

Capital Homesteading for Every Citizen

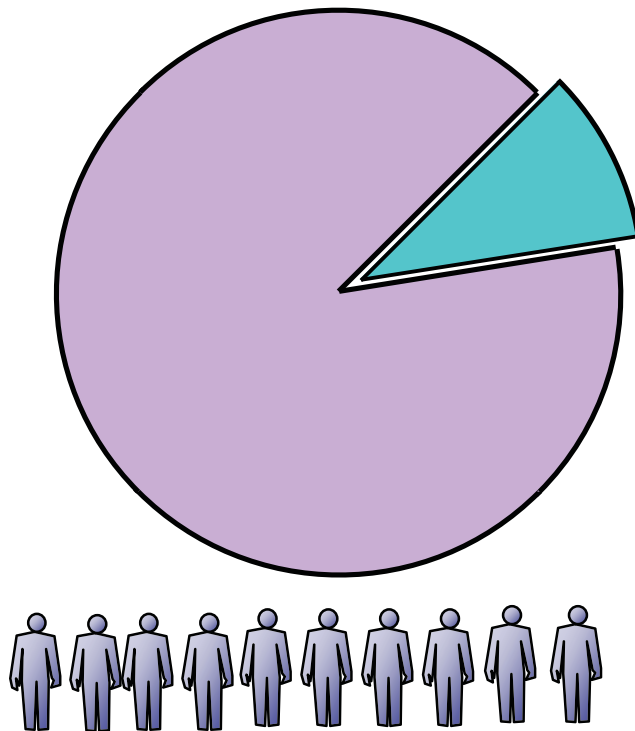
**Transforming the Federal Tax System to Accelerate
Private Sector Growth, Balance the Budget and
Make Every Citizen a Capital Owner**

Presentation to the President's Advisory Panel on Federal Tax Reform
May 11, 2005

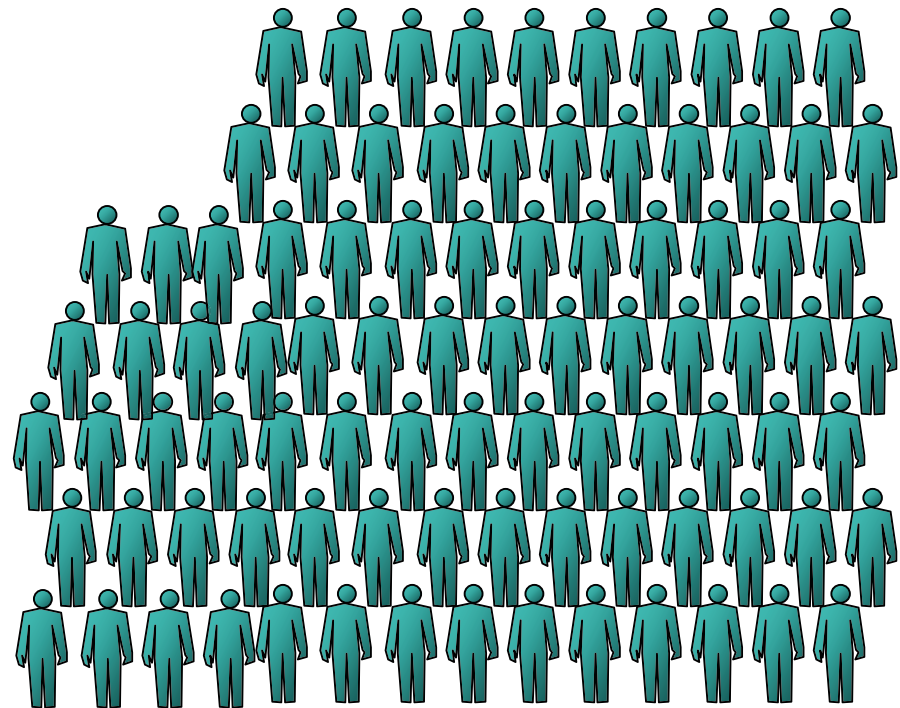
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Who Owns Today's Corporations?

10% Own 90%
of Today's Individually
Owned Corporate Pie



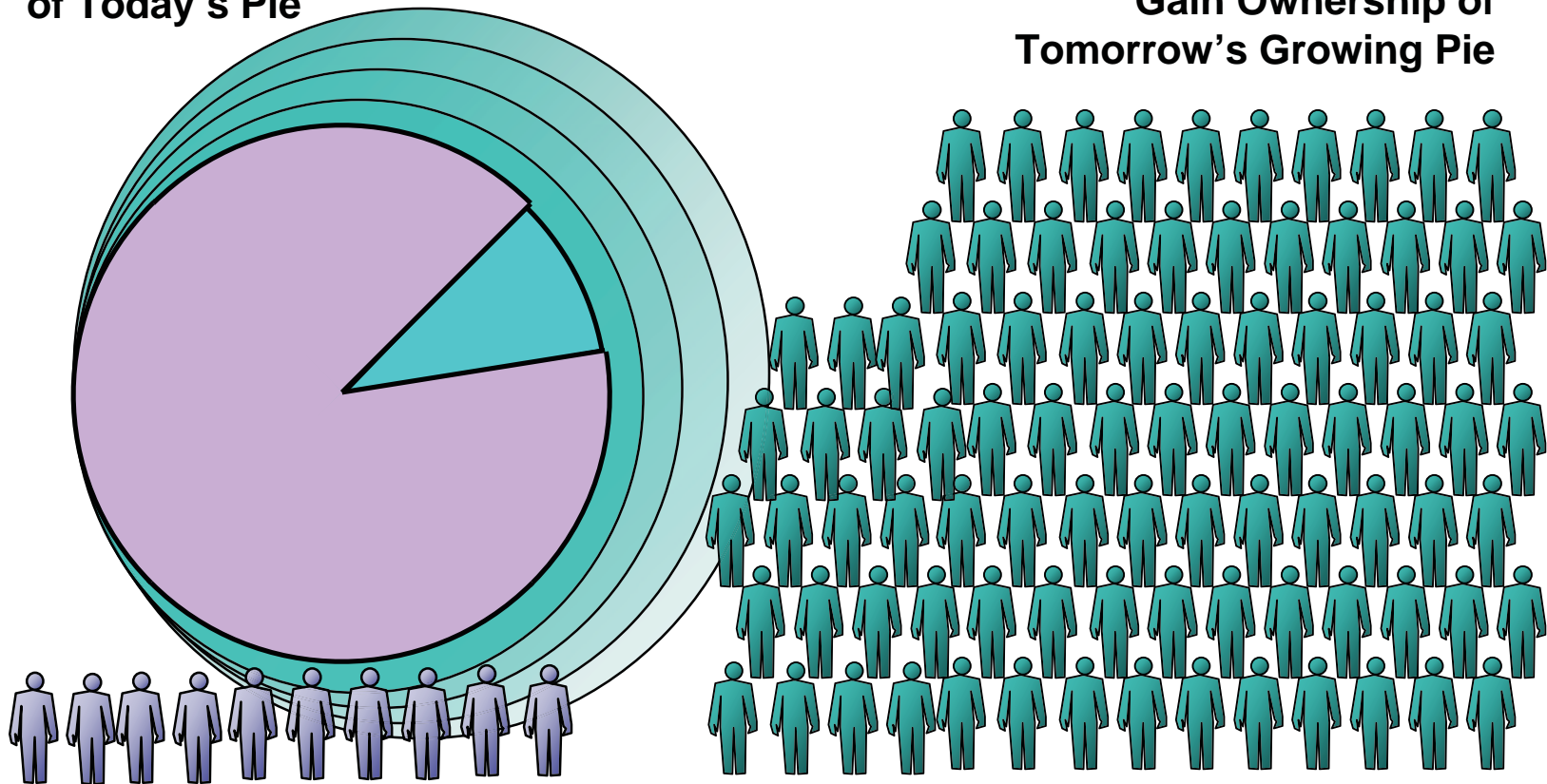
While 90% Split 10% of
Today's Individually Owned
Corporate Pie



Who Will Own Tomorrow's Corporations?

10% Keep Their Part of Today's Pie

While the 90% Gain Ownership of Tomorrow's Growing Pie



Tax reform based on Capital Homesteading would promote wealth creation for all Americans.

Champions of Capital Homesteading for Every Citizen

- **George Mason, *Virginia Declaration of Rights*, June 1776**
- **America's Founding Fathers (Adams, Jefferson, Webster)**
- **Abraham Lincoln, *Homestead Act of 1862***
- **Popes Leo XIII (1891), Pius XI (1931), and John Paul II (1981)**
- **Louis O. Kelso, *The Capitalist Manifesto*, 1958**
- **Senator Russell B. Long, ESOP laws for Worker Ownership**
- **Senator Hubert Humphrey**
- **President Ronald Reagan**
- **Walter Reuther, Labor Statesman**
- **John D. Rockefeller III, *The Second American Revolution*, 1976**
- **President George W. Bush, *Ownership Society*, 2005**

Main Goals of a Just Federal Tax System

- Yield the revenue necessary to pay the legitimate costs of government.
- Maximize production of wealth in a competitive global economy.
- Minimize the need for income redistribution and tax subsidies.
- Avoid disincentives to a vibrant private sector (the principal source of wealth production), enabling it to become a more direct and efficient distributor of mass purchasing power for all consumers.
- Provide a level playing field and the social tools for every citizen to become capital self-sufficient, to share economic power, and to receive growing incomes from their productive capital as well as from their human contributions.
- Create new capital owners without violating property rights of owners of existing capital.

Main Elements of a Just Tax System

- **Single personal income tax rate** on all cash, imputed and in-kind consumption incomes from all sources above the poverty line, including value of all benefits, gifts, bequests, realized but indexed capital gains, interest, and dividends.
- Income tax rate calculated periodically to **balance the Federal budget** and gradually pay off existing Federal debts.
- **Corporate dividends made deductible at the corporate level** and taxable at the personal level, to encourage growing companies to issue new shares to meet their capital needs, thus eliminating the double- and triple-tax on corporate profits.
- **Absorb all costs of Social Security, Medicare and other payroll taxes** with revenues received under the single personal income tax rate, eliminating these regressive taxes.
- Enable all citizens, upon birth, to establish at their local banks **a lifetime personal tax-exempt Capital Homestead Account (CHA)** that is structured to receive non-recourse, self-liquidating equity acquisition credit (similar to the financing available under present tax laws for leveraged ESOPs), as well as other income-yielding employer contributions, gifts and bequests.

Main Elements of a Just Tax System

- Defer taxes on one's dividend income applied to paying off loans to CHAs for acquiring newly issued full dividend payout, full voting shares issued to finance new and expanding enterprises, up to a **\$1 million lifetime Capital Homestead Exemption**. This offers a bottom-up approach to supplying the Nation's needs for new plant and equipment, new rentable space, advanced energy and information technologies, system improvements, new physical infrastructure and other forms of wealth-generating new capital formation.
- From birth, even the poorest and most disadvantaged citizen could accumulate newly issued equity shares repayable wholly with future savings in the form of dividends anticipated on the leveraged shares, rather than with existing savings or requiring a reduction in current consumption incomes. (Under conservative estimates at present rates of new capital formation, in 65 years the average citizen born today would accumulate a \$200,000 debt-free capital estate through a leveraged CHA that distributes \$30,000 in annual taxable dividends, plus \$780,000 in dividend income distributed over the 65-year period.)
- Encourage voluntary diffusion of large estates from one generation to the next, by shifting estate and gift tax burden to recipients whose tax-sheltered dividend-generating assets in their CHAs exceed the Capital Homestead Exemption of \$1 million, exclusive of equity in one's primary home.

Appendix

The Four Pillars for Building a More Just Economy

Expanded Capital Ownership

Limited Economic Power for the State

Free And Open Markets

Private Property



Pillar 1

Expanded Capital Ownership

- Goal** Promote widespread citizen access to capital ownership, creating new wealth accumulations for the many without taking old wealth from the few.
- Means** Democratization of productive credit, for financing growth through ownership-expanding mechanisms, institutions, and laws.
- Result** Decentralizes economic power and profit sharing to each citizen as the principal means of securing fundamental human and political rights, and as the ultimate check against the potential abuse of power by the state or by the majority against minorities.

Pillar 2

Limited Economic Power for the State

- Goal** Shift ownership and control over production and income distribution from the public sector to the private sector.
- Means** Limit government power over economy to:
1. Encouraging growth and policing abuses within the private sector;
 2. Ending economic monopolies and special privileges;
 3. Lifting barriers to equal ownership opportunities and credit;
 4. Protecting property and enforcing contracts;
 5. Preventing inflation and providing a stable currency;
 6. Promoting democratic unions to bargain over worker and ownership rights.
 7. Protecting the environment; and
 8. Providing social safety nets for human emergencies.
- Result** Promotes economic justice for all, reduces human conflict and waste, and increases efficiency and wealth creation, thus increasing revenues for the public sector while reducing the need for income redistribution.

Pillar 3

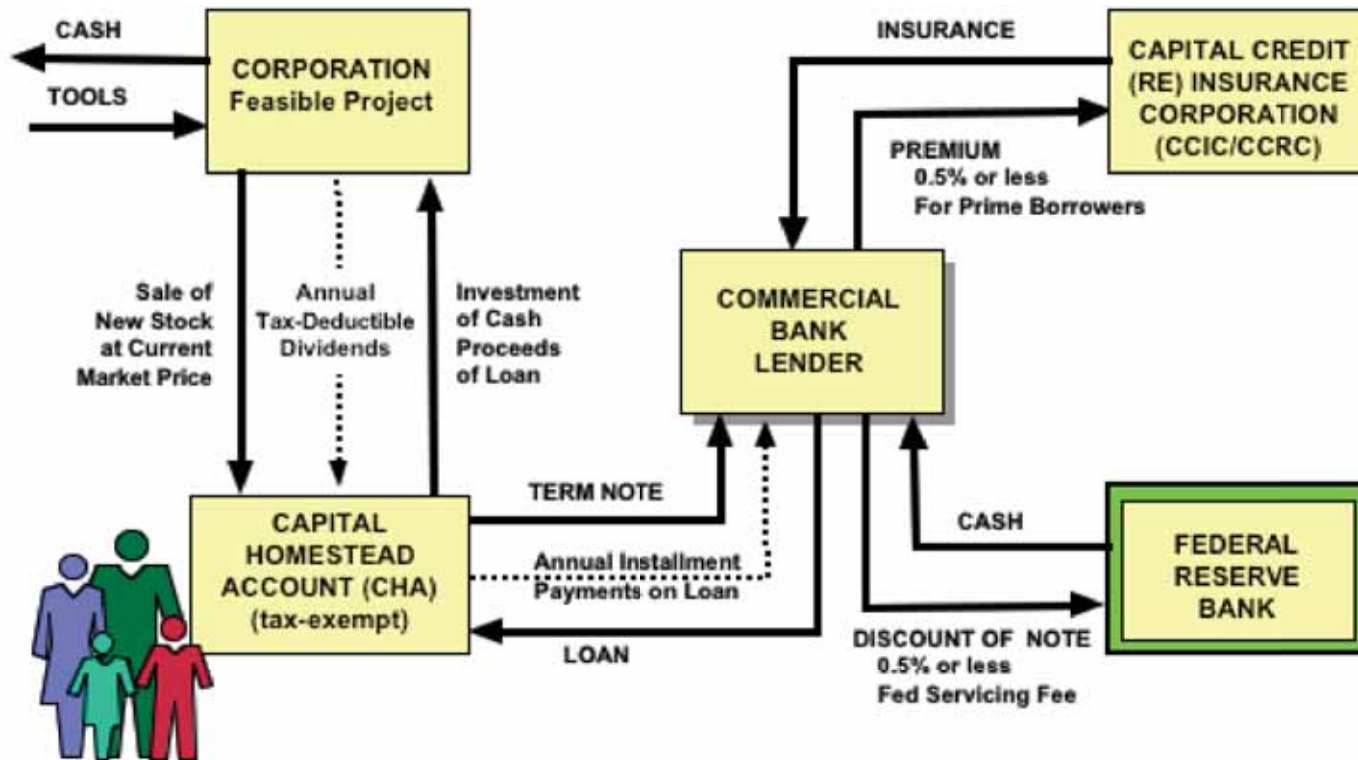
Free and Open Markets

- Goal** To restore free and open markets for determining just prices, just wages and just profits.
- Means** Gradually eliminate all state subsidies, barriers to free trade and free labor, price and wage controls, and all non-voluntary, state-controlled or collectivist methods of determining prices, wages and profits.
- Result** Decentralizes economic choice and empowers each person as a consumer, a worker and an owner.

Pillar 4 Private Property

- Goal** Restore personal rights of property in the means of production, particularly in corporate equity.
- Means** Reform laws which deny shareholders the original rights to participate in control and receive all profits proportionate to their property stakes.
- Result** Secures personal choices and economic self-determination. Re-establishes the economic equivalent of the ballot for re-creating an effective economic democracy within a competitive free enterprise system. Links income distribution to participation by new owners of new wealth.

Creating Money for Capital Homesteading



CREATING AN OWNERSHIP SOCIETY

Projected Wealth and Income Accumulations Under Capital Homesteading

PARAMETERS (ASSUMPTIONS)

Accumulation Beginning at Age:	0
Annual Capital Credit Allocation:	\$3,000.00
Annual Service and Risk Fees on Outstanding Principal:	3.00%
"Pre-Tax" Rate of Return on "Full-Payout" Shares:	15.00%
Term of Acquisition Loan in Years:	9

Age	Homestead Accumulation	Annual Earnings	Acquisition Debt Balance	Payments of Principal	Service & Risk Fees	Total Debt Service	Residual to Homesteader
Birth	\$3,000.00	\$450.00	\$2,666.67	\$333.33	\$90.00	\$423.33	\$26.67
10	33,000.00	4,950.00	12,000.00	3,000.00	450.00	3,450.00	1,500.00
20	63,000.00	9,450.00	12,000.00	3,000.00	450.00	3,450.00	6,000.00
30	93,000.00	13,950.00	12,000.00	3,000.00	450.00	3,450.00	10,500.00
40	123,000.00	18,450.00	12,000.00	3,000.00	450.00	3,450.00	15,000.00
50	153,000.00	22,950.00	12,000.00	3,000.00	450.00	3,450.00	19,500.00
60	183,000.00	27,450.00	12,000.00	3,000.00	450.00	3,450.00	24,000.00
65	198,000.00	29,700.00	12,000.00	3,000.00	450.00	3,450.00	26,250.00

RESIDUAL INCOME RECEIVED BY HOMESTEADER DURING PERIOD OF ACCUMULATION: \$780,450.00

Gross Benefits to Homesteader by Age 65 (Accumulation plus Residual to Homesteader): \$978,450.00

Cost to Government or Other Taxpayers (Taxes avoided on "tax free" Homestead Accumulation (28%)): \$55,440.00

Taxes on Dividend Income (28% assumed rate on all Homestead residual income): \$218,526.00

Net Tax Benefit to Government due to Homestead Program: \$163,086.00

Net Benefits to Homesteader by Age 65: \$759,924.00

[Annual Capital Homestead accumulations would continue after age 65]