

EXHIBIT
President's Tax Panel Recommendations as Compared to the SET Tax Proposal

Tax Area	Panel Recommendation*	SET Tax
Tax rates	Reduce the current six income tax brackets to <i>four</i> .	Reduce the current six income tax brackets to <i>one</i> .
Personal and family tax credits	Replace with a single family credit.	Replace with Congressionally determined exclusion (e.g., \$15,000 caregiver exclusion for nonworking spouses).
Earned income tax credit	Replace with a work credit and give low-income taxpayers eligible for the credit the option of letting the IRS calculate its value.	Replace with Congressionally determined exclusion (e.g., personal exemption of \$30,000 to achieve progressivity).
Marriage penalty	Virtually eliminate by making tax brackets and credits for married couples twice those of individual taxpayers.	Eliminate by reducing six income tax rates to one.
Alternative minimum tax	Eliminate.	Eliminate.
Employer-provided health insurance	Tax-free status of employer-provided insurance replaced with an exclusion available to all taxpayers but limited to the average premium (estimated at \$11,500 for a family or \$5,000 for an individual). All other employee fringe benefits would be taxed.	Not specifically mentioned by SET Tax, but system easily accommodates an exclusion with limits.
Home mortgage interest deduction	Eliminate and replace with a 15% credit for mortgage interest. Eligible mortgages would be limited to the Federal Housing Administration loan limitation (varies by region, but averages \$265,000).	Eliminate and replace with an Congressionally determined exclusion for mortgage interest (e.g., \$75,000 of interest, approximately equivalent to the current mortgage limitation).
Capital gains exclusion for home sales	Increase from \$500,000 to \$600,000, and index to inflation.	Exclusion approach is consistent with SET Tax.
Charitable giving	Offer tax benefits to all taxpayers (not just those itemizing) for donations exceeding 1% of the taxpayer's income.	Congress could permit any exclusion desired.
State and local tax deduction	Eliminate.	Congress could permit any exclusion (or none, as proposed).
Retirement	Replace multiple savings accounts with two simpler accounts. Save at Work accounts would let employees save by setting aside untaxed wages, similar to 401(k) accounts. Save for Retirement accounts would let individuals set aside up to \$10,000 in after-tax savings, similar to Roth IRAs.	Easy to understand and calculate exclusions would be used to encourage saving for retirement.
Education, health, and savings	Eliminate multiple existing savings plans and replace them with Save for Family accounts. Individuals could put aside \$10,000 each year for medical, education, and home-buying expenses. Low-income savers could qualify for a credit worth up to \$500.	Easy to understand and calculate exclusions would be used to mitigate expenses relating to education, medical needs, and savings.
Investment income	Eliminate taxes on dividends paid by U.S. companies and exclude 75% of long-term corporate capital gains from taxation. Most other interest income and gains would be taxed at regular rates. [†]	Easy to understand and calculate exclusions could be used to exclude from taxation a percentage of income from interest, dividends, or capital gains.

Source: Report of the President's Advisory Panel on Federal Tax Reform (www.taxreformpanel.gov)

* Simplified Income Tax Plan

† The panel's second proposal, the Growth and Investment Tax Plan, would, among other business-related provisions, tax dividend, capital gains, and interest income at a 15% rate.