

# Dave Westlake for U.S. Senate: **Battle Plan for Economic Victory**

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Restoring Fiscal Exceptionalism For Future Generations

# Current Situation

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## **Record Unemployment**

- 4 week moving avg. of new UE claims ~500K (Dept. of Labor)
- Nearly 15M unemployed Americans (Bureau of Labor Statistics)

## **Deficit Spending**

- FY09 budget deficit: \$1.4T, Projected FY10, 11: \$1.6T, \$1.3T (OMB, Tables S-1 & S-3)
- Budget deficits planned through FY20 (OMB, Table S-1)

## **Skyrocketing National Debt**

- \$13.3T, forecast to exceed \$18T in 5 yrs. (Dept. of Treasury)
- Glide path to exceed \$50T in 22 yrs., \$100T in 33 yrs., \$200T in 45 yrs.

## **Unsustainable Bureaucratic Costs**

- New programs add new layers of complexity and new costs (OMB, Table S-4)

## **Tax Burden Disproportionately Distributed**

- Nearly half of all Americans pay no federal income tax (IRS)
- The U.S. corporate tax rate is in the global top 3 highest (CBO)
- 6B hours spent by individuals filing tax returns/year (Cato Ins.)

# Current Situation

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## **FY09 Federal Budget: \$3.5T**

- 62.4% increase over 10 years (OMB, Table S-1)
- \$2.3T in Mandatory Spending, 54.1% increase over 10 years (OMB Table S-3)
- \$1.2T in Discretionary Spending, 29.0% increase over 10 years (OMB Table S-3)

## **FY09 Tax Revenue: \$2.1T**

- 109% increase over 10 years (OMB, Table S-3)

## **FY09 Budget Deficit: \$1.4T**

- 4.7% reduction over 10 years (OMB, Table S-3)

## **FY09 U.S. Consumption: \$12.4T**

- \$3.2T Goods consumption
- \$362B Services consumption
- \$225B Housing consumption
- \$6.2T “Other” personal purchases consumption
- \$2.4T Securities and Capital Investments consumption

**The Wrong Path:** *Tax Revenue will increase 109% over 10 years, yet the budget deficit will only shrink by 4.7%. An increase in tax revenue MUST be coupled with a cut in spending if we're going to pay off our federal debt.*

# Mission

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To model and deploy a tax system that is **flexible, fair, robust, simple to administer**, and **fiscally viable** that achieves as its end state a surplus budget and elimination of our federal debt.

# Background

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- Consumption tax has been discussed at various levels since 1993
- “Fair” because it taxes an individual’s consumption activity, not their income
- Other consumption-based tax programs have been proposed based on:
  - value-add at each stage of the production process (V.A.T. tax)
  - consumption with a rebate for taxes charged during a transaction (FairTax)
  - temporary sales “surcharges” that accompany the income tax to relieve the national debt
- **“The Battle Plan for Economic Victory”** is different in that it only taxes consumption once, does not require the bureaucratic infrastructure to issue rebates, and completely replaces the income tax

# Execution: Model Assumptions

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- Income-based taxing is eliminated on a federal level
- Model starts at FY09 recession consumption levels (vs. historically much higher average levels)
- Every federal budget line item authority reduces spending starting in Year 1
- Social Security and Medicare are preserved
- Economic expansion and consumption are tied to aggregated conservative averages of past 30 years
- Food, clothing, and shelter are NOT taxed so as to not negatively affect the impoverished or to keep any Americans from basic needs (*see Appendix B*)
- Government programs that are eliminated and shifted to states' authority are phased out over a period of several years; spending reductions are taken at a constant rate from year-to-year (with on zero-based budgeting)

# Execution: Implementation

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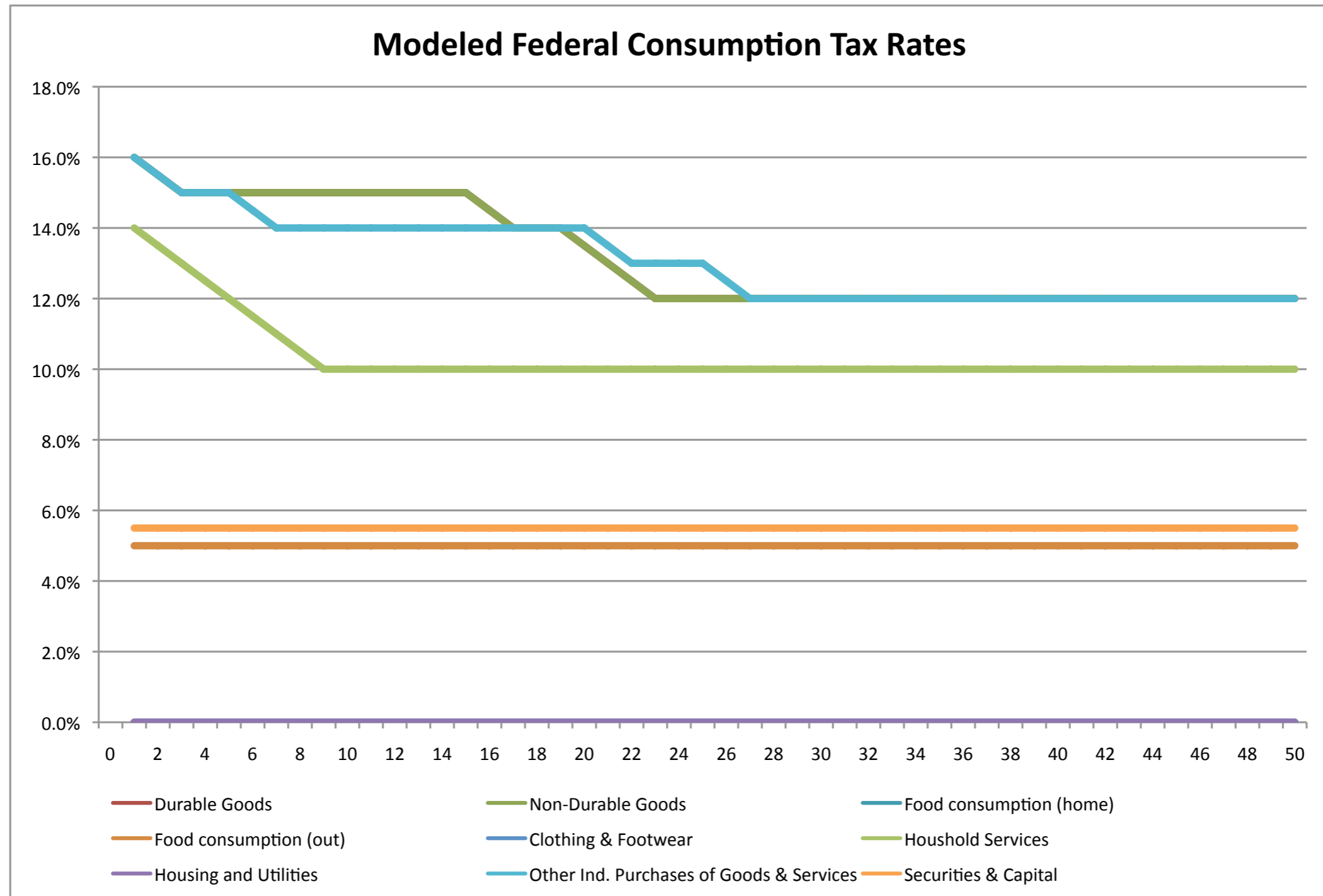
- Infrastructure already in place in most states
- Flexible to meet Americans' tolerance for a balance between taxing & paying off debt
- Fewer tax filing entities (businesses selling products or services) means streamlined IRS operations and an immediately scaled-back, smaller IRS
- Ends federal income tax withholding and reporting requirements
- Ends deductions, credits, loopholes, AMT, individual tax returns, tax brackets, excise taxes and fees, and the estate tax

# Execution: Implementation

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- All 31 major spending budget line items, currently divided into “Mandatory” and “Discretionary” spending categories are reclassified as “**Mandatory Budgeted Items**”
- Money that is **not budgeted** for is **not spent**
- All **budget items reduced** between 5-25% by “Year 1” except *Social Security* and *Interest on National Debt*
- Initial tax levels for 5 major taxing categories:
  - **Goods** (durable: 16%, non-durable: 16%)
  - **Services** (food: 0%, food services 5%, clothing: 0%)
  - **Housing** (household services: 14%, housing and utilities: 0%)
  - **Other Personal and Business Purchases: 16%**
  - **Securities and Capital Purchases: 5.5%**

# Execution: Modeled Tax Rates



- Maximum initial tax rate: 16%; maximum long-term tax rate: 12%
- No taxes charged on life's necessities (see Appendix B)

# Execution: What Does It Look Like?

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Current Paycheck: \$500.00

Federal Withholding:	\$68.00
Social Security:	\$31.00
Medicare:	\$7.25
State Disability:	\$4.50
State Withholding:	\$13.47

**Net Income: \$375.78**

“Battle Plan” Paycheck: \$500.00

Federal Withholding:	\$0.00
Social Security:	\$0.00
Medicare:	\$0.00
State Disability:	\$4.50
State Withholding:	\$13.47

**Net Income: \$482.03**

An **additional 28.3%** available in the “Battle Plan” Paycheck for economic stimulus activity!

# Execution: Exceptional End Results

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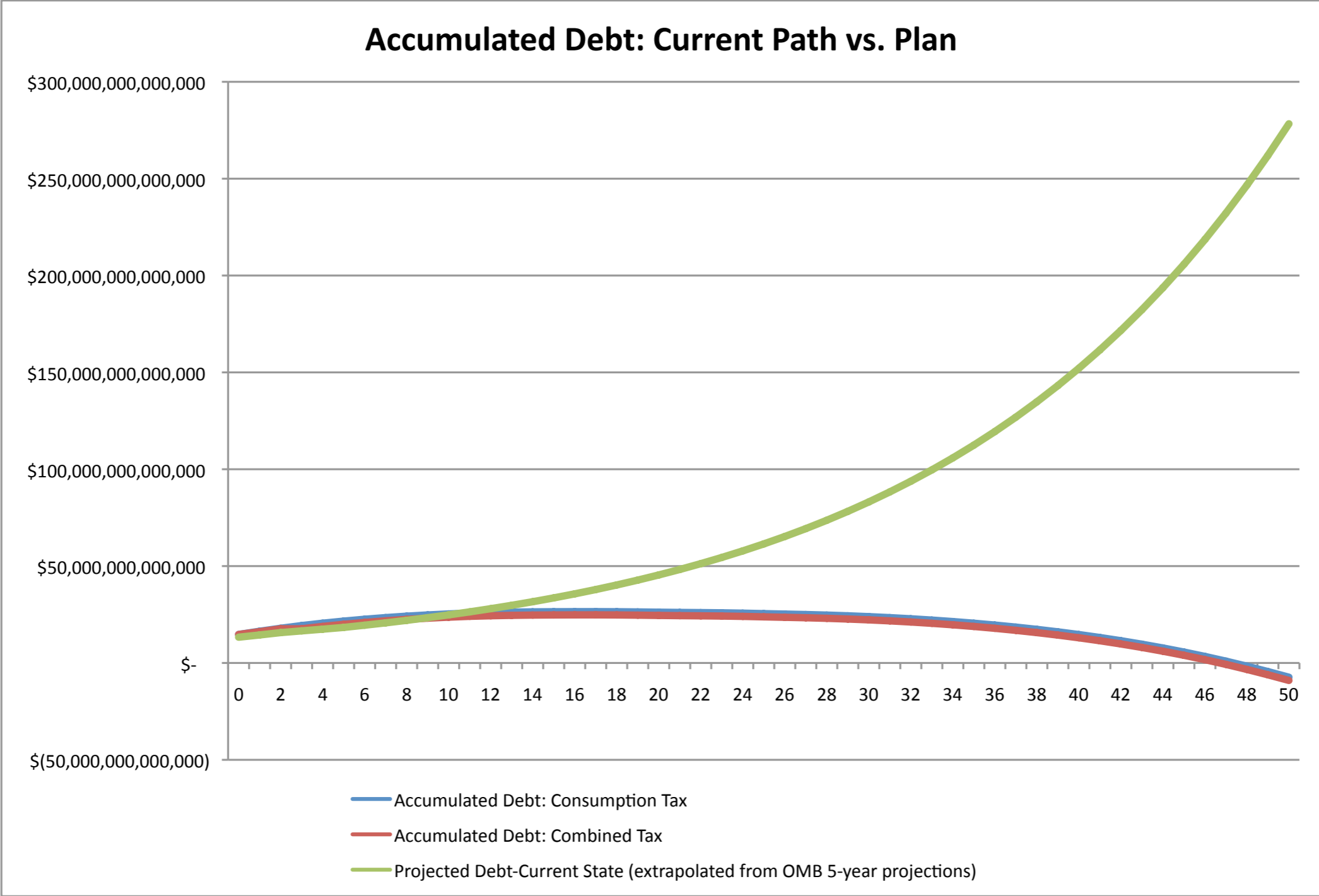
- Elimination of the current progressive income tax system
- Achieves surplus budgeting
- Forces funds allocation for ALL federal expenditures
- Elimination of national debt
- Dramatic reduction in the size and scope of the IRS and other government bureaucracies
- Reallocate power from the government to the people by allowing consumers to determine their tax contributions
- Simple and consistent with Constitutional “charter” to shrink the size of government

# Execution: Exceptional End Results

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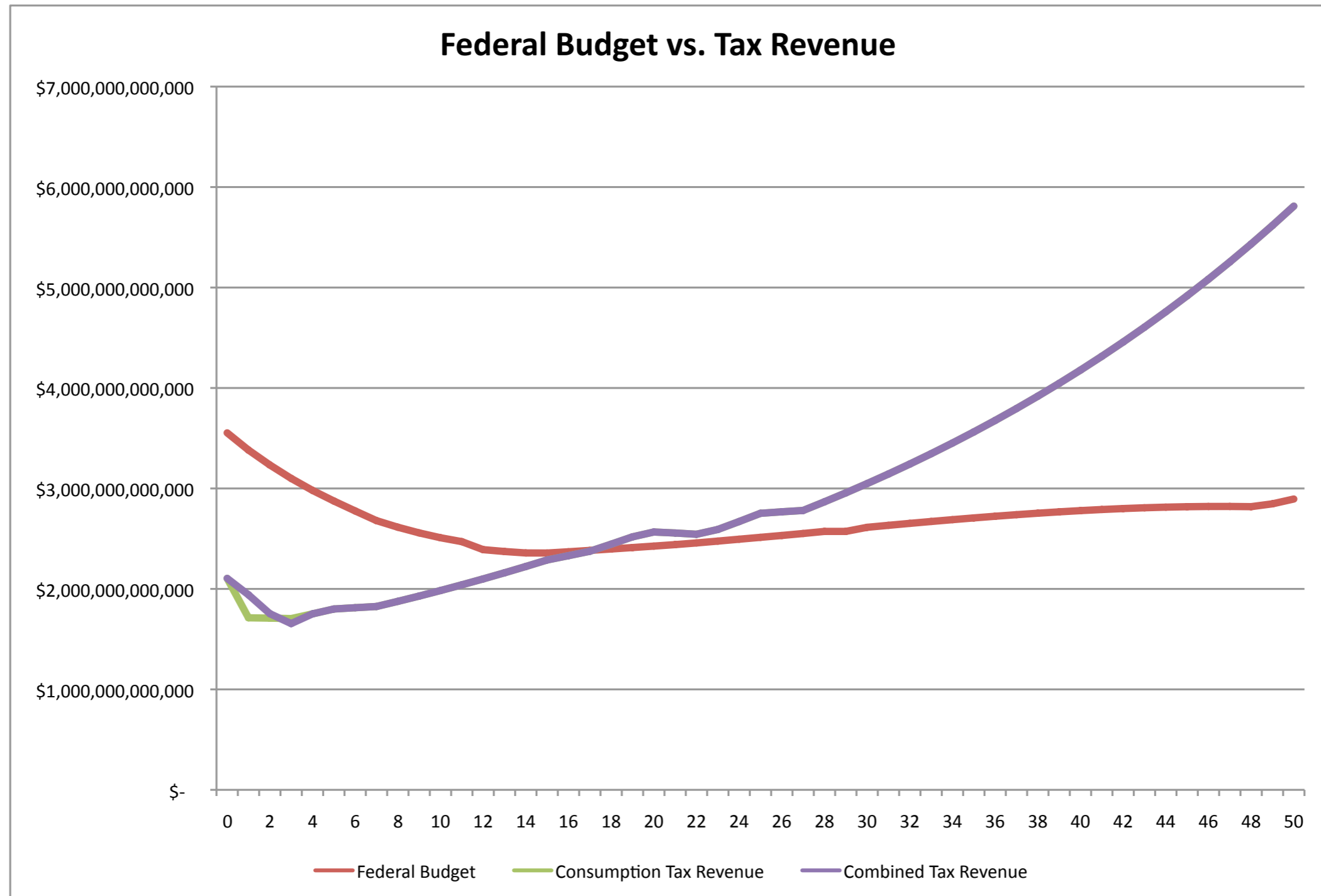
- Eliminates corporate income tax (entities treated as individuals), thus creating an attractive environment for companies to relocate jobs to the U.S.
- Lower tax rate stimulates economic activity, generates growth, and creates jobs
- Reduced tax collection from individual taxpayers; gets everyone involved in contributing to federal tax obligation
- Encourages saving and long-term investing (thus relaxing the strain on Social Security)
- Increases economic productivity (adds 6 billion hours of productive time back into our economy each year)

# Execution: Accumulated Debt Comparison



- Breaks cycle of current debt path in less than 10 years
- Completely debt free in less than 47 years

# Execution: Federal Budget vs. Tax Revenue



- Surplus budgeting in less than 18 years
- All critical government programs (including Social Security) intact

# Summary

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- Our nation's current financial path is unsustainable
- Simply adding to or "tweaking" the status quo will not correct the course we're on...only bold, comprehensive action that mixes true tax reform and disciplined control on Washington spending
- Taxing individuals based on income stifles economic activity and does not provide the incentives necessary to move our economy forward
- A consumption-based tax plan that gets everyone contributing via their purchasing will close the loopholes of our current system (illegal immigrants, write-offs, deductions, credits, etc.) and, when coupled with seriously addressing spending, will give us an opportunity to hand off a debt-free nation to our children

# Appendix A: Examples of Taxable Items

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- Durable goods: automobiles, boats, recreational vehicles, household appliances and furniture
- Non-durable goods: jewelry, “luxury” clothing items, computer equipment, cell phones, mp3 players
- Food consumption (out): meals at restaurants, food from vending machines (note: food at certified school cafeterias/dining facilities is tax exempt)
- Household services: home improvement contract work, installation of non-essential utilities
- Other individual purchases of goods and services: recreational services, auto accessories, luggage, landscaping products and services
- Securities and Capital Investment: non-retirement or college fund investments, non-primary residences, multi-family dwellings

# Appendix B: Examples of Tax-Exempt Items

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- Durable goods: Agricultural-specific equipment, farm-only machinery
- Non-durable goods: textbooks and school supplies, diapers, feminine hygiene products, toilet paper, wet wipes, Rx drugs, oral hygiene items, contact lenses, eyeglasses, personal protective equipment for production personnel, work uniforms, veterinary services and medications
- Housing and Utilities: primary residence (when a single-family dwelling), utilities and fuel for primary residence (including coal, firewood, fuel oil, natural gas, wood pellets, steam, and electricity), internet services
- Other individual purchases of goods and services: coffins, urns, and headstones
- Securities and Capital Investment: purchase of securities in qualified retirement plans and college education funds

An orange oval shape is centered on a black background. Inside the oval, the text "DaveWestlake" is written in a white serif font. Below it, "FOR U.S. SENATE" is written in a smaller, black, all-caps sans-serif font. At the bottom of the oval, "davewestlake.org" is written in a black, lowercase sans-serif font.

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