

109TH CONGRESS
1ST SESSION

H. R. 1601

To require a study and comprehensive analytical report on transforming America by reforming the Federal tax code through elimination of all Federal taxes on individuals and corporations and replacing the Federal tax code with a transaction fee-based system.

IN THE HOUSE OF REPRESENTATIVES

APRIL 13, 2005

Mr. FATAH introduced the following bill; which was referred to the
Committee on Ways and Means

A BILL

To require a study and comprehensive analytical report on transforming America by reforming the Federal tax code through elimination of all Federal taxes on individuals and corporations and replacing the Federal tax code with a transaction fee-based system.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Comprehensive Trans-
5 form America Transaction Fee Act of 2005”.

6 **SEC. 2. FINDINGS.**

7 The Congress finds the following:

1 (1) An effective stimulus plan meets the criteria
2 of job creation, fiscal responsibility, fairness, tar-
3 geting of unmet needs, tax reform and revenue shar-
4 ing.

5 (2) The current tax structure creates economic
6 distortions that limit growth and job creation.

7 (3) The estimated cost of compliance to tax-
8 payers is five billion hours and approximately \$200
9 billion.

10 (4) The tax code produces inefficiency in rev-
11 enue raising that forces the nation to struggle un-
12 necessarily under the burden of unequal and inad-
13 equate systems of public education and health care,
14 a crumbling physical and social services infrastruc-
15 ture, and a crushing national debt.

16 (5) Implementing a transaction fee will provide
17 the structure to maintain current expenditures on
18 defense-related activities without sacrificing expendi-
19 tures on additional important national priorities.

20 (6) Restructuring the tax code will promote eco-
21 nomic prosperity.

22 (7) Replacing existing Federal taxes with a fee
23 on transactions eliminates systemic inefficiency that
24 plagues the current tax code.

1 (8) Economic analyses have estimated a trans-
2 action fee would allow businesses to undertake
3 projects that are not profitable in the current tax
4 system, and workers would be more willing to supply
5 labor.

6 (9) Responsible tax reform is necessary for all
7 to enjoy financial security, economic prosperity, edu-
8 cational opportunities, and affordable health care.

9 (10) Therefore, the Department of the Treas-
10 ury shall prepare a comprehensive analytical report
11 to achieve these stated goals.

12 **SEC. 3. STUDY ON THE IMPLEMENTATION OF A TRANS-**
13 **ACTION FEE.**

14 (a) IN GENERAL.—The Secretary of the Treasury
15 shall conduct an in-depth study on the implementation of
16 a transaction fee in the United States. In particular, such
17 study shall include a comprehensive analytical report of
18 the proposal outlined in subsection (b) (as well as an im-
19 plementation/action plan) to replace all existing Federal
20 taxes with a per transaction fee based on the value of the
21 transaction.

22 (b) TRANSACTION FEE PROPOSAL.—

23 (1) IN GENERAL.—The fee under the proposal
24 would apply to all non-cash transactions (including
25 checks, credit cards, transfers of stocks, bonds, and

1 other financial instruments) and all high-dollar cash
2 transactions.

3 (2) POTENTIAL EXCLUSIONS.—The fee would
4 not apply to—

5 (A) cash transactions of less than \$500,

6 (B) salaries and wages by employers to
7 employees, and

8 (C) transactions involving individual sav-
9 ings instruments through financial institutions.

10 (3) CASH WITHDRAWALS FROM FINANCIAL IN-
11 STITUTIONS.—The fee under the proposal would
12 apply to cash withdrawals from financial institutions
13 and be set at a rate that is either double or higher
14 than the standard transaction fee.

15 (4) FEE RATE.—

16 (A) IN GENERAL.—The fee rate is set at a
17 level sufficient to generate revenues equal to
18 revenues under the Internal Revenue Code of
19 1986.

20 (B) OTHER POTENTIAL USES OF FEE.—

21 The fee rate could be structured to cover 1 or
22 more of the following:

23 (i) A national debt reduction plan re-
24 quiring elimination of the current national

1 debt of \$7.7 trillion over a period of 10
2 years, with equal annual payments.

3 (ii) A Federal revenue sharing pro-
4 gram providing funding to States to sup-
5 port 50 percent of the K–16 education
6 costs of each State which agrees to adopt
7 an equitable public school finance system.

8 (iii) A plan to meet the promised lev-
9 els of certain provisions listed under the
10 National Security Intelligence Reform Act
11 of 2004 (Public Law 108–458), including
12 those sections related to air cargo security
13 (subtitle C of title IV of such Act), deten-
14 tion bed space (section 5204 of such Act),
15 and border patrol agents (section 5202 of
16 such Act); to create a dedicated funding
17 stream for port security and improvements
18 at levels recommended by the United
19 States Coast Guard; and to increase ex-
20 penditures for first responder grant pro-
21 grams funded under the Department of
22 Homeland Security.

23 (iv) A Federal program providing
24 quality health care insurance coverage (for

1 the current estimated 45 million uninsured
2 Americans).

3 (v) An increase in the military basic
4 pay rate to a level comparable with that of
5 Federal civilian pay, considering, but not
6 being limited to, the following criteria: age,
7 education, skills, years of service, and re-
8 sponsibilities.

9 (vi) A Federal revenue sharing pro-
10 gram supporting community and economic
11 development investments in new markets
12 (rural and urban areas) at a level equal to
13 10 percent of current Federal tax reve-
14 nues.

15 (vii) A plan to increase the pay for
16 National Guard and Reserve soldiers to
17 that of active duty military for periods of
18 extended deployments abroad.

19 (viii) A Social Security and Medicare
20 solvency plan ensuring that revenues con-
21 tinue to exceed expected outlays.

22 (5) PROGRESSIVITY.—The base standard trans-
23 action fee shall not be greater than 1 percent for all
24 noncash transactions under \$500. If more revenues
25 are needed to meet the requirements of paragraph

1 (4), the Secretary of the Treasury would calculate
2 the minimum level of progressivity required to cover
3 these costs. This progressivity factor may include—

4 (A) a higher transaction fee for all trans-
5 actions above \$500, and

6 (B) a progressive schedule of rates to
7 tiered ranges of transactions above \$500.

8 (6) GENERAL PROVISIONS.—

9 (A) LIABILITY FOR FEE.—Persons become
10 liable for the fee at the moment the person ex-
11 ercises control over a piece of property or serv-
12 ice, regardless of the payment method.

13 (B) COLLECTION.—The fees will be col-
14 lected by the seller or financial institution serv-
15 icing the transaction.

16 (c) REPORT OF STUDY.—

17 (1) IN GENERAL.—The results of the study
18 shall be submitted to the Congress by the Secretary
19 of the Treasury in a comprehensive analytical report,
20 detailing—

21 (A) the methodology employed in the cal-
22 culation of the fee rate,

23 (B) the factors considered in assessing fea-
24 sibility of the proposed revenue generating sys-
25 tem and the weight applied to each, and

1 (C) the portion of the transaction fee at-
2 tributable to each of the programs identified in
3 subsection (b)(4)(B) and the methodology used
4 to calculate each.

5 (2) OTHER REQUIREMENTS.—The study shall
6 (in the following order)—

7 (A) compute the fee needed to meet cur-
8 rent revenue generation,

9 (B) compute the fee needed to meet rev-
10 enue neutrality and generate additional revenue
11 to support the program described in subsection
12 (b)(4)(B)(i) (relating to national debt reduction
13 plan),

14 (C) compute the fee needed to meet rev-
15 enue neutrality and generate additional revenue
16 to support all the programs described in sub-
17 section (b)(4)(B), and

18 (D) determine the utility of pegging
19 changes in the transaction fee schedule of rates
20 to the rate of inflation.

21 (3) COMPARATIVE ANALYSIS.—The study shall
22 include a comparative analysis of the existing rev-
23 enue-raising system versus the proposed fee-based
24 system on economic behavior. The study shall in-
25 clude an analysis of effect of the 2 systems on—

- 1 (A) job creation,
- 2 (B) economic growth,
- 3 (C) consumption,
- 4 (D) investments, and
- 5 (E) savings levels.

6 (4) TYPES OF TRANSACTIONS.—The study shall
7 include a broad-based examination of all types and
8 categories of transactions, including information on
9 frequency and value of transactions in each cat-
10 egory.

11 (5) IMPACT OF EXEMPTIONS.—The study shall
12 examine the impact of the transaction fee exemption
13 for all cash transactions under \$500.

14 (6) PROGRAM OPERATIONS.—The study shall
15 provide instructions on program operations, includ-
16 ing—

- 17 (A) transaction fee collection,
- 18 (B) transaction fee implementation, and
- 19 (C) transaction fee compliance, enforce-
20 ment, and administrative costs.

21 (7) DISTORTIONS.—The study shall include an
22 analysis, prepared by the Secretary of the Treasury
23 in consultation with the Secretaries of Commerce
24 and Labor, offering methods of preventing and re-
25 lieving potential distortions among economic sectors

1 created by the implementation of the transaction fee.
2 The study shall also include an analysis of the feasi-
3 bility of temporarily (for a period of not longer than
4 1 year) reducing the fee rate (as otherwise deter-
5 mined in subsection (b)(4)) applicable to an eco-
6 nomic sector if such sector is experiencing pro-
7 nounced economic distress.

8 (8) FEE AS TOOL OF FISCAL POLICY.—The
9 study shall assess the transaction fee as a tool of
10 Federal fiscal policy, including an impact analysis on
11 the elimination or retention of existing tax expendi-
12 tures, incentives, penalties, and credits. The study
13 should also research and comment on options for re-
14 bating citizens currently not subject to Federal in-
15 come taxes or other current aspects of the Federal
16 tax code including, but not limited to—

- 17 (A) the earned income credit,
18 (B) the alternative minimum tax,
19 (C) the child tax credit, and
20 (D) the deduction for mortgage interest.

21 (9) IMPACT OF FEE BY INCOME LEVELS.—The
22 study shall include an assessment of the impact of
23 the transaction fee by quartile income levels.

24 (10) IMPLEMENTATION PLAN.—The study shall
25 include a detailed action plan on how best to imple-

1 ment a transaction fee in the United States and
2 shall include information on timeline, agency reform,
3 potential pertinent regulatory issues, and type of
4 congressional action needed.

5 (11) INTERNAL REVENUE SERVICE.—The study
6 shall—

7 (A) assume the transition and
8 grandfathering of all existing personnel of the
9 Internal Revenue Service,

10 (B) examine elements of the current Inter-
11 nal Revenue Service needed to administer the
12 transaction fee, and

13 (C) examine the feasibility of modifying
14 the overall mission and jurisdiction of the Inter-
15 nal Revenue Service from one focused on tax
16 law application to one focused on uncovering
17 waste, fraud, and abuse throughout the Federal
18 Government.

19 (d) DUE DATE.—The report of the study shall be
20 submitted to the Congress not later than 1 year after the
21 date of the enactment of this Act.

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