

BIC LLC News Release

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Time for a Consumption Tax

Dictionary.com defines Tax as, " a burdensome charge, obligation, duty, or demand." I have long wondered why our government would want to impose such a nasty device on hard earned income, whether individual or corporate. Taxes are unavoidable, we all know that. They are constitutional and used to support necessary government activities. We also know taxes can be and are often used to incentivize economic behavior either positively or negatively. For example, if the objective is to "protect" US jobs by discouraging foreigners from exporting their goods here, imports are taxed making them more expensive. On the other hand, if the aim is to improve global competitiveness of US goods abroad then tax incentives (negative taxes) are provided to US companies to lower their cost of goods and stimulate foreign demand.

Earning income should be promoted by the government and made easy as it is good for the economy. So why on earth has a system developed that not only taxes the rewards of our efforts but is

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so complex the pages on which it is written cannot be counted? Shouldn't the tax levy focus on be on behavior that could benefit us all from being either curtailed or even eliminated?

Consumption should be taxed, not income. Outside of the fact that a consumption tax could be made well understood by every citizen paying taxes, the economic benefits of such a system are enormous. First, the 7.6 billion hours spent on tax compliance annually would drop to a tiny fraction of that freeing up 3.8 million full-time workers to spend their time productively. And I mean productively. As a tax-code burdened and bewildered small business owner, we can say without hesitation our time is much better spent analyzing companies for investment on behalf of our clients than it is tracking every detail of our income and spending for tax preparation. We would also greatly appreciate and benefit from that time being freed up to develop new business opportunities which would eventually lead to additional jobs at our firm.

A consumption tax would cause consumers to think before pulling the trigger on their purchases. No doubt, had such a system been in place the speculative buying frenzy of US consumers that played a major role in the financial meltdown would have been subdued significantly had all those credit card purchases been taxed at a higher rate. What is more, less consumer spending means more savings. Saving deposits are banks' lowest cost source of capital. An increase in savings would improve bank capital in the lowest cost way. The government would no longer

have to print money or issue debt to accomplish the same only at much higher cost to both taxpayers and banks. Further, an increase in savings supply would drive down its cost, or the interest paid by banks on deposits. In a competitive banking system lower capital costs, in turn, would lead to a reduction in lending rates. In addition, overall private capital cost would drop, not just for banks, as corporate debt and stock investments would become more attractive to investors with interest and dividends no longer be taxed. Lower capital costs would stimulate private sector investment as marginal projects would become profitable at lower rates. In order for our economy to grow, create jobs and compete globally, we need productive investment.

Finally, you can't cheat a consumption tax. Drug dealers, bookies, illegal immigrants and the rest of the charlatans not paying a dime under the current income-based system all have to eat and live. Their consumption would be taxed and collected at the point of sale along with the rest of ours.

President Obama promised both change and accountability. There is no doubt the current income-based tax code is complex, driven by special interest and promotes cheating. It is time for a fair tax collection system that is well understood by all who pay. It is time for a consumption tax.

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