

## FRIENDS OF FRED THOMPSON, INC.

### Thompson Plan for Tax Relief and New Economic Growth

*In today's competitive global economy, a fair, simple, and pro-growth tax system is essential for America's success. America must be the best place in the world to invest and create high-paying jobs.*

*Fred Thompson's Plan for Tax Relief and Economic Growth promotes fairness and simplicity in the tax code and will create greater growth in the economy. It is based on a fundamental assumption that keeping tax rates low increases economic growth and enhances American competitiveness in the global economy. Increased economic growth will lead to higher wages and higher levels of employment in America. Equally important, lower taxes enhance the personal and economic freedom of all Americans by allowing them to keep more of their hard-earned dollars. Allowing Americans to control their own financial future has been integral to our nation's economic success and strength since its founding, and is the key to our future.*

*The economic proposals offered by Democrats will move us in the wrong direction -- their plan for higher taxes, in particular, will reduce America's competitiveness, push investment and jobs overseas, and send more of workers' and families' income to Washington. The conservative approach is to reduce government spending and return more money to America's families.*

*The following elements of the Thompson Plan for Tax Relief and Economic Growth will spur economic growth and move the nation towards a fairer, simpler tax system on the way to Fred Thompson's ultimate goal of fundamental tax reform.*

1. **Permanently Extend the 2001 and 2003 Tax Cuts.** Tax relief enacted in 2001 and 2003 has proved critical to generating a strong economy that has experienced growth despite the war on terror, the collapse in the housing market, and other economic challenges over the last six years. Unless action is taken, every American taxpayer will see a massive tax increase after December 31, 2010. Allowing this tax hike will impose an enormous financial burden on American families, slow economic growth, cost America jobs, and make it more difficult to address the country's long-term budget, economic, and security challenges. The Thompson plan ensures the following:
  - o *Reduced individual income tax rates, saving every tax-paying family a minimum of \$600.*
  - o *Preserving the \$1000 child tax credit, which was doubled from \$500 per child.*
  - o *Protecting Marriage penalty relief.*

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- *Retaining Education tax incentives, including Coverdell Education Savings Accounts, 529 college savings plans, and deductions for higher education expenses.*
  - *Reduced tax rates on capital gains and qualified dividends.*
  - *Increased expensing of investment for small businesses.*
2. **Permanently Repeal the Death Tax.** Current law provides death tax relief, but only through 2010. The death tax is inherently unfair. Under the Thompson Plan, the death tax would be permanently repealed, thus protecting millions of American families, including small business owners and family farmers, from double taxation at rates ranging as high as 55 percent.
  3. **Repeal the Alternative Minimum Tax.** The AMT is a separate tax system that was intended to ensure that a few high income Americans could not use deductions and credits to eliminate their tax liability. However, because the AMT is not indexed to inflation, it is penalizing Americans it was never intended to affect. While in the U.S. Senate, Fred Thompson authored legislation that would have repealed the AMT. Consistent with that earlier proposal, the Thompson plan will eliminate the AMT as part of broader tax and spending reform. Until comprehensive reform is feasible, the Thompson plan would index the exemption amounts annually so that millions of middle class families will not become subject to this tax.
  4. **Reduce the Corporate Tax Rate.** The United States has one of the highest rates of tax on businesses of the industrialized nations, second only to Japan. Even Japan is currently considering reducing its corporate tax rate. Economic studies suggest that the U.S. Treasury is actually losing tax revenue by keeping the corporate tax rate so high. In order to increase the competitiveness of U.S. companies in the global marketplace, the Thompson plan would reduce the U.S. top corporate tax rate (including the corporate capital gains tax rate) from 35 percent to no more than 27 percent, which is the approximate average of the world's leading economies--the nations of the Organization on Economic Cooperation and Development. This tax reduction will promote U.S. competitiveness, encourage companies to keep their operations (and jobs) in the U.S., and spur continued economic expansion and growth.
  5. **Permanently Extend Small Business Expensing.** Small businesses create two-thirds of all new jobs in America, and employ nearly 59 million Americans -- more than half of the nation's private-sector workforce. Women own a quarter of all small businesses, minorities are nearing the 20% mark, and Hispanic Americans are opening their own businesses at a rate three times the national average. Current law allows small businesses to write-off purchases of equipment of up to \$125,000 per year, rather than depreciating those assets over time. Making expensing of equipment and other small business items

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permanent will encourage greater investment and growth.

6. **Update and Simplify Depreciation Schedules.** The current depreciation schedules are outdated and in many cases do not reflect the realistic useful life of an asset. This is particularly true for investments in high technology. For example, computers must be depreciated over three years, even though they become obsolete in half that time. The Thompson plan would simplify and update these schedules to allow American businesses to make the investments they need to compete and create more high-quality jobs.
7. **Expand Taxpayer Choice.** The Thompson plan would give Americans greater choice about how to pay their federal taxes. This plan is based on a proposal developed by the House of Representatives Republican Study Committee that would provide taxpayers the option of remaining under the current, complex tax code or opting for a simplified, flat tax code. The simplified tax code would contain two tax rates: 10% for joint filers on income of up to \$100,000 (\$50,000 for singles) and 25% on income above these amounts. The standard deduction would be more than doubled to \$25,000 for joint filers and \$12,500 for singles. The personal exemption amount would be increased to \$3,500. Therefore, a family of 4 would be exempt from income tax on the first \$39,000 of income. The simplified tax code would contain no other tax credits or deductions. It would also retain the 15% tax rate on capital gains and dividends. This approach would dramatically simplify taxes for tens of millions of Americans. In addition, the larger standard deduction and personal exemption amounts will still provide significant tax relief to families with children. This proposal would serve as a stepping-stone to fundamental tax reform.

*America's economic future depends on our nation's ability to maintain its competitive and innovative spirit. Solutions to challenges in our economy are found in the homes and small businesses of ordinary Americans, not in the halls of Washington. Fred Thompson's goal is to allow Americans to retain greater control of their own money.*

*To do that, Fred Thompson believes we need a more limited, more effective federal government. Currently, government spending is projected to grow at nearly twice the rate of inflation over the next several years. This spending path is unsustainable and will hamper our economy unless fiscal discipline is imposed. It is critical that we address the problem of government spending, especially for entitlement programs, if the U.S. economy is to grow and thrive in the coming decades.*

*The Thompson Plan for Tax Relief and Economic Growth provides commonsense solutions to increase American competitiveness in the 21st century. These solutions will allow Americans to keep more of their money and encourage companies and entrepreneurs to invest and create jobs*

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*in the United States. Enhancing the choices of taxpayers, permanently reducing taxes, encouraging investment in America's corporations and small businesses, and restraining government spending are all steps in the right direction. America's economy has endured several challenges over the last several years -- it is time to move forward and enter a new era of economic security and prosperity.*

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