many people do you know personally who are unemployed or underemployed right now?

You're thinking about how much worse the traffic will be when they're all driving to their new jobs, aren't you?

So you think it would work.

*Refundable tax credits are paid out as tax refund checks even if the amount exceeds the taxes paid in during the year.

Chapter Eight

Lost and Found

“**T**he home mortgage deduction!!!”

No four words in the English language can halt the conversation about a flat tax faster than those.

The fear and anger triggered by a proposal to change the home mortgage deduction are a clue that the government has pushed people into an untenable financial situation—people feel that they are on the brink of disaster.

And it's true, they *are* on the brink of disaster.

The home mortgage deduction helps Americans pay too much for houses and then get some relief from tax rates that are much too high. Take away the deduction, and people will be simultaneously scalded by high taxes and burned by falling home prices.

All things being equal, that is.

But think about how different the picture would look with a five percent flat tax instead of the current income tax rates.

With a tax rate of five percent, many people would pay less in taxes without their home mortgage deduction than they're currently paying with it.

The profitability of rental property would increase dramatically, bringing new buyers into the market.

People would not be pushed by the tax code into overextending themselves to buy homes, and renters would not pay higher income taxes than homeowners.

The federal government has distorted the real estate market. It has pushed many people into financial chaos that they would not have chosen for themselves except for twisted government incentives. A low flat tax will help to return sanity to financial decision-making.

“**T**he charitable donation deduction!!!”

What will happen to charities and non-profits if the tax deduction for donations is lost?

Here's a different question. What is happening to charities and non-profits because of the tax exemption?

One thing that has happened is this: important and knowledgeable voices have been muzzled in our political process. In exchange for tax-exempt status, the law prohibits certain types of non-profit organizations from engaging in political activity. This restraint on free speech would violate the First Amendment in any other part of federal law, but because it's in the tax law, and it's voluntary, it's perfectly legal for the federal government to penalize people for taking action to support or oppose a candidate.

Would Americans stop giving to charities if there was no tax deduction for it?

Maybe they would they shun organizations that spend lavishly on offices and salaries and only donate to those that spend a low percentage of their donations on administrative expenses.

Under the current system, the government helps charities by pressuring Americans into a choice between donating their money or handing it over to the government. With a five percent flat tax, Americans would have less pressure to donate, but more money to give.

“**T**he child tax credit!!!”

Some Americans can make a decent amount of money every year and pay no income taxes at all thanks to the child tax credit, which wipes out thousands of dollars of tax liability every year for the parents of young children.

People without children can earn far less in income and still pay higher income taxes than people who earn much more.

The child tax credit is one reason that nearly fifty percent of American taxpayers owed no income tax at all in 2009, according to a study by the Tax Policy Center.

It's a great deal if you have it, while you have it.

What's not a great deal is the economic stagnation in our country that has given your kids the worst job market any of us have ever seen. They can't find work, they can't buy houses, and thanks to government-encouraged student loan programs, they have tens or hundreds of thousands of dollars in student loan debt, no hope of paying it off, and no way out from under it.

If the tax code was replaced with a five percent flat tax, the economy would boom and recruiters would be back on college campuses looking for educated young people to join their companies.

Think about it.

Chapter Nine

Restoring State Governments

In 1788, James Madison was trying to convince a skeptical population that the proposed Constitution did not give the federal government unlimited power over the states.

“The powers delegated by the proposed Constitution to the federal government are few and defined,” Madison wrote, “Those which are to remain in the State governments are numerous and indefinite. The former will be exercised principally on external objects, as war, peace, negotiation, and foreign commerce....The powers reserved to the several States will extend to all the objects which, in the ordinary course of affairs, concern the lives, liberties and properties of the people, and the internal order, improvement and prosperity of the State.”

The title of the essay, which today is known as Federalist No. 45, was “Alleged Danger From the Powers of the Union to the State Governments Considered.”

Today we know there was nothing “alleged” about it. The federal government controls the state governments by overtaking the American people and dribbling some of the money back to the states with strings attached.

Rep. Howard Berman (D-California) explained this technique for getting around the Constitution's limits on federal power when he was asked during a candidate forum if there is anything the federal government can't do.

“What if the federal government had said, ‘We’re not going to do the mandate, let the states do the mandate,’” the congressman [said](#), talking about the constitutionality of the 2010 health care reform law, “Let each state mandate that every citizen of that state must have health insurance. Would that resolve the issue for the opponents of the Affordable Health Care Act? What if they said, differently, ‘You do whatever you want, but you’re not getting a dollar of federal money unless you have in place a system that mandates health care for everyone.’ There are a thousand ways to skin this cat.”

The health care reform bill skinned the cat with an expansion of the federal government’s authority under the commerce clause, which allows the federal government to regulate interstate commerce.

In Federalist No. 45, Madison wrote, “The regulation of commerce, it is true, is a new power; but that seems to be an addition which few oppose, and from which no apprehensions are entertained.”

James Madison scoffed at the fear that the federal government, which had only the “few and defined” powers given to it by the Constitution, could ever obliterate the powers of the state governments.

Today, the states are forced to abide by federal guidelines on virtually everything they do. The moment the states accept federal money, the federal government is in charge.

What would happen if we amended the U.S. Constitution to set the federal income tax rate at a flat five percent?

With a low federal income tax rate, the states would have more room to raise the revenue to meet their own obligations. High federal tax rates have the effect of robbing the states of their tax base,

because taxpayers are wrung out by the federal government. The states have no choice but to beg the federal government for funds to pay for schools, roads, health care and other obligations.

But why should the residents of every state have to run their every request by a committee of forty-nine other states? Why shouldn’t the people of each state control how much they pay in taxes for the services they want and need?

There would be practical limits on how high state taxes could rise, because competition between the states to attract businesses and high-income taxpayers would act as a brake on state tax increases.

Picture the peace and harmony in our nation: California would never need Michigan’s support for bike paths, and North Carolina would never need California’s vote for tobacco subsidies.

Chapter Ten

Nobody Pays That

The current tax rates in the United States are a fraud.

The government will give you a tax break for paying mortgage interest, having children, installing energy-efficient windows, donating to charity, putting money away for retirement and doing any number of other wise and worthy things that bear the government's seal of approval.

What this really means is that tax rates are set much too high so the government can control what you do with your life and your money.

In a free country, it's really none of the government's business what you do with your life and your money.

But if you choose to pay off a credit card instead of putting money into a retirement account, you will be hit with a higher tax bill.

If you choose to rent a house instead of buying one, you will be hit with a higher tax bill.

If you don't have children, you will be hit with a higher tax bill.

Politicians like to talk about the people who are getting a tax break. It's a happy story for them. But if you're single with no kids and you don't own a house, the federal government is shafting you.

This kind of unfairness has a corrosive effect on our society. People who are paying no income tax thanks to various tax credits and deductions are happy to vote for more government spending,

while people who are paying high income tax rates are called selfish for demanding spending reductions and tax cuts.

Before we can change over to a flat tax, we will have to persuade the roughly 47 percent of U.S. households now paying no income tax that it's a good idea for them, too.

That's why Uncle Sam will have to be satisfied with a nickel. He probably can't get a penny more.

Would Americans of all income levels support a five percent flat tax? If they did, it would mean Americans would be treated equally whether they were workers making hourly wages or retirees living on dividend checks, whether they had children or didn't, whether they rented or owned, whether they paid off their credit cards or saved for retirement. Everyone would have low taxes, and no one would have to jump through hoops to get them.

Congress would set the minimum income on which the tax would be collected, and Uncle Sam would take a nickel of every dollar over that.

Fair and square.

Chapter Eleven

Lifting the Compliance Burden

The Internal Revenue Service estimates that Americans spend 6.1 billion hours per year filling out tax forms.

Is that a productive use of time? Isn't there anything else we could be doing?

National Taxpayer Advocate Nina E. Olson said in her 2011 report to Congress that growing tax code complexity is the most serious problem facing taxpayers, and she called on Congress to institute a regular "sanity check" over changes to the tax code in the future.

Good luck with that.

If the American taxpayers want sanity in our tax code, we're going to have to put it there ourselves.

Perhaps when you started reading this book, you thought the idea of a constitutional amendment to replace the tax code with a five percent flat tax was possibly insane.

Let's take a look at two different ways to handle income tax preparation, and then you decide which one belongs in a straitjacket.

Method A: Americans total up what they earned, and they pay income tax of five percent on income above the minimum level set by Congress.

Method B: Americans spend 6.1 billion hours per year trying to comply with a tax code that is over 3.8 million words long. Sixty

percent of individual taxpayers hire a paid tax preparer and nearly thirty percent use tax preparation software. The head of the Internal Revenue Service admits that he does not do his own taxes.

You be the judge.

As bad as it is for individuals, it's even worse for businesses. Every dollar spent on compliance with the tax code is a dollar that's not going to hire new employees, expand facilities, or pay shareholders. Every change in the tax law causes careful planning to crumble into uncertainty.

What do we get for all this money and effort? A perfect tax collection system? Or a monstrous burden, laden with breaks for special interests, groaning with credits and deductions that make every American simultaneously nervous and resentful?

We've lived with it for so long, we can't imagine it any other way.

But when the income tax began in 1913, it wasn't like this. It was a flat tax on income above a minimum level.

Nobody would have voted for it if it had been then what it is now. Nobody who wanted to get re-elected.

Chapter Twelve

Paying for Protection

Of course we are going to protect the environment, and of course we are going to have a social safety net.

The thing is, we have to pay for everything, and it all gets very expensive, especially when people can't find jobs.

A five percent flat tax would give us a booming economy, and that would make environmental protection even more critical than it is now.

But a booming economy would give us something we don't currently have: enough money.

With full employment and rising salaries, people would be able to afford expensive technologies that save energy and protect the earth. Solar panels. Electric cars. Energy-efficient windows.

Protecting the earth can be costly. Our current policy of offering generous tax credits to people who want to buy electric cars and solar panels but can't qualify for loans because they don't have jobs is not a good long-term plan.

A better plan is to get everybody working and paying taxes. If the income tax was a flat five percent, the payroll taxes that fund Social Security and Medicare could remain as they are now, and revenue would rise with salaries.

A booming economy also makes it possible to save our important safety net programs. More jobs means fewer people collecting unemployment or needing welfare payments. With more people

working, our safety net programs can be well-funded and underused instead of financially strained and overcrowded.

This means that even if the five percent flat tax brings in less revenue than the current system, the overall economic effect of the flat tax would make the safety net programs more secure than they are now.

Some politicians like to tell voters that tax cuts will decimate the essential government programs that keep grandparents and small children alive. This is a sign of the failure, not the success, of government policy. If our economy was fully functional and everyone who wanted a good job could find one, fewer people would be dependent on the government for the care and support of family members. As the job market continues to shrink, people feel increasingly vulnerable and it's easy for politicians to send them into a full-blown panic.

It's easy, but it's not helpful.

Many Americans are frightened and anxious, and there's a general sense of unease about the future that seems to hang in the air around us.

Think.

Think about what you would do tomorrow if you knew you could keep ninety-five percent of the money you made doing it.

Think about the government collecting an honest five percent in a booming economy instead of an evaded twenty-five or thirty-five or thirty-nine percent in a stagnant economy.

Think about unleashing the productive energy of the American people, and having everything get better and better instead of worse and worse.

America used to be like that. It can be again.

Chapter Thirteen

Paying With Your Freedom

Freedom is a condition that exists under a government of limited power.

The U.S. Constitution protects freedom by limiting the power of the federal government. In our era, this is a principle that has been lost. Today the federal government recognizes no limits on its power to regulate, legislate, and mandate. With each new federal directive or decision, the freedom of the people of the United States is diminished.

If we want to be a free country again, we have to look at ways to limit the power of the federal government, just as the framers did when they drafted the Constitution.

The tax code is a source of tremendous, unlimited federal power, which is why lobbyists donate so much money to the campaign committees of key lawmakers on Capitol Hill.

A constitutional amendment that repealed the tax code and replaced it with a five percent flat tax would instantly remove the power of the federal government to reward friends and punish enemies. For that reason alone, it is worth considering. Americans should not have to wake up in the morning wondering if this is the day their industry is declared an enemy of the people.

The tobacco companies, the oil companies, the automakers, the banks, Wall Street firms, insurance companies, even baseball players have been hauled before committees of Congress and pressured

to do things voluntarily that the Constitution doesn't allow lawmakers to mandate. Government officials use the leverage they have from their unlimited power over the tax code, among other things, to effectively force Americans to surrender their rights and do whatever the government demands.

You may not have much sympathy for tobacco companies or oil companies or perhaps even for baseball players, but one day you could wake up and find the government coming after you.

Freedom isn't lost only when tanks roll over the borders. Freedom is lost incrementally, voluntarily, with the best intentions.

Limits on government power are the essential foundation of freedom.

Freedom is the essential foundation of prosperity.

The purpose of the tax code ought to be to raise revenue, not to control the behavior of individuals, or to control the decisions of businesses, or to redistribute income from those who earned it to those who need it.

The tax code shouldn't be used as leverage for lawmakers to pressure anybody into doing anything.

The United States of America is a free country. Or it used to be. And it can be again.

Chapter Fourteen

Our Place in History

“If in the opinion of the People, the distribution or modification of the Constitutional powers be in any particular wrong, let it be corrected by an amendment,” President George Washington said in his Farewell Address.

He was speaking to *us*.

From across the centuries, the framers warned us that political power could get out of control.

“We have heard of the impious doctrine in the Old World, that the people were made for kings, not kings for the people,” James Madison wrote in Federalist No. 45, “Is the same doctrine to be revived in the New, in another shape that the solid happiness of the people is to be sacrificed to the views of political institutions of a different form?”

The answer is “No.”

The happiness of the people is not to be sacrificed to the views of political institutions.

The people were not made for kings.

How much of your money can the government have?

That is the question we should be asking, and it is in our power to answer it.

Chapter Fifteen

Winning the Second Cold War

There was a time when people laughed at Ronald Reagan for saying the Soviet Union was an evil empire that could be defeated.

Today there is a presidential library on a Southern California hilltop that bears witness to the fact that it wasn't a joke.

It may seem impossible to envision the United States without its massive tax code, its fearsome Internal Revenue Service and its annual nightmare of Form-1040 preparation.

Let's try anyway.

If the people of the United States want to amend the Constitution to repeal the entire tax code and replace it with a five percent flat tax, Article V of the Constitution gives us written permission to do it.

We can do it even if the president, the Congress, the Supreme Court and all fifty state governors refuse to go along with it.

We can do it by telling our state legislatures that we want a constitutional amendment to change the tax code, and by electing state lawmakers who stand with us on this issue.

We can do it by having thirty-four states call for a constitutional convention, where an amendment would be drafted and then sent out to the states for consideration.

We can do it by passing that amendment in thirty-eight state legislatures, which will officially make the amendment as much a part of the Constitution as if James Madison had written it personally.

It's a slow, careful, deliberative process, as it should be.
But it's possible.

We would have a brand new income tax system in the United States, and it would be locked into the Constitution where we could rely on it. We would have certainty and predictability.

We would have an economic boom.

We would have jobs.

The IRS would take Uncle Sam's nickel, and we would have our freedom back.

It's the country we can have, if we want it.

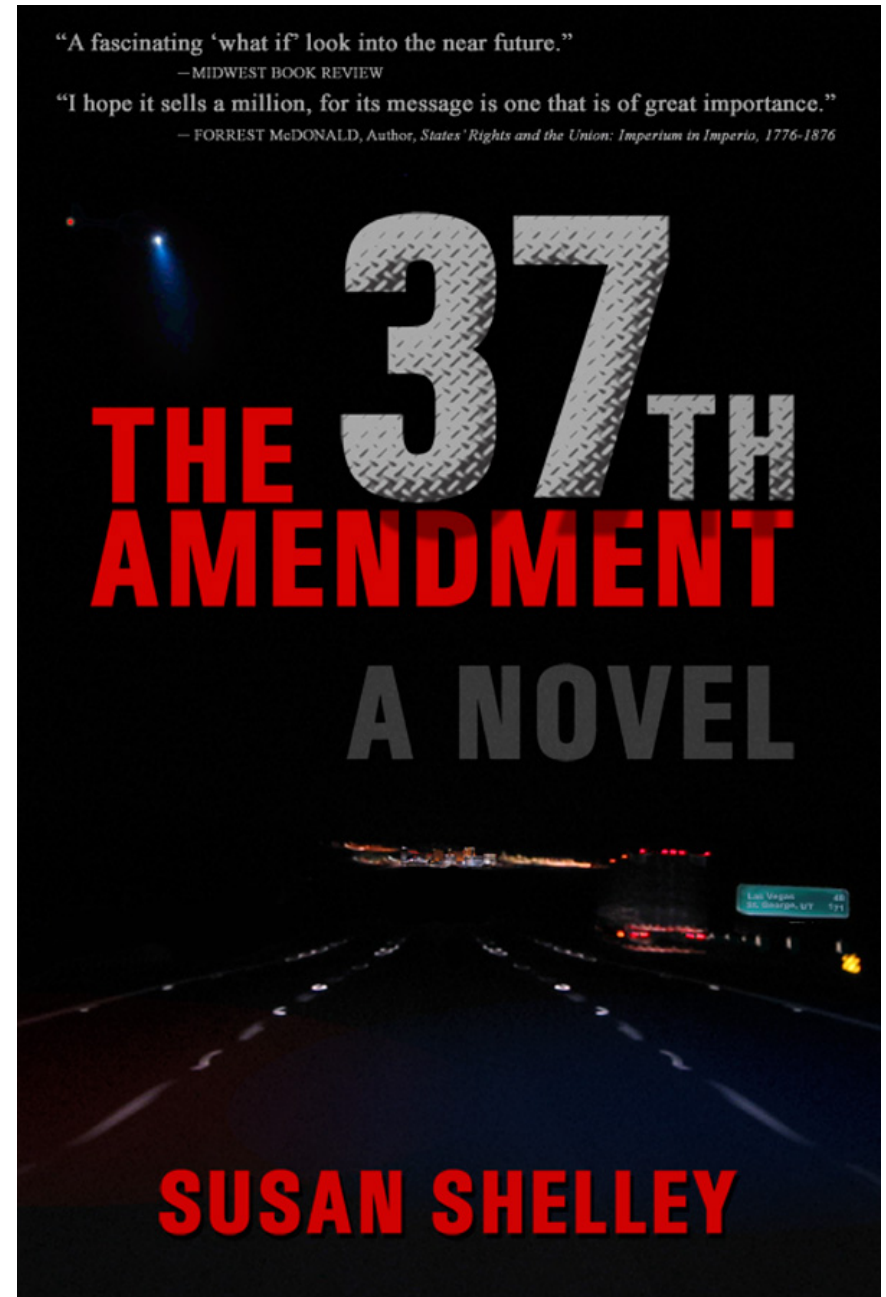
About the Author

Susan Shelley is a [candidate for Congress](#) in California's 30th district, the west and south San Fernando Valley. She's the author of "The 37th Amendment," a novel set in the year 2056, forty years after a constitutional amendment repeals "due process of law." She has also written a modern history of the Bill of Rights titled, "How the First Amendment Came to Protect Topless Dancing." Susan graduated from California State University Northridge with a B.A. in history and went on to work in the television industry for Merv Griffin Enterprises, where she became the Associate Producer of the game show "Jeopardy!" before becoming a full-time writer. She has written articles and columns about constitutional issues including privacy rights, Second Amendment rights and medical marijuana, and her work has been published in newspapers in Southern California and around the country. She's a passionate defender of liberty, limited government and individual rights.

More from Susan Shelley

THE 37TH AMENDMENT: A NOVEL tells the story of a man whose innocent phone call to try to collect on a basketball bet makes him a witness in a sensational Los Angeles murder trial — the year is 2056, forty years after the Constitution was changed to remove the guarantee of “due process of law.”

[Download "The 37th Amendment" now from the Kindle Store at Amazon.com](#)



HOW THE FIRST AMENDMENT CAME TO PROTECT TOPLESS DANCING: A Citizen's Guide to the Incorporation Doctrine shines a light on the inside game that has allowed the U.S. Supreme Court to seize control of state and local laws on issues from topless dancing to panhandling, from drug searches to abortion, from prison management to the death penalty. Read the true story of how the Supreme Court interpreted away the powers reserved to the states and replaced them with what Texas Congressman Ron Paul called "the phony incorporation doctrine" and Supreme Court Justice Antonin Scalia called "the biggest stretch that the Court has made."

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