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COVER PAGE

(Introduction)

*(The address listed on the article is from a former residence in New York.
I currently live in Pennsylvania)*

Following this cover page is a copy of the original article that I distributed to the people and organizations in the 1990s, concerning what I called ***Mercantilism***, the economic system I devised in 1995.

While it does not contain all of the facts and figures of the original economic study, it is a good abstract of what is involved in switching from a system with payroll taxes to a system of a national retail sales tax.

IMPORTANT NOTE: I did not have a computer in those days, so this PDF file contains the original article scanned onto the computer as it was typed on a typewriter. It also has hand drawn graphs and models instead of computer generated graphs and models. It is, nonetheless, satisfactory for this presentation of the original premise.

This article was sent to ***Policy Review*** for publication on August 5, 1997, but they declined to publish.

Since then, a lot of other people have had access. This was the first raw summary of my study.

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TAX THE END, NOT THE MEANS

[Balancing the Federal Budget Today]

by

J.V. PRESOGNA

Mercantilism

The doctrine of taxation through the consumer, whereby all personal, corporate and employment taxes are eliminated, and replaced by a 30% National Sales Tax on all consumer consumption.

--- J.V. Presogna

How this new economic philosophy can balance the budget, boost the economy, produce savings by reducing waste and fraud, and create a more equitable landscape for prosperity.

Written material is accompanied by 8 sidebars, tables and graphics to explain the principles introduced.

(Previous plans for a spending tax while retaining employment taxes are debunked)

On April 5, 1995, Senator Richard Lugar (R-Ind) proposed to remove federal (personal) and corporate income tax, along with capital gains taxes, gift taxes, and inheritance taxes. He would retain fully the FICA SS and FICA MD (employment taxes). But, he suggested a 17% National Sales Tax as a replacement.

The good intentions of Senator Lugar fell short, but he was "almost" right.

The irony is that, if the employment taxes would also be removed, the proposal would succeed.

The reason the proposal of Senator Lugar cannot succeed is because it not only burns the candle at both ends (taxing both the means and the ends) and traps the consumer in an endless inequity, but it also causes false hope by lessening a burden just enough to tempt the taxpayer into overspending.

The system proposed herein, Mercantilism, removes all personal, corporate and employment taxes, and makes the merchants the vehicles of taxation by proposing a 30% National Sales Tax on all consumer consumption. The 30% may be adjusted in times of prosperity or famine.

There is no false hope under Mercantilism. What you make is what you keep. Only the "end" is taxed. The "means" are unleashed.

There is no proposal more equitable.

There are some immediate concerns which are legitimate concerning the implementation of this new philosophy. But, none of those concerns could be fatal, and that can be demonstrated.

First of all, the federal budget reaches balance immediately, actually easily, without anyone fudging figures or any growth in the economy or increase in consumer spending. [Sidebar #1].

Second, "spending equity" --- the term used to describe what your new worth is under Mercantilism compared to the current tax system on the same income amount --- allows enough gains on incomes above the midpoint that a system of "vouchers" can be installed for the small amounts of negative figures for the poorer individuals. [Sidebar #2]. Issuing "vouchers" for tax for poorer people is much more efficient than having them file for a refund on taxes. The "look-back period" could easily be the previous tax year.

For house and car purchases, where the sales tax will indeed be a large figure for everyone, amortization can take care of the problem. [Sidebars #3, #4, and #5]. The federal budget will, of course, experience a small deficit at first, because of this amortization, but it will catch up to itself while a new amortization starts every year, and a surplus is reached in year five regardless. With an economy receiving a boost from spending, a surplus could actually be reached sooner.

Whatever the case, once amortization catches up to itself, no problem exists, whereas 100% is paid each year.

Sidebar #8 shows both spending equity and amortization as a graphic. With a growing economy, no deficit should ever occur again, barring some sort of global catastrophe.

As far as managing one's money, the consumer determines that for himself or herself. [Sidebar #6]. This is where the true responsibility lies anyway.

Of course, now that all money goes into a general fund, the question of Social Security arises. [Sidebar #7].

There is no doubt the current Social Security System is not working. Under the current system, the weight of Social Security falls directly on those making \$62,700 annually or less. It is much more reasonable to establish a "fund" where money is issued based on needs, rather than an account which will unlikely ever pay for itself under the current system.

When you add all of those things up and read through all of the tables and graphs shown, there cannot be much doubt about what direction the USA should go in now.

Some people point to a potential "black market" developing, meaning that those who avoid paying about \$100-billion in income tax now might start trying to avoid sales taxes also. But, to avoid \$100-billion in sales taxes, it would take a drop of \$333-billion in annual consumer consumption --- HIGHLY UNLIKELY, and almost a preposterous assumption. That is a 6.8% drop in economic activity.

There could never be such a huge drop in the economy simply from "avoidance." In addition, some "black markets" would be impossible to establish or initiate, such as "housing, automobiles and other items," which are most difficult to hide.

Indeed, a good portion of that lost \$100-billion annually from income tax could be recovered by Mercantilism.

And, because of that, bureaucracy and waste would be curtailed as well. Savings would appear in eradicating a lot of fraud. And, this simply means more revenue, while the consumer has more cash in the pocketbook.

For those concerned about the proposed "vouchers" for the poorer individuals, if everyone under the USA Median Income from 1994 of \$38,782 were issued "vouchers," the amount would be only about \$26-billion, an amount easily covered by surpluses in the federal budget. But, keep in mind, the real figure is more likely to be somewhere around \$10-\$14 billion, since that Median Income is above the spending equity midpoint already figured.

Certainly, for every legitimate concern, this system of Mercantilism, where absolutely "all" personal, corporate and employment taxes are removed, answers them with clear and promising results. Additionally, never forget that the "Fed," at any time, or "Congress" for that matter, may alter, raise, or lower the 30% proposed figure for a National Sales Tax, depending on the needs of the nation.

The truth of the matter is Mercantilism has so many advantages over the current system of taxation.

Spending will increase as population increases, regardless of an increase in consumer consumption in general; Investment will increase; Hiring will increase and more jobs will be created; Housing should rise above current levels of construction; Interest rates likely would come down; Prices may well see deflation because of lower overhead from an elimination of taxes; Imports/Exports are treated equally so there is no "tariff" on any incoming goods that is different from domestic goods; Recouping lost taxes from the old system; Savings from less bureaucracy and elimination of fraud and waste.

If that isn't enough, remember that none of this has yet touched upon what happens when corporations enter the game. This discussion has centered around the consumer. Think about the impact of corporations being given their corporate taxes back and how much would be split for dividends and expansion. Then, one can truly see the prosperity at hand.

Senator Lugar was "almost" right when he first proposed a spending tax (a word coined by Jim Davidson, Chairman NTUF). Thankfully, however, his own proposition did not catch on, since that "double burden" on the consumer would likely hurt more than help. But, Senator Lugar was looking in the right direction. And, Mercantilism gives us the whole nine yards and a touchdown.

END

GRAPHICS & SIDEBARS
(To Accompany Written Material)

- #1 BALANCING THE FEDERAL BUDGET
Current Tax System compared to Mercantilism's yearly surplus.
'92 through '95.

- #2 SPENDING EQUITY
Gross income and takehome pay of Current Tax System compared
to the voucher/savings of Mercantilism.
(Annual Income total EQUALS the Spending Equity total.

- #3 AMORTIZING HOUSE PAYMENTS
30% Sales Tax amortized on three levels, 10 yr., 15 yr., and
20 yr., depending on gross income.

- #4 AMORTIZING CAR PAYMENTS
30% Sales Tax amortized over 60 months.

- #5 BUDGET CONSEQUENCES - AMORTIZATION OF HOUSE AND CAR PAYMENTS
Using 1995 figures and the 1995 surplus under Mercantilism,
tables showing amortization against surplus, and recouping
surplus in 5th year.

- #6 MANAGING YOUR MONEY
1994 Median Income spending demonstrated for typical family.

- #7 SOCIAL SECURITY
Current System's fatal flaws demonstrated and compared to
Mercantilism's savings.

- #8 GRIDS/GRAPHS
Amortization grid showing recouping of surplus and how the
amortization catches up to itself; spending equity graph,
showing sharply rising savings verses minimal vouchers.

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BALANCING THE FEDERAL BUDGETCURRENT TAX SYSTEM

(Amounts in billions of dollars)

	'92	'93	'94	'95
Personal Income Tax:	475.964	509.680	543.055	590.157
Corporate Income Tax:	100.270	117.520	140.385	157.088
Employment Taxes:	385.491	396.939	428.810	451.046
Other:	129.453	129.087	145.201	152.285
<u>TOTAL FEDERAL RECEIPTS:</u>	<u>1,090.453</u>	<u>1,153.226</u>	<u>1,257.451</u>	<u>1,350.576</u>
Total Federal Outlays:	1,380.794	1,408.532	1,460.553	1,514.389
<u>DEFICIT:</u>	<u>- 290.340</u>	<u>- 255.306</u>	<u>- 203.102</u>	<u>- 163.813</u>

UNDER MERCANTILISM

(No growth or adjustment in annual figures)

(Amounts in billions of dollars)

	'92	'93	'94	'95
Consumer Consumption:	4,219.800	4,454.100	4,700.900	4,924.900
30% National Sales Tax:	1,265.940	1,336.230	1,410.270	1,477.470
Other:	129.453	129.087	145.201	152.285
<u>TOTAL FEDERAL RECEIPTS:</u>	<u>1,395.393</u>	<u>1,465.317</u>	<u>1,555.471</u>	<u>1,629.755</u>
Total Federal Outlays:	1,380.794	1,408.532	1,460.553	1,514.389
<u>SURPLUS:</u>	<u>+ 14.599</u>	<u>+ 56.785</u>	<u>+ 94.918</u>	<u>+ 115.366</u>

CURRENT TAX SYSTEM*MERCANTILISM

<u>ANNUAL INCOME</u>	<u>TOTAL FED TAXES</u>	<u>TAKEHOME PAY</u>	<u>SPENDING EQUITY</u> Spend + 30% Tax		<u>Voucher(-) Savings(+)</u>	
2,600	198.90	2,401.10	2,000	600	-	401.10
3,900	298.35	3,601.65	3,000	900	-	601.65
4,000.00	306.00	3,694.00	3,076.92	923.08	-	617.08
5,200	579.80	4,620.20	4,000	1,200	-	620.20
6,500	874.25	5,625.75	5,000	1,500	-	625.75
7,800	1,170.70	6,629.30	6,000	1,800	-	629.30
10,400	1,759.60	8,640.40	8,000	2,400	-	640.40
12,480	2,225.72	10,254.28	9,600	2,880	-	654.28
14,560	2,699.84	11,860.16	11,200	3,360	-	660.16
16,640	3,166.96	13,473.04	12,800	3,840	-	673.04
18,720	3,641.08	15,078.92	14,400	4,320	-	678.92
20,800	4,115.20	16,684.80	16,000	4,800	-	684.80
22,880	4,581.32	18,298.68	17,600	5,280	-	698.68
24,960	5,055.44	19,904.56	19,200	5,760	-	704.56
27,040	5,522.56	21,517.44	20,800	6,240	-	717.44
29,120	6,142.68	22,977.32	22,400	6,720	-	577.32
31,200	6,889.80	24,310.20	24,000	7,200	-	310.20
33,280	7,622.92	25,657.08	25,600	7,680	-	57.08
33,726.68	7,783.08	25,943.60	25,943.60	7,783.08		0
35,360	8,370.04	26,989.96	27,200	8,160	+	210.04
37,440	9,103.16	28,336.84	28,800	8,640	+	463.16
39,520	9,850.28	29,669.72	30,400	9,120	+	730.28
41,600	10,317.40	31,282.60	32,000	9,600	+	717.40
43,680	11,330.52	32,349.48	33,600	10,080	+	1,250.52
45,760	12,077.64	33,682.36	35,200	10,560	+	1,517.64
47,840	12,810.76	35,029.24	36,800	11,040	+	1,770.76
49,920	13,557.88	36,362.12	38,400	11,520	+	2,037.88
52,000	14,305.00	37,695.00	40,000	12,000	+	2,305.00
54,080	15,038.12	39,041.88	41,600	12,480	+	2,558.12
56,160	15,785.24	40,374.76	43,200	12,960	+	2,825.24
58,240	16,518.36	41,721.64	44,800	13,440	+	3,078.36
60,320	17,265.48	43,054.52	46,400	13,920	+	3,345.48
62,400	18,020.60	44,379.40	48,000	14,400	+	3,620.60
62,700.00	18,136.56	44,563.44	48,230.77	14,469.23	+	3,667.33
62,701.00	18,136.56	44,564.44	48,231.54	14,469.46	+	3,667.10
70,720	20,732.84	49,987.16	54,400	16,320	+	4,412.84
83,200	24,788.84	58,411.16	64,000	19,200	+	5,588.84
91,520	27,482.44	64,037.56	70,400	21,120	+	6,362.44
104,000	31,530.90	72,469.10	80,000	24,000	+	7,530.90
116,480	35,580.66	80,899.34	89,600	26,880	+	8,700.66
124,800	38,280.50	86,519.50	96,000	28,800	+	9,480.50
156,000	49,939.90	106,060.10	120,000	36,000	+	13,939.90
195,000	64,545.40	130,454.60	150,000	45,000	+	19,545.40

*NOTE: Taxes figured are for a "single individual" with no dependents, who takes the \$4,000 standard deduction. [FICA SS is 6.2% but only up to \$62,700 income; FICA MD is 1.45% on "all" income; and Federal Income Tax is by bracket for the single individual.]

ANNUAL INCOME Total EQUALS the SPENDING EQUITY Total.

AMORTIZING HOUSE PAYMENTS30% SALES TAX

Tax abatement on house purchases is based on "income," not the sale price of the house. Individuals with a larger income need less of an abatement. The schedule of payments for the mortgage may be different in length for each individual, separate from the schedule of tax payment. With 100% of income retained, the buyer of the new house will have the luxury of paying such tax almost like property tax payments, or paying the tax in full at time of purchase.

If Income is 0 - \$24,999, tax payment is amortized over 20 years.

If income is \$25,000 - \$74,999, the tax is amortized over 15 years.

If income is \$75,000 or more, the tax is amortized over 10 years.

SALE PRICE OF HOUSE	30% NATN. SALES TAX	AMORTIZE 240 months 20 years	AMORTIZE 180 months 15 years	AMORTIZE 120 months 10 years
57,000	17,100	71.25/mth 855.00/yr	95.00/mth 1,140.00/yr	142.50/mth 1,710.00/yr
112,900	33,870	141.13/mth 1,693.50/yr	188.17/mth 2,258.00/yr	282.25/mth 3,387.00/yr
300,000	90,000		500.00/mth 6,000.00/yr	750.00/mth 9,000.00/yr
\$1.5 M	450,000			3,750.00/mth 45,000/yr

Median Home Price in 1995 was \$112,900

AMORTIZING CAR PAYMENTS30% SALES TAX

Tax abatement on car purchases is not variable, because of the much shorter loan schedules. All of the tax will be amortized over a period of 60 months, regardless of income or price of car. The buyer, as with house purchases, has the option of paying the tax in full at time of purchase.

<u>SALE PRICE OF CAR</u>	<u>30% NATN. SALES TAX</u>	<u>AMORTIZE 60 months 5 years</u>		
15,800	4,740	79.00/mth	-	948.00/yr
25,000	7,500	125.00/mth	-	1,500.00/yr

Average Car Price in 1995 was \$15,832.56

BUDGET CONSEQUENCES: AMORTIZATION OF HOUSE AND CAR PAYMENTS

Amortizing the tax payments for houses and cars will, of course, reduce the annual tax revenue, until the amortization catches up with the volume. That means car payments, which are amortized over 5 years, will catch up in 5 years, and be paid in full every year thereafter. However, the first 4 years will see less revenue, because of "starting up a new system of taxation."

Using 1995 figures only:

\$137.3 billion in car sales, producing \$41.19 billion in sales taxes. Amortization will require at least \$8.238 billion be paid per year.
 (8.238) (16.476) (24.714) (32.952) (41.19)
 Each year, a new amortization begins, and in year #5 all is paid up.

The median house purchase was \$112,900. The mean amortization of the allowable choices (10/15/20 years) would require 6.67% of the taxes be paid yearly. \$528.50 billion in sales, and \$158.55 billion in taxes, produces an amortization of \$10.58 billion per year.

In 1995, a surplus of \$115.366 was generated. However, with amortization the surplus will be removed until amortization catches up.

SURPLUS	+115.366	+115.366	+115.366	+115.366	+115.366
House:	-147.970	-137.390	-126.810	-116.230	-105.650
Car:	- 32.952	- 24.714	- 16.476	- 8.238	-0-
	- 65.556	- 46.738	- 27.920	- 9.102	+ 9.716

Above, the amortization payments are calculated with the original surplus to adjust the budget. A deficit will appear for the first 4 years, if consumer consumption is constant (as in 1995 figures). A surplus will re-appear in the 5th year and every year thereafter, since the total amortization catches up, and a new amortization starts every year.

MANAGING YOUR MONEY

The 1994 Median Income was \$38,782.00. This family would not need any vouchers under Mercantilism, whereas they are above the midpoint of "Spending Equity."

Retaining 100% of their income allows the family to decide where the money will go. As example, see below:

	COST/YEAR	COST/WEEK	BALANCE*
.....	38,782.00
FOOD	12,000	230.77	26,782.00
Tax on food	3,600	69.23	23,182.00
CAR LOAN	3,024	58.15	20,158.00
Tax (amortize)	948	18.23	19,210.00
HOUSE	5,018.64	96.51	14,191.36
Tax (amortize)	1,140	21.92	13,051.36

*Balance based on COST/YEAR

After paying for food, car and house, the above family has a total of \$13,051.36 remaining, or about \$250.99 per week to spend on other items.

ARTICLE NAME	PRICE LISTED	TAX 7% STATE SALES	TAX 30% FEDERAL	FINAL PRICE
Tanning Lotion	18.00	1.26	5.40	24.66
Mattress	299.00	20.93	89.70	409.63
Cordless Phone	29.00	2.03	8.70	39.73
Shampoo	2.69	.19	.81	3.69
Corn Snacks	.99	N/A	.30	1.29

NOTE: The National Sales Tax of 30% is figured against the List Price of the item, not the sub-total gained when state sales tax, if any, is added. Not all states have sales taxes, and many states do not tax food items.

SOCIAL SECURITY (F.I.C.A. SS)CURRENT SYSTEM

FICA SS is taxed at a rate of 6.2% on a maximum of \$62,700 income. This means that a maximum of \$3,887.40 will be paid.

There is a "built-in" inequity here in the current system, as demonstrated below.

INCOME	FICA SS PAID	FICA SS UNCOLLECTED ON:	FICA SS ON THAT AMT.	PERCENT OF INCOME TAXED
62,700	3,887.40	---	---	100%
75,000	3,887.40	12,300	762.60	83.6%
85,000	3,887.40	22,300	1,382.60	73.8%
100,000	3,887.40	37,300	2,312.60	62.7%
120,000	3,887.40	57,300	3,552.60	52.3%
150,000	3,887.40	87,300	5,412.60	41.8%
200,000	3,887.40	137,300	8,512.60	31.4%

This is the only tax system where the rates are progressively smaller. On both ends, collections and payouts, the current system of social security fails: Those who make the most pay the least, and those who need the most collect the least.

UNDER MERCANTILISM

With no employment taxes, the government works out of a huge "General Fund," i.e. what it collects in the 30% National Sales Tax, and the "other" taxes it levies (excise, etc.). Under Mercantilism, with no personal, corporate or employment taxes at all, the social security fund is fed by the "General Fund," and payouts are by need.

1	.x.x.x.x.x	x x x x x x x x x x x x x x x	
2	.x.x.x.x.x	x x x x x x x x x x x x x x x	(Amortization Grid)
3	.x.x.x.x.x	x x x x x x x x x x x x x x x	
4	.x.x.x.x.x	x x x x x x x x x x x x x x x	
5	.x.x.x.x.x	x x x x x x x x x x x x x x x	
6	.x.x.x.x.x	x x x x x x x x x x x x x x x	
7	.x.x.x.x.x	x x x x x x x x x x x x x x x	
8	.x.x.x.x.x	x x x x x x x x x x x x x x x	
9	.x.x.x.x.x	x x x x x x x x x x x x x x x	
10	.x.x.x.x.x	x x x x x x x x x x x x x x x	

Surplus is established in year #5, when the car amortization catches up to itself, ensuring the entire amount of sales tax is collected every year thereafter. The house amortization catches up to itself in 15 years, but at 6.67% payments, it provides for removal of any deficit in 5th year. Each year starts a new amortization, and this future scale will guarantee 100% collections each year once the amortization catches up to itself.

