

NESARA

The National Economic Stabilization and Recovery Act

107th CONGRESS

1st Session

H. R. _____

(This bill has not yet been introduced into Congress)

To amend the Federal Reserve Act of 1913, as amended; and the Internal Revenue Code of 1939, as amended; in order to secure for the American people their unalienable right to Life, Liberty, and Property.

IN THE HOUSE OF REPRESENTATIVES

_____ for himself, _____,

_____, _____, _____,

introduced the following bill; which was referred to the committee on

A BILL

To amend the Federal Reserve Act to provide for the American people a constitutionally accurate, sound, safe, and honest medium of exchange; and,

To amend the Internal Revenue Code enacted on February 10, 1939, as amended, to abolish the collection of revenue based on income and to establish a constitutional tax system within the classes of imposts, excises and duties;

So that the endeavors of the American people in agriculture, industry and commerce may prosper.

TITLE: NATIONAL ECONOMIC STABILIZATION AND RECOVERY ACT

Be it enacted by the Senate and House of Representatives of the United States of America in Congress Assembled,

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The National Economic Stabilization and Recovery Act

Table of Contents

Purpose.....	4
What is wrong with America?.....	4
Can We Really “Fix” America? Can One Bill Repair The Damage?	4
Executive Summary	5
Monetary Policy Reform.....	5
Fiscal Policy Reform.....	5
What NESARA Does Not Immediately Do	5
Detailed Summary–Part I Banking and Monetary Reform	6
Immediate Relief and Results	6
The Federal Reserve System	6
Monetary Policy	6
Banking	6
Detailed Summary–Part II National Sales and Use Tax.....	8
Immediate Relief and Results	8
The Income Tax	8
Sales and Use Tax	8
Part I. Banking and Monetary Reform	10
Section 1. Definitions.....	10
Section 2. Findings.....	13
Section 3. Congressional Control Of The United States Monetary System.....	14
Section 4. Provisions For United States Currency	14
Section 5. Reformation Of The Federal Reserve System.....	18
Section 6. Reformation Of The Federal Reserve Banks.....	21
Section 7. Regulation Of Commercial Banks And Other Financial Institutions.....	22
Section 8. Excise Tax Imposed On Monetization-Fee Or Interest Income	23
Section 9. Regulation Of The Exchange Value Of Treasury Credit-Notes.....	24
Section 10. Authorization For Limited Bank Charters.....	25
Section 11. Regulation Of Postal Money Orders	25
Section 12. Crime Defined And Punishment Established	26
Section 13. All Inconsistent Acts Repealed	26
Part II. National Sales and Use Tax.....	27
Section 1. Definitions.....	27
Section 2. Findings.....	29
Section 3. Federal Income Tax Abolished	30
Section 4. Revision Of The Internal Revenue Service.....	30
Section 5. National Sales And Use Tax Imposed.....	31
Section 6. Liability For And Disposition Of The National Sales And Use Tax.....	32
Section 7. Recovery Of Taxes, Penalty, And Interest	35
Section 8. Crime Defined And Punishment Established	38
Section 9. All Inconsistent Acts Repealed	39
Appendix A	40
Part I. Banking and Monetary Reform Explanation and Details.....	40
Appendix B	51
Part II. National Sales and Use Tax Explanation and Details	51

NESARA

The National Economic Stabilization and Recovery Act

Appendix C	61
Imagine Legislation That...	61
Terminates or Drastically Reduces Mortgage Debt	61
Promotes Universal Home Ownership	61
Restores High-Paying Productive Jobs	64
Increases Benefits to Senior Citizens	64
Eliminates Federal Income Taxes	65
Restores Financial Privacy	66
Enables Single Parents to Support Their Families	66
Restores Inner Cities as Vital Economic Areas.....	68
Benefits Americans with an Unprecedented Economic Boom	69
Provides 500 Billion Dollars for Infrastructure Projects.....	69
Eliminates Bank Failures	70
Please Support the NESARA Institute	75

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The National Economic Stabilization and Recovery Act

Purpose

- To provide monetary reform by amending the Federal Reserve Act of 1913.
- To provide fiscal reform by amending the Internal Revenue Code of 1939.
- To secure for the American people their unalienable right to Life, Liberty, and Property.

What is wrong with America?

- The income gap between the rich and poor continues to widen
- Earnings for the poorest fifth of American families rose less than 1% between 1988 and 1998
- Earnings for the richest fifth of American families rose more than 15% between 1988 and 1998

- Income tax preparation costs Americans more than \$225 billion and more than 5 billion hours per year in nonproductive labor
- Social woes and problems continue to escalate
- Income tax laws continue to erode privacy rights

- Asset forfeitures continue to rise due to inequitable monetary policy and tax laws
- The American Dream is quickly disappearing
- Unsound monetary and fiscal policies encourage waste and graft

- Public and private debt continue to rise
- Current banking practices and policies no longer support the people but special interests
- Current monetary and fiscal policy provides no mechanism to stop or defeat inflation

Can We Really "Fix" America? Can One Bill Repair The Damage?

NESARA will:

- Reduce social inequalities and problems by doubling the average standard of living
- Eliminate trillions of dollars of public and private debt
- Return control of the currency to the public

- Reduces the cost of using public currency
- Provide new banking rules that are equitable and fair to all
- Provide \$500 billion of new public works projects
- Replace the income tax with a fair tax

- Improve the balance of trade problems
- Rebuild American industry with high-paying, productive jobs
- Eliminate inflation

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The National Economic Stabilization and Recovery Act

Executive Summary

Monetary Policy Reform

- Establishes three types of United States currency: standard silver coin, standard gold coin and treasury credit-notes
- The United States Treasury buys and cancels all outstanding capital stock of the former Federal Reserve Banks
- The privately owned Federal Reserve System becomes a public entity, the United States Treasury Reserve System
- A new Board of Governors of the Treasury Reserve System uses a specific law-mandated plan to maintain and stabilize the exchange value of the currency

- The new Board assumes all powers and responsibilities of the former Federal Open Market Committee
- The existing regional Federal Reserve Banks become Treasury Reserve Banks and continue clearinghouse operations and other bank service functions under the direction of the Office of the Comptroller of the Currency
- All commercial banks must exchange their income-producing government obligations for treasury credit-notes
- Only treasury credit-notes may be held as bank reserves

- Fundamental changes are imposed on the repayment of all outstanding fractional reserve loans on secured property—principal must be repaid before the monetizing-fee is paid
- A progressive federal excise tax is imposed on the privilege of making commercial loans of currency for profit
- Commercial financial institutions such as credit unions are provided, subject to some restriction, with opportunities to operate with fractional reserves

Fiscal Policy Reform

- Amends the existing federal income tax system
- A national retail sales (excise) tax is imposed upon non-exempt retail activities of commerce
- The Internal Revenue Service is reorganized as the National Tax Service to administer the collection of the new tax

What NESARA Does Not Immediately Do

- Eliminate all payroll taxes, such as Social Security and Medicare taxes
- Eliminate constitutional excise taxes on regulated activities
- Immediately eliminate the entire national debt
- Immediately halt inflation

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The National Economic Stabilization and Recovery Act

Detailed Summary–Part I Banking and Monetary Reform

Immediate Relief and Results

- Eliminates approximately $\frac{1}{4}$ of the nation's debt
- Eliminates some private debt, especially for many home owners

The Federal Reserve System

- The Federal Reserve Act of 1913 is amended
- The Federal Reserve System is abolished and replaced by a new Treasury Reserve System
- Control of the currency is moved from private control of the Fed to public control of Congress and the Treasury
- Functions of the Federal Open Market Committee are transferred to the Board of Governors of the new Treasury Reserve System
- A new mechanism, the Treasury Reserve Account, is created to provide the Treasury Reserve System a better method to fine tune the money supply, effectively eliminating inflation
- The previous three mechanisms for controlling the money supply are maintained: 1. Setting reserve requirements. 2. Setting the national discount rate. 3. Purchasing U.S. Treasury securities on the open market.

Monetary Policy

- People are provided with several alternatives for money
- Constitutional money is restored
- Currency becomes debt free as the people stop paying interest payments for their use of a public utility
- Unlike previous policy, the new Treasury Reserve Board is provided one very specific mandate: maintain a stable currency
- Expansion of the economy is returned to the free market
- Private coinage is encouraged
- Exchange ratios for the various currencies published at least weekly
- Printing of redeemable gold and silver certificates allowed
- Postal money orders available in denominations of gold and silver coin

Banking

- Returns the banking industry to serving public interests
- For secured loans, compound interest is outlawed and replaced with a monetization fee
- Provide stricter banking controls through excise taxes to discourage high or runaway monetization fees

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The National Economic Stabilization and Recovery Act

- Secured loans require principal to be paid in full before collecting monetization fees
- Eliminates the facade for banking insurance (FDIC)
- Except for fraud and criminal activities, virtually eliminates bank failures
- Banks are prohibited from using as reserves anything but Treasury credit-notes

- Commercial paper can no longer be used as reserves, only Treasury credit-notes can be used, effectively removing banks from influencing monetary policy
- Checking accounts against gold and silver deposits are prohibited, such accounts are custodial only
- Commingling of funds among the various money accounts without owner's permission is prohibited

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Detailed Summary–Part II National Sales and Use Tax

Immediate Relief and Results

- Workers maintain better control of their earnings
- Production is no longer taxed, but consumption
- Encourages production thus revitalizing industry in America

- Encourages rebuilding of inner cities
- Discourages wasteful uses of natural resources
- Exposes the true cost of government

- Greatly eliminates the struggle between tax “protesters” and bureaucracy
- Allows the “underground” to resurface and become a viable contribution to production of goods and services
- Greatly restricts the influence of special interests and lobbyists

The Income Tax

- The Income Tax Act of 1939 is amended
- People need no longer fear the IRS
- Billions of hours of nonproductive labor are eliminated

- Mounds of paper work are eliminated
- The cost of the income tax is no longer hidden and embedded in the cost of doing business and passed down the chain with the consumer paying the final tab
- Most likely eliminates state income tax plans because state income taxation piggybacks on federal income taxation

- The IRS is reformed into the National Tax Service
- Volumes of complicated tax code are history
- Eliminates personal income taxes

- Eliminates corporate income taxes
- Eliminates gift taxes and estate taxes
- Eliminates capital gains taxes

Sales and Use Tax

- Tax rate of 14%
- Government entities are exempt
- Government mandated expenses such as licenses, permits, passports, are exempt

- Sales of bullion, coin and currency are exempt
- Sales made by or to nonprofit schools are exempt
- Sales of prescription drugs are exempt

NESARA

The National Economic Stabilization and Recovery Act

- Real estate rents and leases are exempt
- Sales of groceries are exempt
- Sales of plants, livestock and fish used in the production of food for human consumption are exempt

- Insurance sales are exempt
- Segregated portions of labor in service contracts are exempt
- Incidental or occasional sales such as garage or rummage sales are exempt

- Sales for the purposes of recycling are exempt
- Meals provided by companies at company expense are exempt
- Sales that are nonprofit in nature are exempt

NESARA

The National Economic Stabilization and Recovery Act

Part I. Banking and Monetary Reform

Section 1. Definitions

Definitions for terms used in this part are equivalent to those of the United States Constitution and the Coinage Act of 1792 or are explicitly stipulated below.

Accounting unit dollar: Token dollar; imaginary accounting unit used to denominate United States currency.

Barter: Wealth traded by direct exchange.

Bill of credit: Paper document issued as legal tender by the government on its authority and credit, redeemable in specie at a future day, and designed to circulate as money.

Coin: A piece of metal with its commodity type, weight and fineness stated on its face; an item of intrinsic value based in the unconditional, historical domain and often used as a medium of exchange.

Credit: Imaginary demand. Reliance on the truth or reality of something; belief; faith.

Credit-note: Paper document denominated in token dollars; United States Treasury credit-note.

Currency: That which circulates as a medium of exchange; anything that is in immediate, continuous and widespread use as money.

Dollar: A unit of weight, as construed in the U.S. Constitution and in the Coinage Act of 1792, equal to 371 and 1/4 grains; equivalent to 24.0566 grams or 0.77344 troy ounces.

Eagle: A gold coin containing one troy ounce of gold; an easily recognizable standard United States coin which may be used as money.

Exchange value: Instantaneous parity of a thing at the time of the exchange.

Expediency: That which is apt or suitable to an end in view.

Federal Reserve Note: Paper document denominated in token dollars; a token note having only exchange value; a type of U.S. currency adopted by custom and through the imposition of legal tender laws; a direct obligation of the United States; fiat money; scrip.

Fiat money: Paper documents or token coins, normally issued by governments and made legal tender by fiat or statutory law, not redeemable in specie; an item of exchange value based in the conditional, future domain; accepted by the issuer as compensation for taxes, fees, duties or debts; accepted by others in anticipation of future exchanges.

Fiat: A sanction; decree.

Free market: One in which any individual may exchange their products or services by competitive bidding, open to all, without constraint.

NESARA

The National Economic Stabilization and Recovery Act

Gold eagle: Eagle.

Gold certificate: A document certifying that a like amount of its face denomination in (gold) eagles is on deposit with and held in trust for its immediate redemption at the U.S. Treasury or at a designated agent of the U.S. Treasury.

Interest: Compensation paid to a creditor for loss of the use of their own currency.

Intrinsic value: Inherent value usually related to cost of production, more properly related to marginal utility.

Irredeemable: Not convertible into specie at the pleasure of the holder; inconvertible; not terminable by payment of the principal.

Lawful: Authorized; sanctioned; not contrary to nor forbidden by law; constitutional.

Lawful money: Lawful money of account; specie: silver dollars, eagles.

Legal: Done or performed in accordance with the forms and usages of law, or in a technical manner. An Act may be legal but, if not constitutional, it is not lawful.

Legal-tender: Default medium of exchange; forced use of a government specified medium of exchange when parties to a mercantile transaction fail to specify a specific medium of exchange.

Medium of exchange: Currency; an intermediate used during trade or commerce; an expediency accepted in an exchange; that which is used as money in an exchange.

Monetization fee: Payment required for the monetization of debt; pseudo interest.

Money: A psychological creation; a concept; the mental image of that which is used as a medium of exchange.

Note: Certified claim on wealth; a written or printed paper acknowledging a debt and promising payment.

Payment: Discharge of an obligation or debt by delivery of value, usually lawful money. The execution and delivery of negotiable papers [instruments] is not payment unless it is accepted by the parties in that sense. (UCC § 3-410)

Scrip: Provisional certificate; evidence that the holder or bearer is entitled to receive something.

Seigniorage: The difference, which may be positive or negative, between the face value of specie (coin), silver or gold certificates, or fiat money and its commodity value in a free market.

Silver dollar: A coin containing a dollar weight—371 and 1/4 grains—of silver; an easily recognizable standard United States coin which may be used as money.

NESARA

The National Economic Stabilization and Recovery Act

Silver certificate: A document certifying that a like amount of its face denomination in dollars of coined silver is on deposit with and held in trust for its immediate redemption at the U.S. Treasury or at a designated agent of the U.S. Treasury.

Source: Point of origin or creation.

Specie: Coin, usually of silver or gold.

Tender: Any offer to settle a debt or obligation with any accepted medium of exchange accompanied by means for fulfillment of that offer.

Token coin: A piece of metal intended for use as currency, issued at a nominal or face value normally far in excess of its commodity value; United States clad coins and subsidiary coins of base alloys.

Token dollar: Imaginary accounting unit dollar; debt; an artificial creation, irredeemable in specie.

Token: Something that serves as what it is not.

Treasury bill: Obligation of the U.S. Treasury for a specified term of three, six or twelve months from the date of issue, bearing no interest but sold at a discount.

Treasury bond: Paper document issued by the government as evidence of long-term indebtedness.

Treasury certificate: Obligation of the U.S. Treasury generally maturing in one year on which interest is paid by coupon.

Treasury credit-note: United States currency; paper document denominated in token dollars, designed to circulate as money, having exchange value, irredeemable, with limited legal-tender character, authorized by the Congress of the United States, issued by the U.S. Treasury bearing no interest and spent into circulation through voluntary acceptance; an obligation of the United States; fiat money.

Treasury note: Obligation of the U.S. Treasury, with a maturity of one to five years and interest paid by coupon.

Unit: Any specified or determinable amount or quantity adopted as a standard of measurement. Unity; one.

Units of Measure—Common Equivalents: Accurate to one part per million or better; included for reference only;

- 1 pound, Troy = 373.2417216 grams;
- 1 pound, Troy = 12 ounces, Troy;
- 1 pound, Troy = 5,760 grains;
- 1 grain = 0.06479891 grams

NESARA

The National Economic Stabilization and Recovery Act

Section 2. Findings

The Congress finds that —

- (1) an excessive debt, both public and private, is the cause of much of this nation's economic distress.
- (2) outdated banking, monetary and fiscal practices, supported by national statutes, codes and regulations, led to the creation of a large portion of this debt.
- (3) the nation's privately owned central banks of the Federal Reserve System exercise significant control over the national economy through manipulation of monetary policy.
- (4) the private character of the Federal Reserve System was recognized in the Act creating the system when Congress reserved to itself "[t]he rights to amend, alter, or repeal" the authorizing legislation. (38 Stat. 251, 275)
- (5) the reservation of "[t]he right to amend, alter, or repeal" the Act establishing the Federal Reserve System displays Congressional concern to obviate any possibility that the private parties comprising the Federal Reserve System might acquire, directly in or through application of the statute, any rights, powers, privileges or immunities that the courts could later hold were constitutionally immutable.
- (6) the federal courts have also recognized that, although the Federal Reserve System may perform various functions purportedly on behalf of the national government, it is not an agency of the United States. *Lewis v. United States*, 680 F.2d 1239, 1240 (9th Cir. 1982)
- (7) the Supreme Court of the United States noted in 1896 that "National banks are instrumentalities of the Federal government, created for a public purpose, and as such necessarily subject to the paramount authority of the United States." *Davis v. Elmira Savings*, 161 U.S. 275
- (8) the Board of Governors of the Federal Reserve System and the Federal Open Market Committee were given a mandate to "maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates."
- (9) the performance of the Federal Reserve System, particularly in pursuit of its mandate to "promote ... stable prices and moderate long-term interest rates," has been considerably less than satisfactory. A 1950 dollar is worth only 18 cents in 1990, losing 82 percent of its value in 40 years.
- (10) changes in the economic behavior of the American people, particularly since World War II, have greatly reduced the ability of the Federal Reserve System to regulate monetary policy.
- (11) Federal Reserve System regulators struggle to maintain stability, hampered by conflicting goals and grossly inadequate monetary tools.
- (12) the authority of Congress to issue irredeemable, legal tender paper currency, or to delegate such a power, finds no basis in Article I, § 8, cl. 5 of the United States Constitution, which grants Congress the power "To coin Money, [and] regulate the Value thereof."

NESARA

The National Economic Stabilization and Recovery Act

(13) the constitutional power “To borrow Money” found in Article I, § 8, cl. 2 does not authorize Congress to issue “Bills of Credit” or to delegate such a power.

(14) reconstruction of the national banking and monetary system can begin based on the unquestionably constitutional premises that:

- (a) Congress has the power and duty to provide the nation with a sound monetary system; and,
- (b) Congress has the power to borrow money; and,
- (c) Congress has no power or privilege to emit bills of credit, nor to delegate such a power; and,
- (d) Congress has the power and duty to protect commerce from irresponsible banking practices.

(15) the reform of the current monetary system as outlined in this Act is necessary to ensure the American people of their unalienable rights to Life, Liberty, and Property, and to provide for them a constitutionally accurate, sound, safe, and honest medium of exchange.

Section 3. Congressional Control Of The United States Monetary System

(A) The monetary system of the United States shall be under the control of Congress.

(B) It shall be administered within the Department of the Treasury of the United States by the Secretary of the Treasury and by other government officers.

Section 4. Provisions For United States Currency

(A) Congress hereby directs the Secretary of the Treasury to authorize the production and immediate distribution of United States Treasury credit-notes, denominated in 1, 5, 10, 20, 50, and 100-token dollar units, in sufficient quantity to replace all outstanding United States legal tender paper currency of every type.

(B) The following characteristics, among others, define the United States Treasury credit-notes:

- (1) paper document denominated in token dollars
- (2) an obligation of the United States
- (3) created by authorization of the United States Congress
- (4) issued by the United States Treasury bearing no interest
- (5) placed in circulation through voluntary acceptance
- (6) designed to circulate as money
- (7) irredeemable in specie

NESARA

The National Economic Stabilization and Recovery Act

(8) having exchange value

(9) having limited legal-tender character

(C) Congress hereby declares that, from the date of passage of this Act, United States Treasury credit-notes are legal-tender for all debts—public, private, and personal—where such debts are not explicitly stated and understood by the parties involved to be dischargeable in some other stipulated medium of exchange.

(D) All existing forms of United States legal tender paper currency of whatever type, denominated in dollars and produced on or before the date of passage of this Act, are exchangeable or replaceable at a face value of one for one for the new United States Treasury credit-notes. Federal Reserve Notes, National Bank Notes, and State Bank Notes will no longer be printed.

(E) Congress hereby directs the Secretary of the Treasury to authorize the production of standard silver and gold coins from the following sources:

(1) coinage at the public mints of all government-owned silver and gold bullion except for minimum amounts which may be required under the Strategic and Critical Materials Stock Piling Act (50 USC 98 et seq.); and,

(2) coinage at the public mints of silver and gold bullion acquired on the world market by the Secretary of the Treasury at not more than the then current average world price; and,

(3) unlimited coinage at the national mints of privately owned bullion; and,

(4) encouragement of private coinage.

(F) Congress hereby directs the Secretary of the Treasury, under Article I, § 8, cl. 5 of the United States Constitution, to establish and implement procedures and necessary regulations to encourage each of these sources to its maximum extent.

(G) United States Coinage

(1) The standard unit of the domestic monetary system shall be a lawful United States constitutional silver dollar coin, containing 371 and 1/4 grains of silver, as construed in the United States Constitution and the Coinage Act of 1792. The Secretary of the Treasury shall provide for the minting of 1, 1/2, 1/4, and 1/10-dollar pieces, containing weights of silver in these exact proportions to the standard silver dollar.

(2) The Secretary of the Treasury shall provide for the minting of standard gold coins. A standard gold coin, called the eagle, will contain 1 troy ounce of gold. The Secretary of the Treasury may, by discretion, provide for companion-pieces containing 1/10 troy ounce of gold, the 1/10 eagle; and 1/4 troy ounce of gold, the 1/4 eagle; and 1/2 troy ounce of gold, the 1/2 eagle.

(3) Despite any other provision of law, the Secretary of the Treasury shall provide for the minting and issuance of standard gold and standard silver coins of the following character:

NESARA

The National Economic Stabilization and Recovery Act

- (a) consist of an alloy of—
 - (i) the specified weight of the precious metal; plus
 - (ii) other metal, weighing not more than 1/10 of the total weight of the coin, included to increase the coin durability;
 - (b) a silver dollar will contain 371 and 1/4 grains of silver, being a minimum of 90 percent silver by weight, with the 1/2, 1/4, and 1/10 dollar pieces containing weights of silver in exact proportions to the standard dollar;
 - (c) an eagle will contain 1 troy ounce of gold, being a minimum of 90 percent gold by weight, with 1/2, 1/4, and 1/10 eagle pieces containing weights of gold in exact proportions to the standard eagle;
 - (d) have a standardized design which remains unchanged for thirty years —
 - (i) symbolic of Liberty on the obverse side; and
 - (ii) of an eagle on the reverse side;
 - (e) have inscriptions —
 - (i) indicating denomination, such as “One-half Dollar” or “One Eagle”; and
 - (ii) actual type and weight of precious metal content, such as “371 & 1/4 Grains Silver” or “One Troy Ounce Gold”; and
 - (iii) “Liberty”; and
 - (iv) “United States of America”;
 - (f) are marked —
 - (i) to identify the mint of origin; and
 - (ii) with the first year of the decade of minting or issuance except that all coins minted before the year 2010 will be marked “2000”;
 - (g) all standard silver coin will have a twelve-sided polygon design with reeded edges;
 - (h) all standard gold coin will have a sixteen-sided polygon design with reeded edges;
- (4) To compensate for abrasion of the lawful coinage, the “Value” of any particular coin is equal to its actual weight divided by its specified total weight expressed in appropriate terms of dollars or eagles.

NESARA

The National Economic Stabilization and Recovery Act

(5) The Secretary of the Treasury shall immediately open the public mints to unlimited coinage of both metals, levying a charge, denominated in treasury credit-note dollars, for seigniorage at the minimum level necessary to fund the mints' operations.

(6) The Secretary of the Treasury shall determine and publish at least weekly, but more often if he deems necessary, the exchange-ratios between —

(a) a treasury credit-note dollar and a United States standard silver dollar and

(b) a treasury credit-note dollar and a United States eagle,

such ratios being calculated by adding the current average world market price, denominated in treasury credit-note dollars, for the bullion equivalent weight of the standard coin to the mint seigniorage charge to produce a standard coin.

(7) All existing laws or regulations authorizing governmental seizure of precious metals or prohibiting the recovery and use of the bullion content of lawful coins are hereby repealed.

(H) Private Coinage

(1) As part of the duty, under Article I, § 8, cl. 5 of the United States Constitution, to supply the country with an adequate coinage, Congress requires the Secretary of the Treasury to, upon request of United States wholly owned and operated private mints, have prepared and make available at cost, dies for the minting of standard silver and gold coin of the United States.

(2) The Secretary of the Treasury is hereby directed to create, subject to the approval of Congress, the necessary policies, procedures and regulations to ensure that the quality of standard silver and gold coinage produced by private parties equals or exceeds the public standard. Any penalties provided will apply equally to officers of the public mints.

(I) The Secretary of the Treasury may issue silver and gold certificates, denominated in dollars and eagles, respectively.

(1) The silver series shall include 1, 5, and 10-Dollar Silver Certificates of the following character:

(a) They are printed on a distinctive paper of silver color.

(b) They have inscriptions —

(i) “United States of America”; and

(ii) “In God We Trust”; and

(iii) indicating year of issue; and

(iv) indicating denomination, such as “Five Dollar Silver Certificate”; and

NESARA

The National Economic Stabilization and Recovery Act

- (v) indicating promise of redemption, such as “The United States Treasury will pay face value to the bearer on demand in standard silver dollar coin.”
- (2) The gold series may include 1, 5, and 10-Eagle Certificates of the following character:
- (a) They are printed on a distinctive paper of gold color.
 - (b) They have inscriptions —
 - (i) “United States of America”; and
 - (ii) “In God We Trust”; and
 - (iii) indicating year of issue; and
 - (iv) indicating denomination, such as “Ten Eagle Certificate”; and
 - (v) indicating promise of redemption, such as “The United States Treasury will pay face value to the bearer on demand in standard gold coin.”
- (3) These certificates shall represent only standard coined silver and gold actually on deposit with the United States Treasury, or with designated Treasury agents, and must be redeemed on demand.
- (4) Any failure to redeem silver certificates or gold certificates issued under the provisions of this Act upon any demand
- (i) shall cause an immediate audit by two independent qualified public auditors at the expense of the Treasury and
 - (ii) will be prima facie cause for the removal of the Secretary of the Treasury.

(J) All accounts of record of all monetary transactions of whatever type, subject to the jurisdiction of the United States, are hereby required to show the form or forms of currency used. The use of the term “dollar” or the symbol “\$” without other qualifiers will designate United States Treasury credit-notes or its subdivisions such as clad token coins and subsidiary token coins of base alloys. The terms “silver dollar,” “silver \$,” “dollars silver” or “\$ silver” without other qualifiers will designate standard silver dollar coin containing 371 and 1/4 grains of silver and its appropriate subdivisions. The term “eagle” without other qualifiers will designate standard gold coin containing 1 troy ounce of gold and its appropriate subdivisions.

Section 5. Reformation Of The Federal Reserve System

- (A) The Federal Reserve Act of 1913, as amended, is hereby further amended, as per its provisions for the dissolution of and recovery of assets of the Federal Reserve System.
- (B) Administration of the Federal Reserve System is hereby vested in the United States Treasury in a new department of the Treasury, hereby established and called the United States Treasury Reserve System or by the short title of Treasury Reserve System.

NESARA

The National Economic Stabilization and Recovery Act

(C) A Board of Governors of the Treasury Reserve System is hereby established and charged with the administration of the Treasury Reserve System, to exercise all powers and duties granted within the provisions of this Act and those powers and duties, some of which are subject to modifications by this Act, previously specifically granted to the Board of Governors and to the Federal Open Market Committee of the Federal Reserve System. This Board will consist of thirteen officers including a Director of the Board plus one Governor of the Board from each of the existing twelve Federal Reserve Bank Districts, hereafter called United States Treasury Reserve Districts.

(1) All officers of the Board of Governors of the Treasury Reserve System will be appointed by the President of the United States with the advice and consent of the Senate, the initial selection of all thirteen officers commencing with the passage of this Act and following the guidelines set forth herein. Selection shall be made without discrimination because of race, creed, color, sex, or national origin. No individual who is or has been a Senator or Representative in Congress shall be an officer of the Board of Governors of the Treasury Reserve System.

(2) The officer who serves as Director of the Board of Governors of the Treasury Reserve System:

- (a) shall be a United States citizen; and,
- (b) shall be selected from the nation at large; and,
- (c) shall be a person of tested banking or economic experience; and,
- (d) shall receive a salary equivalent in amount to the salary of a member of the United States Senate; and,
- (e) shall maintain an office within the District of Columbia; and,
- (f) shall have no specific term of office, being replaced at the pleasure of the President of the United States with the advice and consent of the Senate.

(3) Each officer who serves as a Governor on the Board of Governors of the Treasury Reserve System:

- (a) shall be a United States citizen; and,
- (b) shall have been a resident for at least two years of the Treasury Reserve District which they represent; and,
- (c) shall be actively engaged in their Treasury Reserve District in commerce, agriculture, the medical arts, education, industry, services, or consumer or labor affairs; and,
- (d) shall not at the time of their selection, nor at any time during that period of service, be or have been an officer, director, employee, or a direct stockholder of any bank; and,
- (e) shall not have held State elected or appointed office; and,

NESARA

The National Economic Stabilization and Recovery Act

(f) shall not be an Officer of the Court, a Member of the American Bar Association, nor a practicing Attorney; and,

(g) shall maintain an office within the Treasury Reserve District which they represent; and,

(h) shall receive a salary equivalent to the salary of a member of the United States House of Representatives; and,

(i) shall, on good behavior, serve a minimum term of four years, being replaceable at the pleasure of the President of the United States with the advice and consent of the Senate except that, after initial selection of all thirteen officers, no more than four of the twelve Governors may be replaced in any one four-year period or in any one presidential term of office.

(4) A Lieutenant Governor will be selected for each of the twelve Treasury Reserve District Offices in the same manner and under the same guidelines as are Governors except that, after the initial selection, more than four new selections for that office are permitted in any one presidential term when the purpose of each additional selection is to fill an office which becomes vacant. Each Lieutenant Governor—

(a) shall receive a salary equivalent in amount to 85 percent of the salary of a member of the United States House of Representatives; and,

(b) shall assume the powers, responsibilities, duties and salary of the Office of the Treasury Reserve District Governor upon the resignation or during any period of incapacity of the Governor of the District or in the event that the holder of that office is convicted of a felony.

(5) All officers of the Board of Governors of the Treasury Reserve System will receive their written Delegations of Authority from and be sworn into office by the Secretary of the Treasury.

(6) All officers of the Board of Governors of the Treasury Reserve System are hereby charged to administer the affairs of the nation's monetary system with the sole purpose of maintaining a long-term, stable exchange value for United States Treasury credit-notes.

(a) All actions undertaken by the Board will require an affirmative vote, recorded as part of the public record in the District of Columbia Office of the Director of the Board of Governors, by nine of the thirteen officers.

(b) The officers need not be physically present in order to cast their vote.

(D) A Treasury Reserve Account which will be administered at the sole discretion of the Board of Governors of the Treasury Reserve System is hereby established.

(E) The Federal Open Market Committee of the existing Federal Reserve System is hereby abolished, its powers and responsibilities being transferred to the Board of Governors of the Treasury Reserve System.

(F) All rights, titles, properties, interests, and every claim of the Board of Governors of the Federal Reserve, of all Federal Reserve Banks, of all member banks, of all Federal Reserve agents, and of all individuals, in and upon the Federal Reserve System is hereby transferred to and vested in the United

NESARA

The National Economic Stabilization and Recovery Act

States Government to be held in and administered by the United States Treasury under the Treasury Reserve System.

Section 6. Reformation Of The Federal Reserve Banks

(A) The word “Federal” within the titles of the twelve existing Federal Reserve Banks is hereby changed to “United States Treasury” as “Federal Reserve Bank of New York” becomes “United States Treasury Reserve Bank of New York.”

(B) At the written request of the Board of Governors of the Treasury Reserve System, the Secretary of the Treasury is hereby directed to authorize the production of United States Treasury credit-notes for the Treasury Reserve Account in sufficient quantity to complete the exchanges or replacements specified by this Act. On request of the Board of Governors or at the discretion of the Secretary of the Treasury, treasury credit-notes may be produced in any desired denominations larger than \$100.00 provided that their use is restricted to the Treasury Reserve Banks, the Treasury Reserve Account, and the General Account of the United States Treasury.

(C) All securities, notes, bonds or other evidences of indebtedness, whatever the source, type or issue, held by the twelve United States Treasury Reserve Banks shall be delivered to the Office of the Director of the Board of Governors of the Treasury Reserve System and exchanged for United States Treasury credit-notes from the Treasury Reserve Account at an equivalent face value of one for one. These credit-notes may be used for the ordinary operating expenses of the Treasury Reserve Banks.

(D) All evidences of indebtedness and obligations of the United States other than United States Treasury credit-notes, whatever the type or issue, received in the Office of the Director of the Treasury Reserve will be delivered to the Secretary of the Treasury whereupon they shall be canceled.

(E) All United States Treasury Reserve Banks are hereby declared to be Treasury agents. The Secretary of the Treasury shall distribute the standard gold and silver coin of the United States among the twelve Treasury Reserve Banks as it becomes available to the Treasury. Any individual may trade treasury credit-notes for standard gold and silver coin at any Treasury Reserve Bank at the current exchange-ratio on an as available basis.

(F) United States Treasury Reserve Banks shall continue their normal operations under the Office of the Comptroller of the Currency except that they are prohibited from purchasing or holding for their own account income-producing obligations of the United States or those of other nations. This Act does not change their present clearinghouse functions.

(G) The Office of the Comptroller of the Currency is hereby directed to revise or create, subject to the provisions of this Act and the approval of Congress, the necessary policies, procedures and regulations to promote the normal operation of the United States Treasury Reserve Banks. Fees charged for clearinghouse functions and other such banking services at all Treasury Reserve Banks will be uniform and approved by the Comptroller of the Currency. Treasury Reserve Banks shall not issue checks against nor otherwise make dispersals from accounts which contain no funds.

NESARA

The National Economic Stabilization and Recovery Act

Section 7. Regulation Of Commercial Banks And Other Financial Institutions

(A) All persons and every national banking association holding capital stock in former Federal Reserve Banks are hereby required to deliver that stock to the Office of the Director of the Board of Governors of the Treasury Reserve System. A compensation of one-hundred dollars (\$100) plus one-half of 1 percent per month from the period of last dividend, if earned, will be paid from the Treasury Reserve Account in United States Treasury credit-notes for each share. All stock in former Federal Reserve Banks is hereby canceled, declared irredeemable 90 days after this Act becomes law.

(B) All securities, notes, bonds or other evidences of indebtedness or obligations of the United States other than United States Treasury credit-notes, whatever the type or issue, held by any bank subject to the jurisdiction of the United States, whether as bank reserves or for the banks' investment account, shall be delivered to its district's Treasury Reserve Bank which will forward them to the Office of the Director of the Board of Governors of the Treasury Reserve System. They will be exchanged at a face value of one for one, plus earnings, if any, current to the date this Act becomes law, for United States Treasury credit-notes. The banks may receive compensation on a dollar for dollar basis from their District Treasury Reserve Bank in treasury credit-notes or as a deposit to a Treasury Reserve Bank account in their name.

(C) Every bank subject to the jurisdiction of the United States is hereby prohibited from purchasing or holding for their own investment account income-producing obligations of the United States, such as Treasury bills, bonds, certificates, or notes, or those of other nations. Only United States Treasury credit-notes will be counted as bank reserves.

(D) No financial institution under the jurisdiction of the United States making commercial loans of currency for profit may grant a loan to any person, or to members of their immediate family, while that person is a director, officer or employee of that financial institution nor shall a financial institution grant a loan to itself.

(E) All financial institutions shall maintain separate accounts of record based on currency type. The form of currency used in any account of record will determine whether that account is an eagle (gold) account, a silver dollar account, or a credit-note dollar account. One type of account of record will not be commingled with another type of account of record. No funds of any type of account will be converted to funds of another type of account without written authorization of the owner of the funds indicating the owner's agreement to a specific exchange-ratio.

(F) All tenders in repayment which have been previously made or which are made on any secured loans outstanding on and after the date of passage of this Act with any financial institution making such loans on a fractional reserve basis will be credited to repayment of the loan principal prior to any credits being applied to any monetization-fee on that loan. Compound monetization-fees or charges on monetization-fees earned are prohibited. A service charge may be imposed by the lender for each tender in payment recorded, retroactively and on future tenders in payment, provided it does not exceed a total of 25 dollars monthly for any one loan. All new secured loans made on a fractional reserve basis may —

(1) be subject to a maximum origination fee of 50 dollars or 1 percent of the principal loan amount, whichever is greater; and,

NESARA

The National Economic Stabilization and Recovery Act

(2) be issued with a prepayment of discount points up to a maximum of 5 percent of the principal amount of the loan, the allowed maximum being proportionally decreased at the rate of 1 percent for each 1 percent increase in the loan interest rate above 7 percent.

(G) Commercial banks may open and maintain accounts for their customers in any type of currency if:

(1) the accounts are kept segregated by currency type; and,

(2) they retain as reserve 100 percent of the deposited standard gold or silver coin or its equivalent in Treasury gold or silver certificates; and,

(3) all gold and silver accounts are custody accounts only, the ownership of the funds deposited remaining vested in the depositor; and,

(4) checkable accounts or travelers checks on gold accounts or silver accounts are not allowed; however, gold or silver funds on deposit may be transferred between like accounts within a bank or between like accounts of different banks within banking systems by a Lawful Money Bank Transfer Order properly authorized by the owner of the funds.

(H) No bank may advertise itself as a “full service bank” if it fails to offer its customers choices of gold accounts, silver accounts, and treasury credit-note accounts.

(I) In case of a bank failure or closing, regardless of the reason, the holders of gold and silver accounts will have immediate preferential treatment in the return of their deposits or a settlement of equal value.

(J) The Office of the Comptroller of the Currency is hereby directed to revise or create, subject to the provisions of this Act and the approval of Congress, the necessary policies, procedures and regulations to regulate the service operations of all banks subject to the jurisdiction of the United States.

Section 8. Excise Tax Imposed On Monetization-Fee Or Interest Income

(A) An excise tax is hereby imposed on the monetization-fee or interest income of all financial institutions or persons, subject to the jurisdiction of the United States, who make commercial loans of currency for profit. The amount of the excise tax is calculated upon the annualized rate of the monetization-fee or interest:

(1) For loans secured with physical property —

(a) No excise tax imposed on income received at rates less than 5 percent; plus,

(b) An excise tax of 10 percent on the portion of income received at rates between 5 percent and 12 percent; plus,

(c) An excise tax of 20 percent on the portion of income received at rates exceeding 12 percent.

(2) For unsecured loans —

(a) No excise tax imposed on income received at rates less than 10 percent; plus,

NESARA

The National Economic Stabilization and Recovery Act

(b) An excise tax of 20 percent on the portion of income received at rates between 10 percent and 20 percent; plus,

(c) An excise tax of 40 percent on the portion of income received at rates exceeding 20 percent.

(B) The excise taxes hereby imposed will be deposited within three working days of receipt of that income with any authorized federal depository which will transfer these funds to the Treasury Reserve Account.

Section 9. Regulation Of The Exchange Value Of Treasury Credit-Notes

(A) The Office of the Comptroller of the Currency will establish a method for calculating and publish at least weekly a United States Treasury Credit-Note Exchange-Value Index which will track the exchange value of treasury credit-notes against a composite list of not less than 12 nor more than 24 commonly traded items, including labor rates, rents, cost of professional services and basic commodities, excluding gold and silver. The initial list will be prepared by the Comptroller of the Currency with the approval of Congress and, once approved, will not be changed more than once in any five-year period and then only with the consent of Congress. The exact method used for calculating the Treasury Credit-Note Exchange-Value Index will remain fixed and will be published as part of the public record. The initial value of the Treasury Credit-Note Exchange-Value Index will be set at 100.000 as of the date this Act becomes law.

(B) The Board of Governors of the Treasury Reserve System will administer the affairs of the nation's monetary system by adjusting the aggregate amount of the nation's currency and credit to maintain the Treasury Credit-Note Exchange-Value Index within a range of 97 percent to 103 percent of its initial value by using four primary regulation tools:

(1) By setting the percentage of reserves required of the commercial banks. Commercial banks will not be penalized should their reserves fall below the percentage required provided —

(a) the bank grants no new loans for 90 days after any day on which its reserves were below the requirement; and,

(b) the bank does not call for immediate repayment of any outstanding loans which are performing within normal limits; and,

(c) the reserves of a commercial bank do not fall below 50 percent of the reserve requirement, at which point the bank would be declared insolvent.

(2) By setting the national discount interest rate, the interest rate at which commercial banks borrow funds from Treasury Reserve Banks.

(a) Commercial banks may obtain loans from their district Treasury Reserve Bank at the national discount interest rate in exchange for their best acceptable commercial paper.

(b) District Treasury Reserve Banks may obtain funds for these loans from the Treasury Reserve Account, paying that account one-half of the interest income earned as a fee for using these funds.

(3) By purchasing income-producing United States Treasury obligations in the open market.

NESARA

The National Economic Stabilization and Recovery Act

(4) And by impounding funds within the Treasury Reserve Account or by transferring funds from the Treasury Reserve Account to the General Account of the United States Treasury or by depositing funds with commercial banks. All funds within the Treasury Reserve Account are maintained separately from all other United States Treasury funds and may not be transferred, appropriated or expended by the United States Treasury except at the sole discretion of the Board of Governors of the Treasury Reserve System.

Section 10. Authorization For Limited Bank Charters

(A) Currently operating financial institutions such as credit unions may obtain charters as limited national banks to operate on a fractional reserve basis to grant loans within the local community if they —

- (1) apply to the Office of the Comptroller of the Currency; and,
- (2) meet the financial requirements imposed on commercial banks and the necessary policies, procedures and regulations imposed by the Office of the Comptroller of the Currency; and,
- (3) have a paid-up capital of at least five million dollars; and,
- (4) grant, under these limited operating provisions, only loans secured by physical property.

(B) To meet the provisions of this section and to increase efficiency, several financial institutions located within a Treasury Reserve District may, at their request, be combined into a single organization or they may be allowed to operate in partnership with an existing bank.

Section 11. Regulation Of Postal Money Orders

(A) To meet the currency provisions of this Act, postal money orders will hereafter be issued in three types denominated in —

- (1) silver dollars in the standard currency units of 1, 1/2, 1/4, and 1/10 dollar, each with an aggregate maximum limit of 1,000 silver dollars; and,
- (2) eagles in integer units, no fraction of an eagle being allowed, each with a maximum limit of 10 eagles; and,
- (3) any appropriate amount of treasury credit-note dollars with a maximum limit of 1,000 dollars each.

(B) Postal money order blanks shall have distinctive color and markings for each of the three types of standard currency, those to be denominated in standard silver or gold coin being similar in appearance to their respective silver certificates and gold certificates.

(C) Postal money orders shall be issued only for the type and amount of currency actually tendered.

(D) The fee for issuing any postal money order shall be one dollar.

NESARA

The National Economic Stabilization and Recovery Act

(E) Except in unusual circumstances, postal money orders shall be redeemable in the designated currency at any United States Post Office within the jurisdiction of the United States within three working days of their submittal for exchange.

Section 12. Crime Defined And Punishment Established

(A) Any person convicted of willfully violating the monetary and fiscal responsibility provisions of this Act resulting in aggregate losses exceeding 5,000 dollars in any 12-month period shall be deemed guilty of a felony and shall be subject, on each conviction, to a fine not exceeding 5,000 dollars, or a term of imprisonment of not more than 5 years, or both.

(B) Any person convicted of any willful violation of this Act that results in the production or circulation of substandard silver or gold coin shall be deemed guilty of a felony and shall be subject on each conviction to a fine not exceeding 10,000 dollars, or a term of imprisonment of not more than 20 years, or both.

(C) Any person providing information leading to the conviction of one or more individuals for the violation of any provisions of this Act shall be paid from the United States Treasury the sum of 10 eagles.

(D) Any person who is not paid from the United States Treasury lawful money on demand for United States Silver Certificates or for United States Eagle Certificates according to the provisions of this Act shall be paid from the Treasury the sum of 5 eagles.

Section 13. All Inconsistent Acts Repealed

(A) All Acts or parts of Acts inconsistent with the provisions of this part are hereby repealed.

NESARA

The National Economic Stabilization and Recovery Act

Part II. National Sales and Use Tax

Section 1. Definitions

Definitions for terms used in this part are equivalent to those of the United States Constitution or are explicitly stipulated below.

Business: Includes all activities engaged in or caused to be engaged in with the object of gain, benefit or advantage, direct or indirect.

Buyer: Purchaser

Charitable organization: Any entity organized and operated exclusively for charitable, philosophical, scientific, testing for public safety, literary or educational purposes, or to foster national or international amateur sports competition, or for the prevention of cruelty to children or animals, provided that no part of the entity's net earnings goes to the benefit of any private shareholder or individual.

Coin: Monetized bullion or other forms of money manufactured from gold, silver, platinum, palladium, or other metals now or in the future and used as a medium of exchange in the United States or in any foreign nation.

Commerce: Any kind or type of exchange of goods, productions, or property, or the rights to property offered for a consideration to the general public at large.

Contrived Sale: A commercial transaction executed in an extraordinary manner for the purpose of evading the national sales and use tax otherwise due.

Groceries: Food or drink advertised or marketed for human consumption and sold in the same form, condition, quantities, and packaging as is commonly sold by grocers, such as: cereals and cereal products; milk and milk products; meats and meat products; fish and fish products; eggs and egg products; vegetables and vegetable products; fruits and fruit products; sugars, sugar products and sugar substitutes; coffees and coffee substitutes; teas, cocoa and cocoa products, carbonated and non-carbonated soft (nonalcoholic) drinks; spices, condiments and salt; or any combinations of food products or food product substitutes, whether sold prepared or unprepared. The term does not encompass chewing gum, cocktail mixes, alcoholic drinks, proprietary medicines, lozenges, tonics, ice, vitamins and other dietary supplements, or food or food products not for human consumption such as pet food. Nor does it encompass food or drink served or furnished in or by cafes, restaurants, lunch counters, cafeterias, delicatessens, hotels, drugstores, social clubs, nightclubs, cabarets, resorts, snack bars, caterers, carryout shops, and other like places of business, whether fixed or mobile, such as pushcarts, motor vehicles or other mobile facilities, at which prepared food or drink is regularly sold; nor food or drink vended by machines for a vendor; nor food or drink furnished, prepared, or served for consumption on or near the premises of the retailer although such food or drink is sold on a "take out" or "to go" order and is bagged, packaged, or wrapped and taken from the premises of the retailer.

Manufacture: The operation of producing a new product, article, substance, or commodity different from and having a distinctive name, character, or use from its constitute raw or prepared materials.

NESARA

The National Economic Stabilization and Recovery Act

Person: Any individual, firm, partnership, joint adventure, corporation, estate, or trust, or any group or combination acting as a unit, but not a governmental unit, and the plural as well as the singular number.

Personal property: Everything subject to ownership, not denominated as real estate; an individual's right or interest in things personal, either corporeal, meaning moveable and tangible things such as animals, furniture, merchandise, etc., or incorporeal, meaning rights to intangible things such as personal annuities, stocks, shares, patents, copyrights, etc.

Precious metal bullion: Any refined precious metal, such as gold, silver, platinum, and palladium, which is in a state or condition where its value depends primarily upon its precious metal content and not its form.

Profit: A benefit, advantage or gain, particularly a pecuniary gain of excess returns over expenditures, accruing to an owner through the use or exchange of their property, or their rights to property, other than an owner's personal labor.

Property: Everything that is the subject of ownership, corporeal or incorporeal, tangible or intangible, visible or invisible, real or personal.

Property rights: Any type of right to specific property.

Purchase: The transfer of property or property rights from one person to another by voluntary act or agreement in exchange for a valuable consideration.

Purchase price: The cost or consideration paid by the purchaser, exclusive of any direct tax imposed by territorial, state, or local government and exclusive of the national sales and use tax.

Purchaser: Person who acquires property or rights to property in commerce for a valuable consideration; buyer; vendee.

Real estate: Land and those things erected or growing upon it, such as buildings, fences or crops. The term embraces items such as light, plumbing and heating fixtures when permanently attached.

Retailer: Person doing a retail business, known to the trade and public as such, and selling in commerce to any user or consumer; also called vendor or seller.

Retail sale: All sales other than wholesale sales.

Sale: The commercial exchange of property or property rights for money, for other property or property rights, or for a consideration, either immediate or over a period of time, as in an installment or credit transaction, rent or lease. The term does not include gifts to immediate family members; nor does it encompass transfers of assets among persons holding ownership interests in those assets providing such transfers are in direct proportion to their interest in either settlement or rearrangement of those interests—such as: the transfer of assets between a partner and a partnership in the formation or dissolution of the partnership; the transfer of assets between a shareholder and a corporation in the formation or dissolution of the corporation; the transfer of assets between parent and subsidiary corporations; or the repossession of personal property or property rights by a person with an ownership interest—and the purpose of such transfers is merely an exchange of assets, not to avoid the national sales and use tax otherwise due.

NESARA

The National Economic Stabilization and Recovery Act

School: Any institution or person offering training or educational services to the public.

Seller: Any person who transfers property or property rights by sale in commerce; a merchant, a retail dealer, a supplier, a retailer, a vendor; one who offers a service or buys to sell.

Tangible personal property: Corporeal personal property

Tax: Either a tax payable by the purchaser of property or of rights to property subject to taxation, or an aggregate amount of taxes due from the taxpayer, as the context may require.

Taxpayer: Any person obligated to account to the National Tax Service for taxes payable, to be collected, collected, or due.

Vendee: Purchaser

Vendor: Seller

Wholesale sale: A sale by manufacturers, producers or wholesalers to retail merchants, jobbers, dealers, or other manufacturers, producers or wholesalers for ultimate resale but not sales made to users or consumers not for resale, even when made by or to a recognized manufacturer, producer or wholesaler, the latter sales being deemed retail sales.

Wholesaler: Person doing regularly organized wholesale or jobbing business, known to the trade as such and selling to retail merchants, jobbers, dealers, or other wholesalers for resale.

Section 2. Findings

The Congress finds that —

- (1) contrary to popularly held belief, the progressive income tax is actually regressive because it is often easily passed through as a hidden tax in the price of goods and services.
- (2) the progressive income tax falls most heavily and unfairly on working middleclass citizens who pay the tax twice, once when it is withheld from their wages and again as a hidden tax in the price of essential goods and services.
- (3) a progressive income tax is counterproductive in that it discourages industry and productive activity.
- (4) taxes based on personal income reduce or eliminate the incentive for recipients of government aid to become productive citizens.
- (5) shifting taxes from productive activity to consumption will encourage the former and discourage the latter.
- (6) individuals of modest means can be protected from the adverse effects of federal taxation by removal of the hidden elements of current tax policies on productive activity and by exempting groceries, rent, insurance, medicines, and some categories of previously used articles from consumption taxes.

NESARA

The National Economic Stabilization and Recovery Act

(7) an income tax, being essentially a uniformly imposed annual tax, provides only a poor means for the regulation of commerce.

(8) the very nature of the income tax, being administered as a commercial code rather than as positive law, invites constant congressional lobbying by powerful special interest groups for tax provisions that benefit themselves, often at the expense of others less able to influence legislation.

(9) to remain constitutional, the current income tax system, as applied to individuals, relies on voluntary compliance for its success.

(10) voluntary compliance with the federal income tax system is steadily decreasing, the number of non-filers currently estimated at ten million, making the system increasingly non-enforceable.

(11) a huge “underground” and thus untaxed economy is depriving the government of billions of dollars of revenue annually.

(12) the reform of the current federal income tax system, as outlined in this Act, is necessary to eliminate its counterproductive and abusive aspects, to promote social welfare through a more equitable distribution of the national tax burden, and to improve regulation of the national commerce, all for the benefit of the American people.

Section 3. Federal Income Tax Abolished

(A) All federal income taxes, regardless of their nature and regardless of the nature of the entity taxed, with the exception of Social Security and Medicare payroll taxes, are hereby abolished as of 12 o'clock midnight on the date this Act becomes law.

(B) All federal income tax liabilities that were contractually created to become due and payable at some unspecified future date, such as those involving property transfers or individual retirement accounts, which are not due and payable as of the date this Act becomes law, are hereby abolished.

(C) All federal income tax liabilities that were due and payable on or before their abolition remain due and payable.

Section 4. Revision Of The Internal Revenue Service

(A) The Secretary of the Treasury shall reorganize the Internal Revenue Service, which shall hereafter be known as the National Tax Service, to administer the collection of the national sales and use tax.

(B) The National Tax Service shall be structured by Regions and Districts, with Regions being defined by recognized state and territory boundaries, and Districts being defined by federal Congressional districts; with appropriate Delegations of Authority issued annually to a National Executive Director, to each Regional Executive Director and to each District Director.

(C) The Secretary of the Treasury shall supervise the organization of the National Tax Service, creating such rules, regulations and procedures as are consistent with law and as are required to secure the efficient collection of the national sales and use tax.

NESARA

The National Economic Stabilization and Recovery Act

(D) The Secretary of the Treasury is hereby charged to structure the National Tax Service and to organize its rules, regulations and procedures to make the system as paperless as possible and to take maximum advantage of state sales and use tax systems.

(E) The functions of the existing Internal Revenue Service shall remain in place and continue operation, concurrent with the new National Tax Service, for one year from the date on which the income tax is abolished, to complete and close the books on all income tax liabilities that were due and payable on or before the date of their abolishment. Outstanding income tax liabilities that cannot be cost-effectively collected within this period will be discharged by writing them off as uncollectible.

(F) The Secretary of the Treasury is hereby authorized to expend the additional money necessary to accomplish the objectives set forth herein, these added expenditures not to exceed in amount the actual expenditures for federal revenue collection in the previous year.

Section 5. National Sales And Use Tax Imposed

(A) There is hereby levied, and there shall be collected and paid, a tax of 14 percent upon the consideration or the purchase price paid or the fair market value of the retail sale or use of all property or rights to property exchanged in commerce within the jurisdiction of the United States of America, excepting those items specifically excluded from this national sales and use tax by Act of Congress.

(B) Exemptions:

(1) All sales to the United States government, to its departments and institutions, and to its political subdivisions, when acting in their governmental capacities only;

(2) All sales of licenses, permits, passports, visas and all charges for public services or user fees made by the United States government or the governments of the States or Territories of the United States and their political subdivisions, when acting in their governmental capacities only;

(3) All sales of precious metal bullion, coins, and currency;

(4) All sales made to or by charitable organizations in the conduct of their regular activities or charitable functions and where their sales are not for profit and are not unduly competitive with sales made by others subject to the tax;

(5) All sales made to or by nonprofit schools where the items purchased or sold by the school are not for pecuniary gain, are required for normal rather than extraordinary operation, and where all sales made to the public—such as books sold at a school-operated book store or tickets to public events or food service at school-operated cafeterias, snack bars, or student unions—remain taxable;

(6) All sales of drugs dispensed by prescription; of all corrective eyeglasses, contact lenses, or hearing aids; of all therapeutic agents, devices, appliances, or their related accessories or materials when furnished, prescribed or recommended by any licensed practitioner of the medical arts for the treatment or relief of any human impairment or disability;

NESARA

The National Economic Stabilization and Recovery Act

- (7) All sales in the nature of rents or leases of real estate for which a written agreement exists providing for the exclusive use by any person for any continuous period of not less than sixty consecutive days;
- (8) All sales of groceries;
- (9) All sales of plants, livestock and fish customarily used in the production of food for human consumption; embraces—all sales of neat cattle, sheep, lambs, poultry, swine, and goats; all sales of livestock for breeding purposes; all sales of live fish for stocking purposes; all sales of feed for livestock; all sales of seeds, orchard trees or other plants for food production;
- (10) Incidental or occasional sales, not exceeding three events per year, of used tangible personal property where the primary motive for the transaction is trade rather than profit through commerce and where the transactions are made through use of “want ads” or as a part of a “yard” or “garage” sale;
- (11) Incidental or occasional sales for the purpose of recycling materials;
- (12) Fifty percent of the purchase price paid for the retail sale of all used tangible property exchanged in commerce, excluding remanufactured items sold with warranties exceeding 90 days;
- (13) Ninety percent of the purchase price paid for all secondary sales of commercial investment securities of whatever type, excluding the transferable securities of the United States government and all its political subdivisions which are exempt from the tax;
- (14) All sales of insurance or surety bonds;
- (15) Meals provided by employers to employees at their places of employment at no charge or at reduced charges which are considered as partial compensation for their labor;
- (16) The identified and segregated labor portion of written retail contracts, such as professional service, construction, maintenance and service industry contracts;
- (17) Real estate transactions to the extent that the national sales tax has been paid, or would have been paid had this Act been in force, coincidental with the previous retail transaction or for transactions in progress when this Act becomes law;
- (18) All sales of printed matter of a periodical nature, such as newspapers, magazines, news letters, directories and sales catalogs that are nonprofit in nature or whose primary purpose is to promote sales subject to the national sales and use tax or to carry paid advertisements subject to that tax.

Section 6. Liability For And Disposition Of The National Sales And Use Tax

(A) Every seller dealing in commerce shall be liable and responsible for collecting the national sales and use tax lawfully due and remitting it to the National Tax Service. Purchasers are liable for payment of the tax to the seller. The tax upon a credit sale of moveable property is due and payable in full at the time of the sale. The tax upon a credit sale or a contract for sale of immovable property where the purchase price is paid in installments is due and payable on each installment payment. If any seller transfers, sells,

NESARA

The National Economic Stabilization and Recovery Act

assigns, or otherwise disposes of an account receivable, they shall be deemed to have received the full balance of the consideration of the original sale and shall be liable for the remittance of the tax on the balance of the total sale price not previously reported.

(B) The national sales and use tax is to be collected by the seller from the purchaser only at the retail, end or final transaction and not from wholesalers, or from intermediate sales of items directly used for or incorporated into the manufacture of a product to be ultimately sold at retail, or from sales made to exempt entities such as those made by contractors or subcontractors to the United States government, to its departments and institutions and its political subdivisions when acting in their governmental capacities only, or sales made to qualified exempt organizations.

(C) There is no limit to the number of times a particular article may be subject to the national sales or use tax. Each time it returns to the stream of commerce, the purchaser must pay and the seller collect and remit the tax unless the sale is exempt.

(D) The burden of proving that any particular person is liable for payment, collection or remittance of the national sales and use tax shall be on the National Tax Service.

(E) Tax payments made by a purchaser to a seller and documented by written receipts or certificates amount to payments by the purchaser to the National Tax Service, discharging their tax liability.

(F) In case of a dispute between the purchaser and seller about whether any particular sale is exempt from the national sales and use tax, the seller shall collect and the purchaser shall pay such tax and the seller shall then issue to the purchaser a receipt or certificate showing the name of the seller and the purchaser, the item or items purchased, the date, price, amount of tax paid, and a brief statement of the claim of exemption. The purchaser may then apply, within sixty days of the date of the sale, to the District Director of the National Tax Service of the district in which the purchaser resides or in which the sale was made for a refund of taxes paid. It is the duty of the District Director, or a duly qualified deputy, to resolve the question of exemption and to provide written notice of such determination and the appropriate refund plus interest calculated at the rate of 12 percent annually, where applicable, to the purchaser within sixty days of the date of the application for refund, subject to review within one year by a court of competent jurisdiction.

(G) Excess national sales and use tax inadvertently collected must be remitted to the National Tax Service when not refundable.

(H) Credit Certificates equal to 10 percent of any contribution valued at \$250 or more made to qualified charitable organizations shall be issued by the National Tax Service if the charitable organization is recognized by the National Tax Service, if it applies for the Credit Certificate in the donor's name, and if it submits proof of the contribution with each application. These certificates are applicable to any national sales and use tax liability.

(I) Remittances discharging a seller's national sales and use tax liability shall be made in full to the National Tax Service at any authorized federal depository on or before the tenth day of each month for all taxable transactions occurring during the previous month. Any seller doing business in two or more locations which are in different districts may elect to make consolidated deposits and file consolidated reports in a single district.

NESARA

The National Economic Stabilization and Recovery Act

(J) Summary documentation, also called a return or report, of monthly tax remittances may be submitted (postmarked) to the District Director of the National Tax Service of the district in which a tax deposit was made not less than five working days after the tax due date.

(K) Each seller who, acting as agent for the National Tax Service, submits timely summary documentation for remitted tax is allowed to deduct 1 percent of tax deposits timely made to offset their expense in its collection and remittance. They shall also be subject to a penalty of 2.5 percent per month, cumulative each month to a maximum of 15 percent, for late deposits. Besides the penalty, late deposits shall be subject to interest charges at the rate of 1 percent per month. Inadvertent clerical errors are subject to interest but not penalty charges.

(L) Credit Certificates issued by the National Tax Service are transferable in commerce and shall be accepted for tax payments at full face value at authorized federal depositories or may be remitted for tax liabilities with the summary documentation.

(M) Any seller dealing in commerce who sells their business, or stock of goods, or quits business, shall be liable to file a final return with the National Tax Service within thirty days of such action. The seller's successor in the business, if any, becomes liable for the collection and remittance of taxes on future sales and for taxes due and not remitted on current sales, unless they hold a receipt or certificate showing that the taxes were paid.

(N) In cases of unusual circumstance, such as a natural disaster or a personal hardship, penalty or interest charges or any portion thereof on late deposits may be waived by a District Director of the National Tax Service or by Executive Order of the President of the United States.

(O) Certificates of National Sales and Use Tax Exemption, identified by number and valid for twelve months, shall be issued to qualified and approved purchasers or sellers within sixty days of the application date made to a District Director of the National Tax Service. The District Director shall provide forms for such application and for the certificates and shall have the authority to verify that the purchaser or seller is, in fact, entitled to exempt status.

(P) Sellers who make sales exempt from the national sales and use tax with valid exemption certificates issued by the National Tax Service, except those made to the United States government, are required to maintain records of such sales by item, date of sale and exemption certificate number for two years from the date of the sale. Sellers may, at their option, provide an itemized summary report to the National Tax Service of their exemption certificate sales on the same basis as if the sales had been subject to the tax. Each reporting seller making timely reports shall receive a Credit Certificate applicable to national sales tax liabilities equal to 0.15 percent of the total amount of exempt sales reported, except those made to the United States government, to cover the expense in the collection of data and the submission of the itemized summary report.

(Q) Fifteen percent of the total amount of monies collected by the National Tax Service each month shall be immediately deposited to the Treasury Reserve Account and may not be transferred, appropriated or expended by the United States Treasury without authorization of the Board of Governors of the Treasury Reserve System.

NESARA

The National Economic Stabilization and Recovery Act

Section 7. Recovery Of Taxes, Penalty, And Interest

(A) All sums of money imposed by the national sales and use tax and paid by a purchaser to a seller shall be and remain public money, the property of the United States Treasury, and the seller shall hold the same in trust for the sole use and benefit of the national government until deposited at an authorized federal depository.

(B) If a person neglects or refuses to pay, collect or remit the national sales and use tax as required, a duly qualified Officer of the National Tax Service shall make an assessment, based upon such information as may be available, of the amount of taxes due for the period for which the taxpayer is alleged delinquent and shall add thereto the appropriate penalty and interest on such delinquent taxes and shall within ten days of the date of the determination deliver a written Assessment / Preliminary Notice of Deficiency of the estimated taxes, penalty and interest to the alleged delinquent taxpayer by first-class certified mail to their last known address on file with the National Tax Service.

(1) The Assessment / Preliminary Notice of Deficiency shall indicate and include:

- (a) the name of the alleged taxpayer,
- (b) their last known address on file with the National Tax Service,
- (c) the date of the Assessment / Preliminary Notice of Deficiency,
- (d) a statement about the alleged taxable activity upon which the alleged tax is due,
- (e) the amount of the tax and the date on which it was due,
- (f) any penalties and interest due and the date of the accrual thereof.

(C) An alleged delinquent taxpayer may, within thirty days of receiving an Assessment / Preliminary Notice of Deficiency, request a hearing with a duly appointed Officer of the National Tax Service to review the facts of the case.

(1) The hearing, when requested, shall be held within thirty days of the request date.

(2) The District Director, or a duly qualified deputy, shall, within ninety days of the date of an Assessment / Preliminary Notice of Deficiency, review the facts of the case, including the records of any hearing(s) held, and shall make a Preliminary Determination based upon the best available information.

(3) Written notice of the Preliminary Determination shall be delivered to each person receiving an Assessment / Preliminary Notice of Deficiency by first-class certified mail to their last known address on file with the National Tax Service. A Preliminary Determination may dismiss the Assessment / Preliminary Notice of Deficiency, or may revise and reissue an Assessment / Preliminary Notice of Deficiency, or may issue a Final Notice of Deficiency.

(4) A Final Notice of Deficiency shall indicate and include:

NESARA

The National Economic Stabilization and Recovery Act

- (a) the name of the taxpayer,
- (b) their last known address on file with the National Tax Service,
- (c) the date of the Final Notice of Deficiency,
- (d) the amount of the tax and the date on which it was due,
- (e) any penalties and interest due and the date of the accrual thereof, and
- (f) a notice of lien that the National Tax Service claims a first and prior lien on the taxpayer's business property as provided by law.

(D) A person receiving a valid Final Notice of Deficiency from a District Office of the National Tax Service may, within thirty days of receiving such notice, challenge the notice by:

- (1) remitting the amount of the alleged tax, including any penalties and interest, and filing a written appeal for refund stating the pertinent facts of the case and the reason(s) for the refund request with the Regional Executive Director of the National Tax Service, or;
- (2) posting a third-party surety or a cash bond for the alleged tax, excluding any penalties and interest, with the National Tax Service and filing suit for relief with a court of competent jurisdiction, or;
- (3) claiming inability to post bond or inability to pay the tax, penalty or interest without suffering undue damage and petitioning a court of competent jurisdiction for a review of the facts in the case and, at the court's discretion, immediate dismissal of all or any part of the alleged liability.

(E) The Regional Executive Director, or a qualified deputy, shall, within sixty days of the date of an appeal for refund of taxes paid under a Final Notice of Deficiency, review the appeal and issue a Final Determination. No penalties shall accrue after the date of filing this appeal. A Final Determination shall either affirm, revise or dismiss the Final Notice of Deficiency. Revisions or dismissals in favor of the applicant shall be accompanied with an applicable refund of excessive monies paid, if any, plus the interest due on such monies calculated at the rate of 12 percent annually. The issuance of a Final Determination by the National Tax Service, whether or not accompanied by a refund, shall not be construed to prohibit any person from seeking relief for damages from courts of competent jurisdiction.

(F) Taxpayers who are successful in obtaining relief, including partial relief, in courts of competent jurisdiction from false allegations of national sales and use taxes owed shall be awarded by the court monies equal to the sum of their legal fees plus twice the amount of tax relief ordered by the court. Taxpayers who are unsuccessful in obtaining relief in courts of competent jurisdiction from allegations of national sales and use taxes owed shall be subject, at the court's discretion, to the payment of court costs, of all legal fees, and, in cases where surety rather than cash bonds were posted with the National Tax Service, the accrued amount, as of the date of the court's decision, of penalties and interest on taxes owed.

(G) The National Tax Service may treat any taxes, penalties and interest shown on an unchallenged Final Notice of Deficiency that is more than sixty days old as a debt due the National Tax Service. The District Director, or a duly qualified deputy, may issue a Notice of Levy against the business goods and business fixtures of any seller dealing in commerce, said Notice of Levy being delivered by registered mail to the

NESARA

The National Economic Stabilization and Recovery Act

seller at the seller's last known address or posted at the seller's place of business. A Notice of Levy shall indicate:

- (1) the name of the taxpayer,
- (2) their last known address on file with the National Tax Service,
- (3) the date of the Notice of Levy,
- (4) the amount of the tax and the date on which it was due,
- (5) any penalties and interest due and the date of their accrual.

(H) In an attempt to settle the alleged tax debt expressed in a Final Notice of Deficiency, ten days after the delivery or posting of a valid Notice of Levy, the District Director, or a duly qualified deputy, may file a certified copy of the Notice of Levy with any appropriate local Clerk's or Recorder's Office.

(1) Collection of any alleged tax debt by levy may not proceed until a warrant for distraint is issued by a court of competent jurisdiction. A warrant of distraint may be issued only upon presentment of facts to create probable cause and supported by a sworn or affirmed oath. The presentment of facts and oath shall become part of the record against the alleged taxpayer.

(2) Upon issuing a warrant of distraint the District Director, or a duly qualified deputy, may request the Attorney General or any District Attorney to commence action for recovery of taxes, penalty and interest due, or may issue a warrant directed to the local Sheriff or to the chief law enforcement officer of any political subdivision of the States or Territories of the United States, authorizing the Officer, as provided by law and subject to the additional limitations listed herein, to levy upon, seize and sell sufficient business goods and business fixtures of the seller as may be found within the Officer's jurisdiction. Local Sheriffs or chief law enforcement officers shall be entitled, for the execution of valid warrants, to such fees as are allowed by law for similar services.

(I) The national sales and use tax shall be a first and prior lien upon the business accounts, business goods, and business fixtures of any seller dealing in commerce, excepting any stock of perishable goods sold or for sale in the ordinary course of business, and shall take precedence, except as otherwise provided herein, on all such business property over other liens or claims of whatsoever kind or nature.

(1) No notice of lien shall be filed without proper certification. Certification shall indicate and include:

- (a) that an Assessment / Preliminary Notice of Deficiency was properly issued,
- (b) that a hearing was held within 30 days or that a hearing was not requested,
- (c) that the District Director reviewed the facts within 90 days of the hearing,
- (d) that a Preliminary Determination was issued,
- (e) that a Final Notice of Deficiency was issued.

NESARA

The National Economic Stabilization and Recovery Act

(J) The real or personal property, not used in business, of a seller dealing in commerce, shall be exempt from tax levies and liens against that seller if such property can be reasonably identified as not being used in business.

(K) The real or personal property of an innocent third party owner who has made a bona fide lease to a seller dealing in commerce shall be exempt from tax levies and liens against that seller if such property can be reasonably identified from the lease description and that the lessee has no present or future ownership rights to the property listed.

(L) The national sales and use tax for any period, including any associated interest and penalties, shall not be assessed, nor shall any Notice of Levy be issued, or warrant for collection issued, or suit for collection begin, nor any other action to collect the same be commenced more than two years after the date on which the tax was payable or due.

(1) No collection action of any kind, other than suits in courts of competent jurisdiction, shall continue more than three years after the date on which the tax was due.

(2) A Notice of Levy, even when valid and properly filed, is automatically invalid three years after the date when the taxes indicated were due.

(3) Before the period of limitation expires, the taxpayer and the District Director, or a duly qualified deputy, may agree in writing to an Offer in Compromise in partial settlement of taxes due or to an extension of the limitation for a specified period, and that period may be subsequently similarly extended.

(M) The remedies of liens and levies against personal property and of garnishment shall not apply to the collection of assessed national sales and use taxes, or to penalties and interest imposed thereon, nor shall such collection action be taken against the stockholders, other than the responsible officers, of a corporation nor against the partners of a partnership, other than the general partner or the responsible officers of the partnership.

(N) All liabilities for the national sales and use tax plus any imposed penalties and interest are immediately dischargeable in an action of bankruptcy by a court of competent jurisdiction.

Section 8. Crime Defined And Punishment Established

(A) It is unlawful for any seller to suggest in any way, directly or indirectly, that the national sales or use tax imposed on any subject transaction will be assumed or absorbed by the seller, or that it will not be added to or included within the purchase price, or that if added to or included within the purchase price it, or any part of it, will be refunded. Any seller convicted within three years of the date of this offense shall be deemed guilty of a misdemeanor and shall be subject upon each conviction to a fine of not more than one thousand dollars, or a term of imprisonment of not more than six months, or both.

(B) Any person knowingly participating in one or more sales taxable under this Act and willfully failing to pay or to collect and remit the tax, or collecting and willfully failing to remit the tax to the National Tax Service, or of participating in a contrived sale, or conspiring to evade the tax, even when the tax is disputed, where the cumulative amount of the tax in any consecutive twelve-month period, excluding interest and penalties, equals more than one hundred dollars but less than one thousand dollars, shall, if

NESARA

The National Economic Stabilization and Recovery Act

convicted within three years of the offense, be deemed guilty of a misdemeanor and shall be subject upon each conviction to a fine of not more than one thousand dollars, or a term of imprisonment of not more than six months, or both.

(C) Any person knowingly participating in one or more sales taxable under this Act and willfully failing to pay or to collect and remit the tax, or collecting and willfully failing to remit the tax to the National Tax Service, or of participating in a contrived sale, or conspiring to evade the tax, even when the tax is disputed, where the cumulative amount of the tax in any consecutive twelve-month period, excluding interest and penalties, equals more than one thousand dollars shall, if convicted within three years of the offense, be deemed guilty of a felony and shall be subject upon each conviction to a fine of not more than five thousand dollars, or a term of imprisonment of not more than two years, or both.

(D) Any person knowingly making fraudulent use of, or of conspiring to fraudulently use, a Certificate of National Sales and Use Tax Exemption, whether or not for monetary gain, shall, if convicted within three years of the date of this offense, be deemed guilty of a felony and shall be subject upon each conviction to a fine of not more than five thousand dollars, or a term of imprisonment of not more than two years, or both.

Section 9. All Inconsistent Acts Repealed

(A) All Acts or parts of Acts inconsistent with the provisions of this part are hereby repealed.

NESARA

The National Economic Stabilization and Recovery Act

Appendix A

Part I. Banking and Monetary Reform Explanation and Details

In a battle of knowledge between the lawyer-politicians and the public, the people fight unarmed. An elite group dominates through legal finesse. It holds the high ground, establishing rule with nothing more than technical words written on paper and a few simple principles adopted from *Lex Mercatoria*, nowhere officially recorded. Its real power emanates from control of America's institutions, primarily those dealing directly with monetary and fiscal policy. Misuse of this power for its own purposes, with considerable encouragement from voters expecting to get something for nothing, led to the nation's current economic predicament. The easiest way out of this mess requires new monetary and fiscal policies. Both systems desperately need renovation.

Monetary policy controls money creation. Most of these rules have changed little since 1913 when they were first implemented. Despite the modern appearance of the buildings and shiny new computers of the nation's financial institutions, our monetary system is antiquated. Modern computers process numbers faster but do not improve the system's outdated fundamental operations.

The proposed bill, the *National Economic Stabilization and Recovery Act*, increases the efficiency of the monetary system and immediately eliminates part of the national debt. One way or another, that \$20 trillion debt, impossible to pay, must soon be discounted. Under current economic conditions and systems' rules, this requires either general depression or hyperinflation. Both methods wipe debt off the books; both are painful processes. NESARA proposes a third method. By changing the rules it offers an engineered solution to the problem rather than insisting on additional sacrifice from those who have little more to contribute.

Modification of the nation's monetary system starts with the definitions in **Section 1 of Part I, *Banking and Monetary Reform***. Words often have legal definitions that differ from popular or colloquial usage. "Dollar" is a unit of measurement, specifically, a unit of weight equal to 371 and 1/4 grains. A price of ten dollars is semantically equivalent to a price of ten gallons. Gallons? Gallons of what? Practical applications demand an additional clarification. Individuals usually supply the answer through ignorance in the form of assumed knowledge. Their stock seems unlimited.

Words build sentences. Sentences frame ideas. Ideas lawfully expressed in statutes become law. Changing definitions of words after the fact corrupts the law. The lawyer-politicians make effective use of this tactic with one exception—their attacks on the U.S. Constitution.

In order for it to have reasonable construction the words in the Constitution must be taken at their obvious historical meaning. In 1824 Chief Justice Marshall wrote, "As men, whose intentions require no concealment, generally employ the words which most directly and aptly express the ideas they intend to convey, the enlightened patriots who framed our constitution, and the people who adopted it, must be understood to have employed words in their natural sense, and to have intended what they have said."¹

On occasion, the lawyer-politicians, attempting to evade clear constitutional intent by changing the meaning of a word, encounter someone like Justice Mahion Pitney of the 1920 Supreme Court. He

¹ Opinion of Chief Justice John Marshall, *Gibbons v. Ogden*, 22 U.S. 1, 6 L Ed 23, p. 68

NESARA

The National Economic Stabilization and Recovery Act

declared that “Congress cannot by any definition it may adopt conclude the matter, since it cannot by legislation alter the Constitution, from which alone it derives its power to legislate, and within whose limitations alone that power can be lawfully exercised.”²

Definitions are important. Misunderstanding the meaning of words used in the proposed bill might result in an incorrect interpretation of the statute’s intent when it becomes law. Furthermore, all definitions must conform to those used in the Constitution. Pay close attention to the specific definitions given for “bills of credit,” “eagle,” “interest,” “lawful,” “legal,” “legal-tender,” “money,” “payment,” “seigniorage,” “specie” and “tender.” All of the ideas found in NESARA are based on the simple legal definitions of a few dozen words.

Section 2 of Part I lists some obvious items as likely findings of Congress. The purpose of this section is to state the relevant facts about the issue addressed and explain why a new law is needed. New laws should not be passed without serious justification because their current total volume exceeds the ability of any human to know, let alone comply with all of them.

Section 3 of Part I acknowledges congressional control of the United States monetary system. This authority originates with the Constitution, contained in its monetary powers and disabilities

- Article I, §8, cl. 2—The Congress shall have the Power ...To borrow Money on the credit of the United States[.]
- Article I, §8, cl. 5—The Congress shall have the Power ...To coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures[.]
- Article I, §8, cl. 6—The Congress shall have the Power ...To provide for the Punishment of counterfeiting the Securities and current Coin of the United States[.]
- Article I, §10, cl. 1—No State shall ...coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts...

Clearly the nation’s monetary system is under the control of Congress.

In **Section 4 of Part I** Congress exercises its monetary power, directing the United States Treasury to produce three new kinds of currency: treasury credit-notes, standard silver coin, and standard gold coin. Treasury credit-notes “in sufficient quantity to replace all outstanding United States legal tender paper currency of every type” will become the bulk of the nation’s currency. All printing of previously authorized paper currency is now prohibited. Natural circulation and the resultant wear and tear will eventually eliminate the old paper currency, predominantly Federal Reserve Notes, except those items held as collectibles. Existing gold and silver certificates will not be redeemed in specie but are still usable under their current legal tender status. The bill authorizes but does not mandate production of new silver certificates and new gold certificates that are redeemable. It also provides general specifications and limitations for their production along with remedies for failure to meet those limitations.

Congress further directs the Secretary of the Treasury to begin maximum production of standard United States gold and silver coin according to the general instructions provided. A standard design unchanged for thirty years and the marking of all coins produced within a decade with the same date works to limit an excessive exchange value for the coins as collectibles and to promote their circulation.

² *Eisner v. Macomber*, 252 U.S. 189, 64 L Ed 521 (1920)

NESARA

The National Economic Stabilization and Recovery Act

NESARA opens the public mints to unlimited coinage. Anyone may bring gold or silver bullion to these mints to be coined. A charge, called seigniorage, keeps them self-supporting. It raises the exchange value of the standard coin to a point above the exchange value of its bullion content, another way of protecting its circulation. In addition, seigniorage makes feasible the operation of private mints in competition with government mints, assuring the efficiency of both. The Secretary of the Treasury is directed to promote and regulate such operations.

Notice that unlimited coinage at the national mints of privately owned bullion has the effect of monetizing not just U.S. owned precious metal, but the entire world supply. By honestly following this simple plan the United States will become the monetary capital of the world, its currency immediately acceptable at the published exchange-ratios anywhere on the planet. And this is accomplished at no cost to the government.

The benefits of a moral monetary system extend beyond the borders of any nation. Imagine what would have happened if the United Nations had adopted this plan and obtained its financial support from a small tax on the international trade of its members. Undoubtedly, the world today would be a far different place.

Maintaining three types of currency in simultaneous circulation requires practical solutions to two problems: One is nomenclature; the other is regulation of their exchange-ratios.

The term “dollar” has been corrupted by popular use so far beyond its original constitutional meaning that its recovery seems improbable. Under these circumstances the most appropriate solution is to assign the term “dollar” or the symbol “\$” without other qualifiers to designate United States Treasury credit-notes or its subdivisions such as clad token coins and subsidiary token coins of base alloys. In contrast, terminology designating standard silver coin must contain the word “silver” as a qualifier. The term “eagle” seems adequate to identify the new standard gold coin. Specific historical coins can be identified by date and description.

To avoid the problems often encountered with fixed exchange-ratios, Congress directs the Secretary of the Treasury to determine and publish the exchange-ratios between the various currencies. This method, established as a matter of law, discharges Congress’s constitutional obligation to “regulate the Value thereof.”

Treasury credit-notes enjoy a limited legal-tender status as a default medium of exchange. If parties to a mercantile transaction fail to specify a specific medium of exchange, such as standard silver dollars or eagles, the courts must assume they intended to use treasury credit-notes. Of course, as the issuing agent, the government must accept them in payment of all taxes and fees.

Other provisions of this section give the new coinage a distinctive shape, useful for the visually impaired, and specify the method to compensate for abrasion. NESARA also repeals all existing laws authorizing government seizure of precious metals or prohibiting the recovery and use of the bullion content of lawful coin. This enables artists to use either the coin itself or its metal content in their works. It also encourages public enforcement of the regulation of their exchange-ratio because the coins may be melted to recover the intrinsically valuable bullion without penalty.

Section 5 of Part I identifies the Federal Reserve Act of 1913 as the Act amended by this bill, using its original provisions for the dissolution and recovery of assets of the Federal Reserve System. In effect, this section transfers all rights and ownership of whatever kind that anyone may have in the Fed, everything

NESARA

The National Economic Stabilization and Recovery Act

from the dust on its chandeliers to the spiders under its foundations, to the United States Government. It assimilates the existing Federal Reserve System into the United States Treasury as the United States Treasury Reserve System and creates a new Board of Governors. The character of this new Board is established by specifying that twelve of its thirteen officers are ordinary citizens representing their districts, a design patterned after the jury system.

To encourage only conservative actions, NESARA reduces the current wide range of sometimes confusing and often conflicting objectives imposed on the existing Federal Reserve System to the single objective of maintaining a long-term, stable exchange value for the new treasury credit-notes. Every action by the new Board of Governors requires an affirmative vote by nine of its thirteen officers.

Some of the Board's prerogatives are expanded. The existing Federal Open Market Committee of the Federal Reserve System is abolished, its powers and responsibilities transferred to the new Board of Governors. Also, a special account within the United States Treasury Reserve System called the Treasury Reserve Account is established, to be administered at its sole discretion.

Section 6 of Part I renames the twelve existing private Federal Reserve Banks as Treasury Reserve Banks, now public entities. It establishes a requisition and accounting method for the Treasury to track the production and distribution of treasury credit-notes. Denominations larger than \$100 are allowed, provided their circulation is not public.

All financial instruments held by the twelve United States Treasury Reserve Banks shall be delivered to the Office of the Director of the Board of Governors of the Treasury Reserve System and exchanged for treasury credit-notes from the Treasury Reserve Account at an equivalent face value of one for one. These treasury credit-notes may then be used for the ordinary operating expenses of the Treasury Reserve Banks. This will effectively eliminate or keep the necessary charges for their services very low for an extended period. It also provides one method of slowly releasing them into general circulation, preventing economic shock. Once these funds have been expended, the Treasury Reserve Banks must charge a sufficient amount for their services to remain self-supporting.

As the obligations of the United States are received in the Office of the Director of the Treasury Reserve System, they will be delivered to the Secretary of the Treasury. Appropriate action by the Secretary cancels them out of existence. Notice that all commercial instruments other than those of the United States, such as private commercial paper and the financial instruments of other nations, remain under the control of the Board of Governors of the Treasury Reserve System.

The Office of Comptroller of the Currency becomes responsible for regulation of the United States Treasury Reserve Banks. Except for an absolute prohibition against making dispersals from accounts that contain no funds, they continue normal operations. Their exact status is deliberately left as an open question. The Comptroller of the Currency may operate them under commercial contracts or the current staff might become government employees. It is contemplated that, at some future time, their physical assets and ordinary banking functions might be sold back into the private sector. This option should be kept open.

United States Treasury Reserve Banks now operate as direct agents of the Treasury. They obtain the standard gold and silver coin from the Treasury as it becomes available. Individuals may exchange their paper currency for coin at the published ratios.

NESARA

The National Economic Stabilization and Recovery Act

Section 7 of Part I compensates the former owners of the private Federal Reserve Banks for cancellation of their outstanding capital stock. They are paid in newly printed treasury credit-notes at the price previously fixed by law. Stock not redeemed in 90 days becomes worthless.

All government obligations, both foreign and domestic, held by the nation's commercial banks are exchanged for treasury credit-notes, on a dollar for dollar basis, with their district Treasury Reserve Banks. Ultimately, the Secretary of the Treasury cancels the U.S. obligations. The new law prohibits commercial banks from purchasing or holding the income-producing instruments of the United States, or those of other nations, effectively eliminating much of their influence on monetary policy.

These actions amount to a direct reduction of the public debt, and at virtually no cost. To see how this is accomplished, follow the money's path. The Treasury prints new money, swapping it for the government's income-producing obligations held by the old Federal Reserve System. When this system is absorbed into the Treasury, it gets that money back, essentially paying itself for its own obligations with a small printing cost. Using this money again, the Treasury buys its income-producing obligations currently held by more than ten thousand of the nation's banks, either as fractional reserves or for their own investment accounts. The Secretary of the Treasury then cancels these government obligations, eliminating billions of dollars of public debt.

By limiting commercial bank reserves to treasury credit-notes, which produce no direct income, the national economy remains largely unaffected. Most of the exchanged treasury credit-notes rest quietly in bank vaults as reserves, out of the stream of commerce. Because they are not in public circulation, they do not bid the price of consumer goods higher.

Swapping treasury credit-notes for the government's income-producing obligations is remarkably fair. It prevents taxpayer support of the banks through double use of the same funds, first as income producers for the banks and then as an expansion base for the banks' monetization of the public's debt. From now on, commercial banks must earn their living through direct service to the community, not at taxpayers' expense.

Similarly, the private debt of the American people can be reduced by astronomical amounts simply by requiring repayment of principal on secured loans before a bank begins to earn the monetization-fee and by prohibiting compounded monetization-fees. These rules would only apply to financial institutions that make secured loans on a fractional reserve basis. Such loans are nothing more than monetization of the borrower's own debt, an extension, not of bank credit, but of the national credit through the bank's license to create money.

NESARA

The National Economic Stabilization and Recovery Act

Current loan equations based upon compounded interest:

$$T = P(1 + i)^n$$

where:

T = total amount of debt

P = principal; equal to the original investment

i = interest rate per interval, expressed as a decimal

n = number of equal intervals

$$R = L \frac{i}{1 - (1 + i)^{-n}}$$

where:

R = amount of periodic payment

L = amount of the loan

i = interest rate per interval, expressed as a decimal

n = number of equal payments

New loan equations based upon simple monetization fee:

$$R_r = \frac{1 + \sqrt{1 + 2nf_m}}{2n}$$

$$n = \frac{1}{R_r} + \frac{f_m}{2R_r^2}$$

$$C_f = nR_r = 1 + \frac{f_m}{2R_r}$$

$$M_b = LR_r$$

$$C_b = nM_b = LC_f$$

where:

R_r = repayment rate, \$ per \$ per month

n = number of equal payments, months

f_m = bank monetizing-fee per month, expressed as a decimal

C_f = cost factor for the loan

L = amount of the loan

M_b = base monthly payment

C_b = base cost for the loan

NESARA

The National Economic Stabilization and Recovery Act

Applying these rules to outstanding loans immediately reduces the private debt of the American people. Lowering the debt-service burden associated with secured loans allows an ordinary working family a modern lifestyle it can afford. It also assures that the banks fulfill a very necessary “public purpose” which, as the Supreme Court noted in 1896, was the reason for their creation by the government.

Banks are compensated for this midstream change in rules in several ways—by a monthly service charge not exceeding 25 dollars, retroactively and on future loans, and by origination fees and points on new loans. Discount points are limited to a maximum of 5 percent of the principal loan amount and reduced proportionally as the annualized rate of the monetization-fee increases. This encourages low rates.

Under these rules, and in the absence of fraud, bank failures and taxpayer bailouts become a thing of the past. It will be almost impossible to suffer loss on a secured domestic loan with the principal paid up front. And, in contrast to the perpetual expansion of compounded interest charges, the new repayment equations always converge to zero under any repayment plan. Defaults occur only if the borrower fails to make the payments specified in the original contract or to arrange for new terms through renegotiation.

The Office of the Comptroller of the Currency is responsible for the day-to-day regulation and normal operation of the nation’s commercial banks. With all regular banking operations controlled from this office, the Board of Governors of the Treasury Reserve System can concentrate on monetary policy.

Several restrictions are imposed by Congress on all financial institutions operating within the jurisdiction of the United States. To avoid the appearance of impropriety they may not grant loans to themselves nor to their directors, major stockholders, officers or employees or to members of their immediate families. To reduce public confusion, and the opportunity for mismanagement of funds, separate accounts of record must be maintained for each type of currency. Converting funds between any two of the three different types of accounts requires the written authorization of the owner.

All gold and silver accounts are custody accounts only, the ownership of these funds remaining vested in the depositor. These specie accounts earn no income because they can never be used as fractional reserves for credit expansion or as the basis for loans. A financial institution may even impose service charges for their maintenance. Checkable accounts or travelers checks on gold or silver accounts are strictly prohibited, blocking another avenue for fraudulent activity.

On the positive side, gold and silver accounts help satisfy Congress’s moral and constitutional obligations for creating a lawful currency system. Individuals not wishing to participate in a fractional reserve money system have a clear alternative. If a financial institution fails, the owners of gold and silver accounts receive preferential treatment for recovery of their funds. Such accounts may also prove useful in international trade.

This bill forces no one to use hard currency. A casual look at the figures and that impractical dream of the ‘goldbugs’ evaporates like dew in the hot morning sun. The United States holds a trifle more than 260 million troy ounces of gold as monetary reserves, roughly 28 percent of the world’s total, or about one eagle for every citizen. Selling it at \$400 per ounce, above the current market price, raises only a little more than \$100 billion. That amount pays approximately five months interest on the nation’s outstanding debt.

What about silver? True, the U.S. Treasury owns more silver than gold but it is worth much less. The world’s total reserve base is only about 420,000 metric tons. Coin all of it into silver dollars, nearly 17.5

NESARA

The National Economic Stabilization and Recovery Act

billion of them, and sell them at \$4 each, a little more than the current market price. The total, \$70 billion, will not pay the interest charge on the national debt for four months.

Merely hinting that the United States intended to sell all its gold and silver at market prices would drop their value into the cellar. Mining stocks would plummet. Gold and silver mines would close as their operation became unprofitable. It would be much cheaper to mine the U.S. Treasury.

Monetizing all the nation's gold and silver will not pay any portion of the national debt. Bank accounts in lawful money will be restrictive, earn no interest and may suffer the insult of maintenance charges. It is most unlikely that specie will return to general circulation. Much of it remained in bank vaults even while the nation was on various metallic standards. Facing these difficulties, why bother with a complex system using three types of currency?

With a cast of characters selected and the stage set, use your imagination and let the play begin. Suppose that Congress instructs the Treasury to sell small-denomination, nontransferable interest-bearing gold and silver savings bonds to U.S. citizens through their bank specie accounts. These bonds are redeemable in 5 to 20 years, interest paid annually, calculated in specie but paid in treasury credit-notes at the current exchange-ratio. Americans could exchange their paper currency for lawful money, deposit it in a specie bank account, then convert those funds to interest-bearing gold or silver savings bonds.

This immediately creates a tremendous circulating market for the Treasury's gold and silver coin, most of which never leaves its vaults. The sale of \$50 billion in specie bonds at par removes that amount in paper currency from general circulation. Because they are nontransferable, the bonds never enter the stream of commerce and cannot replace the paper currency. Nor can they be used as bank reserves. Due to the expansion factor built into the fractional reserve monetary system, the nation's available currency and credit drops, perhaps by \$500 billion.

At the least this move is sharply deflationary, and probably recessionary. Since the nation's aggregate of currency and credit is only about \$3,000 billion, the government would have to increase the money supply before the economy collapsed. Suppose Congress decides to accomplish this by redistributing the proceeds from the bond sales as restricted bank reserves, setting the restricted reserve requirement at 10 percent. State and local governments could borrow funds for infrastructure projects from local banks equal to 10 times the reserve amounts, provided taxpayers agree to new taxes to repay the loans.

Everybody wins. The federal government, using the bullion now collecting dust at the Treasury, redirects a significant portion of net national production toward rebuilding a crumbling America—new roads, bridges, and other public facilities including water supply and waste disposal plants. Bankers earn a fee for handling the transaction. Voters get back into the loop. Proposed projects die without local approval. And, because principal is repaid before the monetization-fee, low debt-service factors on long-term projects keep the cost down and taxes low.

If this strategy seems vaguely familiar, it should. Jay Cooke would recognize it as the flip side of his plan to finance the Civil War. In this instance the government leverages its gold and silver to generate billions of dollars for much-needed capital improvements. Wise selection of public projects will increase national efficiency, ultimately lowering the nation's debt. The financing technique employed is an adaptation of the Guernsey plan. It keeps local bankers and voters directly involved where it counts the most, their pocketbooks.

NESARA

The National Economic Stabilization and Recovery Act

Other versions of this general strategy may apply in international commerce. A foreign nation—China, Russia, India, South Africa—having gold and needing technological assistance and investment capital for infrastructure projects might find both in an American corporate partner. Suppose that the foreign gold is delivered to the U.S., coined and deposited in a gold account. With Congressional approval, those funds are converted to gold savings bonds, the proceeds being designated as restricted bank reserves for a loan to finance a specified project.

Everybody wins again. The foreign partner gets an infrastructure project—a national communications system, power production or transmission facilities, a water or sewage treatment plant, heavy construction equipment, etc.—financed at a very low debt-service burden. An American corporation gets a major international sale, creating local jobs and reducing this nation's trade deficit. The bank earns its fee and, after loan repayment, the gold is returned with interest, or perhaps recycled into a new project.

When conventional solutions fail, consider creative alternates. Fair deals work for everybody. Foreign aid projects that benefit the American taxpayer while helping others make good sense.

Section 8 of Part I imposes a progressive excise tax on the monetization-fee or interest income of all financial institutions or persons who make commercial loans of currency for profit. These provisions raise revenue for the government but also, and perhaps more important, discourage excessive debt-service burdens. This tax is especially appropriate for those financial institutions that use a government-issued license to operate a fractional reserve system.

In **Section 9 of Part I** Congress creates a United States Treasury Credit-Note Exchange-Value Index. This index, initially set at 100, tracks the exchange value of treasury credit-notes. Congress then directs the Board of Governors of the Treasury Reserve to adjust the sum of the nation's currency and credit to maintain that value, setting the target range between 97 and 103. These provisions eliminate the conflicting goals of monetary policy.

The Board of Governors administers monetary policy through four major regulation tools: 1) by setting the percentage of reserves required of commercial banks; 2) by setting the national discount interest rate, the rate at which commercial banks may borrow funds from their district Treasury Reserve Banks; 3) by purchasing income-producing United States Treasury obligations in the open market; and 4) by impounding and extinguishing funds within the Treasury Reserve Account or by transferring funds from the Treasury Reserve Account to the United States Treasury.

To curb some problems inherent in fractional reserve systems, NESARA provides for new or modified regulation tools.

One of the most troubling problems is associated with the credit expansion and contraction multiplier factor. A 5 percent reserve requirement sets it at 20, the reciprocal of the reserve percentage expressed as a decimal number (1 divided by 0.05 = 20). Most of the trouble occurs during periods of monetary contraction, the Great Depression being a notable example. As the nation's total stock of money falls, the banks, forced below their reserve requirements, call in loans. To improve their loan/reserve ratio they may call in loans from some of their best, most solid customers. Local bankers do not repossess the family farm out of malice. Heaven forbid they should ride a tractor for a living! They are compelled to act by banking rules they never wrote.

NESARA

The National Economic Stabilization and Recovery Act

Few people protest a large multiplier factor during monetary expansion, with the economy booming and money flowing freely. But on the downside, good hardworking people get hurt. Unable to pay off their loans, they go broke, slowing down the economy and making a bad situation worse. Engineers call this system nonlinear and describe it as operating with a negative stability factor. People ruined by it call the system an atrocity.

A more charitable attitude blames inadequate design. One set of uniform rules applied despite condition or consequence explains a large part of the problem. To improve the character of fractional reserve systems, change the rules.

Banks that temporarily fall below their reserve requirements, particularly when the cause is a sudden shift in national monetary policy, are not necessarily insolvent. Under NESARA's rules they are not penalized if they make no new loans until 90 days after their reserve ratio recovers and if they do not call for immediate repayment of any outstanding loans that are performing within normal limits. A bank is declared insolvent only when its reserves fall below 50 percent.

To improve its reserve ratio a bank may borrow funds from its district Treasury Reserve Bank at the national discount interest rate set by the Board of Governors. Each district Treasury Reserve Bank may obtain these funds from the Treasury Reserve Account, paying that account one-half of the interest income earned as a fee for their use. This provides a source of income to the Treasury Reserve Banks, possibly reducing their charges for other banking services.

A fifty-fifty split of interest income between the Treasury Reserve Banks and the Treasury Reserve Account is arbitrary, there being no compelling reason for Treasury Reserve Banks to pay a fee. Other figures in the bill, such as the amount of excise tax imposed on monetization-fee or interest income and the target range for the Treasury Credit-Note Exchange-Value Index, are equally arbitrary. Congress must set the final numbers which should be based on studies of computer simulations of the economy.

The Board of Governors may purchase income-producing United States Treasury obligations from the open market with treasury credit-notes. Their former prerogative of selling these obligations vanished with the requirement to transfer all they receive to the Secretary of the Treasury for cancellation. Buying on the open market adds treasury credit-notes to the economy, increases bank reserves and expands national credit through use of the multiplier factor. It also reduces the national debt because of the cancellation process. But, under NESARA's new rules, the Board of Governors cannot reverse the process since they cannot sell what they do not have. This prohibits them from increasing the national debt, an option best left in the hands of an elected Congress and its authorized agent, the United States Treasury.

To offset this loss, NESARA gives the Board of Governors a powerful new regulation tool. They may impound and extinguish funds within the Treasury Reserve Account or disburse them in one of several ways, effectively using the multiplier factor to contract or expand national credit.

The Treasury Reserve Account functions as a currency reservoir, acting as a shock absorber during periods of rapid economic change. Part of the national sales tax collection is diverted to this account, making it a potent tool for fine tuning the economy. Control of these funds enables the Board of Governors to execute national monetary policy without the usual abrupt shifts in interest rates or in the reserve requirements for commercial banks.

NESARA

The National Economic Stabilization and Recovery Act

During periods of national prosperity,—a thriving economy, government revenues increasing and expenditures for public support programs decreasing—funds accumulating in the Treasury Reserve Account could be used to retire part of the national debt. Keynesian economists, those who advocated deficit spending in times of depression, now have the opportunity to test the second half of their theory, using surpluses to pay off debt in times of abundance.

Section 10 of Part I provides a method for eliminating the unfair advantage that banks operating on a fractional reserve basis have over other financial institutions, such as limited membership credit unions serving their local communities. NESARA enables them to operate on a restricted fractional reserve basis, either individually or as an association, by meeting certain minimum requirements and obtaining a limited bank charter. Alternately, they may achieve the same objective as a partner with an existing bank.

In **Section 11 of Part I** Congress authorizes new types of postal money orders conforming to the three types of standard currency. A distinctive color for each type helps prevent misunderstandings. Because postal money orders must be purchased with cash, those denominated in silver dollars or eagles are issued only in integer units of standard coin.

Maximum limits are set on each postal money order purchased by type: 1,000 silver dollars, 10 eagles, and 1,000 treasury credit-note dollars. Regardless of type, the fee for each is one dollar. Note that the use of the term ‘dollar’ without other qualifiers designates a treasury credit-note or its subdivisions in clad or base metal coin. Except in unusual circumstances, any United States Post Office within the jurisdiction of the United States is required to redeem postal money orders in the designated currency within three working days of their submittal for collection. Examples of reasonable exceptions include “inability to perform” such as during catastrophic events fires — earthquakes, storms, etc. — or with post offices located aboard U.S. ships at sea.

Section 12 of Part I deals with enforcement of the Act. Willful violation of its monetary and fiscal responsibility provisions resulting in aggregate losses exceeding 5,000 dollars in any 12-month period is a felony. The penalty for each conviction is a fine not exceeding 5,000 dollars, or a term of imprisonment of not more than 5 years, or both. Each conviction for willfully counterfeiting or circulating substandard silver or gold coin earns a fine not exceeding 10,000 dollars, or a term of imprisonment of not more than 20 years, or both. Though not the death penalty imposed by the Founding Fathers in the Coinage Act of 1792, this is definitely enough to get one’s attention.

Other provisions of this section encourage citizen enforcement. A reward of 10 eagles is offered for providing information leading to the conviction of one or more individuals in willful violation of its provisions. The redemption by the United States Treasury on demand in specie of any new United States Silver Certificates or United States Eagle Certificates produced under this legislation is paramount for a moral monetary system. Congress therefore directs that the Treasury shall pay a penalty of 5 eagles for any failure in this regard.

Section 13 of Part I simply repeals all previous legislation or any parts of previous legislation inconsistent with the provisions of this part.

NESARA

The National Economic Stabilization and Recovery Act

Appendix B

Part II. National Sales and Use Tax Explanation and Details

The most important action Congress can take to put America on the road to recovery is to replace the federal income tax with a uniform excise tax on consumption. Only one myth stands in the way—the misconception that a national retail sales tax is always regressive, that it falls hardest on those who must spend most of the money they earn out of necessity, not choice. Discrediting that myth destroys the income tax.

Consider the fabled poor family of four. At a minimum wage of \$5.15/hour, two full-time wage earners provide an annual income of \$21,424, (2 workers x \$5.15/hour x 40 hours/week x 52 weeks/year = \$21,424).

According to the March 1999 Current Population Survey by the U.S. Census Bureau, this annual salary places the family in the 2nd Quintile (\$12,040 to \$25,560) of income, and provides only \$4,724 more than the \$16,700 Poverty Guideline set by the U.S. Department of Health and Human Services for 1999.

This hard-working family's income is only 28% above the poverty level. With careful money management the family members squeeze by each year, living modestly day-to-day. For them real middle-class status is a distant dream. Yet millions of Americans earning less envy this family as does most of the rest of the world earning much less.

With standard deductions, filing jointly, and standard child care credit, this family pays no federal income tax.

Suppose Congress replaces the income tax with a 14% national sales and use tax; but *exempts* the *necessities* of life such as groceries, rents or leases of real estate, insurance, and medical items and services. Unlike other families earning a higher income, abolishing the federal income tax immediately adds no extra income to this family's monthly income.

Of course, this family will be affected by the new federal retail sales and use tax. If 90% of the family's income is spent on necessities—nontaxable items, a reasonable figure for a poor family, the taxes actually paid becomes 14% of the remainder, or \$299.94 ($\$21,424 \times 10\% \times 14\%$).

At first glance, this appears to be an annual net loss of \$299.94, making a national sales tax a bad choice, but what about those hidden embedded income taxes and the cost of collection?

When spending money for necessities the family pays *directly* for the goods and services received, and pays *indirectly* all of the hidden embedded costs of the income tax. The hidden embedded cost of the income tax affects *all* purchases. Assuming the national sales tax system is a mere 2.5% more efficient than the current income tax system (a conservative estimate), this family will avoid an additional \$535.60 of hidden embedded taxes ($2.5\% \times \$21,424$), providing an annual *net savings* of \$235.66 per year ($-\$299.94 + \535.6).

As does every family and person, people near or below the poverty line, about 14% of the nation, daily pay income taxes and their associated collection costs hidden in the price of necessities. Eliminating these hidden embedded costs effectively increases everyone's standard of living by at least 2.5%.

NESARA

The National Economic Stabilization and Recovery Act

Furthermore, replacing the current income tax with a 14% national sales and use tax provides an approximate 4.85% rise in true purchasing power for every additional *quarter per hour* earned by workers. For purposes of discussion, ignore for the moment the hidden embedded effects of the income tax. If the two wage earners of the family earn only \$6.07/hour, this family starts paying a federal income tax. With a 14% national sales and use tax, the two wage earners in the fabled family of four need earn only \$6.61/hour each to see the sales tax *directly* offset current federal income taxes and realize a rise in effective purchasing power.

The hidden embedded effects of the income tax *cannot* be ignored. Therefore, in addition to a true rise in purchasing power caused by the higher wage, a minimal 2.5% rise in purchasing power is caused by only 2.5% improved efficiency in the tax system. A higher efficiency causes an even higher rise in purchasing power.

Regardless of the wage earned when the fabled family of four starts paying a federal income tax, converting instead to a national sales tax causes purchasing power to rise significantly.

Remember that the primary purpose of the 1942 Victory Tax was to control consumption, not to raise revenue efficiently. The tax evolved into a potent tool for political power brokers. Their power rests on their ability to manipulate the system, to give special favors to their supporters and contributors. Thus, politicians have an overriding vested interest in maintaining the current system even at the cost of a reduced standard of living for the American people. A national sales and use tax is a moral tax because political lobbyists and power brokers cannot as easily manipulate the revenue collection and spending schemes.

Another proposal for protecting lower income groups is with a periodic cash allotment. A payment of \$500 per year to every man, woman and child comprising the lowest 20 percent of the nation's income distribution would cost the government \$26 billion annually, roughly the amount of the food stamp program. Under this plan a poor family of four receives cash payments of \$2,000 per year.

That \$26 billion seems like a large sum until compared to an estimated cost of \$100 billion just to collect the corporate income tax. Abolish all income taxes, pay the allotment and the nation nets a \$74 billion reduction in hidden corporate tax collection costs.

Increasing the efficiency of the tax collection system reduces everyone's burden. Think of the income tax system as an ordinary job such as digging a ditch. Because of some silly bureaucratic rule, the first hour every morning is spent throwing dirt into the ditch. The rest of the day you work to remove that dirt and continue digging. Each day you follow the same procedure, wasting your efforts the first hour plus working an additional hour to recover.

In frustration you might decide to skip work for the first two hours every day. At the end of each day the net gain in length of the ditch remains the same. A more ingenious plan is to report for work every day one hour late, avoiding the bureaucrat's silly rule. The result is higher efficiency, digging more ditch with less work.

Obviously, even old familiar things are not always what they seem. Conventional wisdom is based on perspective. In this light the definitions in **Section 1 of Part II**, *National Sales and Use Tax* give explicit legal meaning to some selected prosaic words. Notice the complexities of seemingly simple words like "groceries" and "sale."

NESARA

The National Economic Stabilization and Recovery Act

Do all items of food and drink marketed for human consumption qualify as groceries? Not necessarily. If you select and purchase an assortment of doughnuts over the counter at a bakery or delicatessen, even if the facility is located within a grocery store, you pay a national sales tax. Buy similar prepackaged items from the shelves of a grocery store and you avoid the tax. The distinction exists in intent. When a facility acts as a manufacturer, selling its food or drink products for human consumption through a grocery store, no national sales tax is imposed.

Is a sale always a sale—in every exchange of property for a valuable consideration? One might be inclined to think so until learning that some courts have held that love and affection can be a valuable consideration. It is not the intent of NESARA to tax noncommercial transactions even when they have the appearance of being a sale. Typical examples include property exchanged between family members, as when parents ‘sell’ the old family car to one of their children. The same idea extends in principle to the ‘legal families’ of partnerships and corporations. In both cases the offer is never made to the public nor with a motive of profit. These types of transactions are not considered sales unless they are contrived or structured for the purpose of avoiding the tax.

The word “coin” provides another good example of viewpoint. Though used as a noun in both Parts I and II of the bill, its definition changes with circumstances. The monetary considerations of Part I call for emphasizing its self-identifying intrinsic value and current use as a medium of exchange. Part II expands this definition in the time domain and deletes all self-identifying requirements. Here the definition easily recognizes the coins of antiquity, modern coinage, or any future coins, provided they are of metal and during any period were officially sanctioned by some nation as a medium of exchange.

Section 2 of Part II lists some probable Congressional findings, several being intuitively obvious to the most casual observer. They boil down to a stern criticism of the nation’s so-called progressive income tax system. By almost any measure it is an appalling failure. Any one of its counterproductive features supplies ample justification for its elimination.

One item is conspicuously absent from the list—the fact that nobody understands the eight volumes of fine print comprising the Internal Revenue Code, including its authors, the Congress. And it is unlikely that they will care to note that less than two dozen pages of simple rules replaces and outperforms their incomprehensible tax system.

Section 3 of Part II abolishes the national income tax as of 12 o’clock midnight on the date the Act becomes law. Expect the vested interests, primarily the lawyer-politicians and tax lobbyists who derive power and make a living from tax law manipulation, to complain that this action is too sudden, to demand a transition period. They will fight a holding action, insisting on phasing out the income tax as if flogging you a little bit less each day is somehow better for you than just quitting. Their actual intention emulates a pattern set in Europe—reduce the income tax, add consumption taxes, then raise the income tax, ending with both.

All income tax liabilities that were not due and payable when the Act becomes law vanish. Technically, millions of people owe taxes on gains they supposedly made when selling property or on deferred income, perhaps invested in retirement accounts. Taxes on those paper gains, gains that were largely imaginary because of inflation, are abolished. On the other hand, any taxes due and payable on a specific date before the Act becomes law are still due and payable.

NESARA

The National Economic Stabilization and Recovery Act

Section 4 of Part II places responsibility for reorganization of the Internal Revenue Service as the National Tax Service with the Secretary of the Treasury. Congress directs the Secretary to structure the National Tax Service along recognized state and territory boundaries and to create any rules, regulations and procedures required for efficient collection of the national sales and use tax. Districts are also organized according to Congressional districts, thereby providing more accountability of District Directors to representatives. A practical approach makes use of existing state sales tax systems where available and keeps paperwork to a minimum.

Cost being relatively unimportant, this project has no detailed budget. By the time the bean counters could generate an accurate estimate the job will be complete. The situation is akin to having a bursting appendix. America needs an appendicitis operation this afternoon—discussions of costs, if any, will come later. Congress allocates initial funding for the project equal to actual expenditures for federal revenue collection in the previous year.

During the first year after the Act becomes law, the Internal Revenue Service continues to function, closing the books on outstanding income tax liabilities. Any that cannot be cost-effectively collected within that year will be discharged by writing them off.

This reverses the standard IRS policy that cost is never a consideration in collection efforts. The only purpose for spending large sums in attempts to collect small sums was public intimidation. Americans were annually treated to well-publicized examples of what could happen to them if they failed to pay their taxes voluntarily. Morality aside, the policy might have been justified if it worked. It failed, and in the process drove a significant portion of the economy underground. With the abolishment of the income tax system it goes into history's trash can, exactly where it belongs.

Section 5 of Part II imposes a national sales and use tax of 14 percent on the retail sale or use of all property exchanged in commerce within the jurisdiction of the United States. The first requirement of this tax is that it replaces dollar for dollar all revenue lost with the demise of the income tax.

Congress must set the actual tax rate, 14 percent being a judicious suggestion based on computer simulations of the national economy. With the anticipated increase in economic productivity and tender hopes for prudent government, that initial rate drops. After a few years one estimate puts it as low as 7 percent, others at around 9 percent. All estimates are established on various assumptions for many factors. Experts argue over the validity of their assumptions and the impacts of numerous factors in their economic models. Most agree on one thing—the size of a uniform tax rate generating a given amount of revenue depends on the volume of taxable sales.

Exemptions are fun. Eliminating many of life's necessities from the national tax base nullifies much of the argument that a sales tax is always regressive. It gives Congress opportunities to tinker with tax law, one of its favorite pastimes. But it also puts Congress on the horns of a dilemma—with sales volume a constant, every item deleted from the tax base means that it must raise the tax rate or settle for less revenue. Hold revenue constant and the delight of tax exemptions comes with the distress of higher tax rates, a very visible tax that the public pays each day of the year.

Why not exempt everything? A radical thought but perhaps not unreasonable. Abolish all income taxes, forget replacing them with a national sales tax, and the nation still has an annual income of over \$570 billion from other sources. That amount covers every penny spent by the federal government in 1979 and leaves a \$67 billion surplus. In other words, all federal income taxes now collected, an amount equal to 54

NESARA

The National Economic Stabilization and Recovery Act

percent of the annual budget, pays only the extra cost heaped on the public by Congress in the last 17 years. Do not hold your breath in expectation. The facts merely show how far and fast the nation slipped downhill and the potential for improvement.

Sales to federal, state and local government agencies, when acting in their official capacities, are not taxable transactions. Neither are sales of licenses, permits, passports, visas and all charges for public services or user fees made by these agencies. If raising additional revenue is the intent, charges for each item can be increased. Without competitive alternatives the public has no choice but to pay. Other types of sales by government agencies, such as the disposal of surpluses at an auction, are taxable unless excluded by further exemptions.

Under NESARA, all sales of precious metal bullion, coins and currency are untaxed. Taxing these exchanges skews the monetary system by degrading the standards. Imagine going into a bank with two \$5 bills to 'buy' a \$10 roll of quarters and being charged a national sales tax on the transaction. The same principle applies to exchanges involving treasury credit-notes, precious metal bullion, silver dollars, and eagles, and equally to trades in international currencies. Congress has a constitutional responsibility to set standards and regulate values but must be careful not to pollute its own efforts.

Sales made to or by charitable organizations in the conduct of their regular activities or charitable functions are normally exempt from the tax. They must not be for profit or unduly competitive with sales made by others subject to the tax. A church engaged in charitable activities might legitimately raise funds to support those activities with an occasional fair or carnival, no taxes due. It cannot open an amusement park in competition with one across town and claim exemption because of its charitable status, even if every penny collected goes to its charitable efforts. The same reasoning applies to nonprofit schools. Government's genuine interest in supporting such organizations does not extend to encouraging their unfair participation in the realm of commerce.

Exempting several categories of life's necessities—groceries, insurance, qualified rents or leases of real estate, and medical items and services—converts a regressive tax into a progressive one. Under this system poor people, spending most of their money for the essentials, pay little if any tax while the rich pay lots of tax.

Some argue that the rich spend more money on food so they get an excessive benefit from that exemption. Not necessarily true. No matter how rich you are, the amount of food that you can eat is limited. Rich people eat out more and in fancy restaurants where they pay the tax. Even when they buy expensive groceries and eat at home that money is not lost to the tax system. It continues to circulate in the economy and is inevitably used to buy taxable items.

One dollar taxed at 14 percent and circulated through the economy ten times provides the government with \$1.40 in revenue. That seems strange. How can the amount of revenue exceed the taxable base? Simple. There are no limits on total revenues when the government constantly spends those tax dollars back into circulation maintaining the base. With a fixed uniform tax rate the important consideration is dynamic, that is, the speed at which a given volume of money circulates through taxable items. Do not be concerned if the government fails to tax a few transactions. This is a rigged game and it is going to win. Tax rates are adjusted so that the government always get its share.

Rents or leases of real estate for periods longer than 60 days are excluded from the national sales tax for some of the same reasons that groceries were eliminated. Rich people own their homes. Poor people are

NESARA

The National Economic Stabilization and Recovery Act

more likely to rent or lease. The same relationship presumably exists between many small businesses and their larger, richer competitors. Failure to eliminate this category of taxable items discriminates against the poor.

Exempting qualified medical items and services from the national sales tax benefits both rich and poor. An argument that the rich gain more than the poor is no reason to penalize the poor. Taxing anything discourages its consumption to some extent, though it affects some items more than others. If the post office doubles the cost of stamps few people will reduce their volume of mailings by half to break even.

Poor people often have considerable difficulty affording adequate health care. NESARA provides two kinds of relief—elimination of the income tax and an exemption from the national sales tax. Without the income tax, the working poor have more money. Moreover, prices of medical items and services decrease compared with other goods and services as competition removes previously hidden costs. A sales tax exemption adds frosting to the cake.

Incidental or occasional sales, when the primary motive is not profit, are not taxable transactions. The federal government has no interest in your yard or garage sale if you are not actively engaged in commerce. It does encourage recycling materials. This justifies a 50 percent tax break on retail sales of used tangible property—used cars or equipment, parts acquired at scrap yards, merchandise from secondhand stores, etc.—excluding remanufactured items sold with warranties longer than 90 days. The latter are treated as new items and taxed at the full rate.

NESARA treats sales of insurance or surety bonds as necessities, exempting them from the national sales tax. Poor people frequently have greater needs for insurance than do the rich. Secondary sales of commercial investment securities in the stock and bond markets are another matter. These transactions are taxable.

By taxing only 10 percent of the purchase price paid for stocks and bonds at the uniform national sales tax rate of 14 percent, the effective tax rate is reduced to 1.4 percent. This is a fair tax, largely paid by wealthy people just relieved of income and capital gains taxes. It is low enough to prevent capital flight from the country and high enough to raise substantial amounts of revenue. Also, this tax discourages market speculation, the constant moving of money to make money in the short run rather than into long-term productive investments.

NESARA encourages new commercial investment because initial issues of stocks and bonds are not subject to the national sales tax, only trades in the secondary market. Initial investments build businesses; secondary trades simply swap ownership. Securities of the United States government and all its political subdivisions are never taxed even in the secondary market. This gives them a slight advantage over commercial investments, restoring some of their competitive edge lost with the abolishment of the income tax. Income from all investment securities, government and private alike, is now tax free.

Meals provided by employers to employees at their places of employment at no charge or at reduced charges are not subject to the national sales tax. They were often considered as partial compensation for labor, once taxed as income, now abolished. Of course, if the employees will not eat there, maybe you should go somewhere else too.

NESARA exempts the identified and segregated labor portion of written retail contracts, such as professional service, construction, maintenance and service industry contracts, from the national sales tax.

NESARA

The National Economic Stabilization and Recovery Act

Technical consultants, lawyers, accountants, engineers, surveyors and architects normally sell their labor. Taxable material costs for such things as copies of blueprints and specifications are often inconsequential when compared to the total charge. When these services are supplied to industry, the labor costs pass through into the price of the final product. Taxing that product effectively taxes the original labor. Taxing both the service and the final product amounts to double taxation.

This exemption could be applied to certain categories of personal maintenance and repair bills with large labor components that can be easily identified and segregated—for instance, having your carpet cleaned or taking your car to a shop for repair. You pay the tax on materials but not on direct labor. Rent a limousine and pay the tax on the rental but not on the driver's labor identified and billed separately. Buy an airline ticket; pay the tax. The pilot's labor can be identified but not segregated because total ticket sales are unpredictable. What if you rent a taxi? Pay the full tax—no written contract. Decisions are not difficult if you know and follow the rules. In these cases the objective is simply to give the taxpaying public a break on designated expenditures, not to avoid double taxation.

Labor is property. When sold directly into commerce at retail it is a legitimate subject of sales taxation. Many services have high direct labor components—beauty salons, barber shops, dance instruction, dry cleaners, pet grooming, and tattooing just to name a few—all subject to the full tax. In the coming battle over exemptions, direct retail labor exclusions will likely be an early casualty. Fortunately, as the taxable base increases, Congress can cut the uniform tax rate and still raise the same amount of revenue. Either way the public wins.

Real estate sales are taxable but credit is allowed for taxes paid on previous retail transactions or for taxes that would have been paid had NESARA been in force. A home purchased for \$100,000 several years ago and sold for \$150,000 after NESARA becomes law has a \$50,000 taxable base. If it sold for less than \$100,000 no national sales tax would be due. For purposes of establishing an initial taxable base, transactions in progress when the Act becomes law may be considered as completed.

Under NESARA, new real estate developments suddenly become more expensive, older properties more valuable. This inevitably slows the mad dash to abandon existing property. A new \$200,000 suburban home carries a \$28,000 national sales tax burden. Many people could achieve the same increase in standard of living, spend less money and avoid most of these taxes by playing *This Old House* with an older property. The net effect revitalizes inner cities and older neighborhoods at little or no cost to the government. In fact, federal, state and local governments all collect revenue from these activities while avoiding the expense of supporting new expansion projects. Taxpayers win by spending less, avoiding some sales tax, but also with lower property taxes due to more efficient use of the existing infrastructure.

NESARA continues the longstanding government policy of exempting from sales taxes qualified sales of printed periodical materials such as newspapers, magazines, news letters, directories and sales catalogs. To qualify, they must be nonprofit or contribute in some way to raising revenue.

Section 6 of Part II attaches the liability for payment of the national sales and use tax to every purchaser and for its collection and remittance to every seller. The mere act of initiating a taxable sale in commerce within the jurisdiction of the United States makes one an agent for the National Tax Service. There are no forms to fill out or sign, no coupons to clip or box tops to send in. Getting into this game is ridiculously easy.

NESARA

The National Economic Stabilization and Recovery Act

To get out, remit the tax due in full at any authorized federal depository on or before the tenth day of the month following the month in which the taxable sale was made and do not initiate any more taxable sales. Keep the receipt. That piece of paperwork is all that is necessary to prove the seller's liability was discharged. The same holds true for the purchaser's receipt from the seller.

Obviously, the tax bureaucrats will insist on standard forms and taxpayer identification numbers. But these items are only for the convenience of maintaining auditable records. They have nothing at all to do with establishing or discharging one's liability under the law. The burden of proving that liability falls on the National Tax Service.

Three elements prove a government tax case—a taxable sale occurred; it was within the government's jurisdiction; and you participated. The government need only establish liability, avoiding any requirement to prove a negative, that is, to produce a witness that will swear he saw you not pay or remit the tax. You evade the charge by defeating any element in the government's case. Prove that the sale was exempt from the tax or that it was not within the government's jurisdiction or that you were neither a seller nor a purchaser in the transaction. Failing that, you had better have a receipt.

Governments take few chances on collecting their money. Taxes on credit sales of moveable property are payable in full at the time of the sale. Taxes on immovable property paid for in installments are due as the seller receives each installment. If a seller disposes of an account receivable, the balance of the tax is immediately due.

There are no limits to the number of times a particular article may be subject to the national sales or use tax if it returns to the stream of commerce. Each time the purchaser must pay and the seller must collect and remit the tax unless the sale is exempt. But taxes are collected at the retail, end or final transaction and not from wholesalers, or from intermediate sales of items directly used for or incorporated into the manufacture of a product to be ultimately sold at retail. Maintenance tools and office supplies purchased by a chemical manufacturer are taxable even if bought from a recognized wholesale dealer. Pipe, valves, pumps, catalyst and solvents directly used in its processes to make chemicals are exempt. Electric power to its office buildings or to run its pumps is taxable but power used directly in its industrial processes, such as electroplating and metals refining, is exempt.

Should a dispute occur between the purchaser and seller about whether any particular sale is exempt from the tax, the purchaser must pay it. The law provides ways to challenge that collection and, if successful, to get the money back plus interest. Excess taxes inadvertently collected must be remitted to the National Tax Service when not refundable.

NESARA abolishes the federal income tax and along with it tax policies that stimulated contributions to charitable organizations. It restores some of that loss by issuing Credit Certificates applicable to national sales and use tax liabilities for donations to qualified organizations. To obtain the certificates, worth 10 percent of all donations valued at \$250 or more, the organization must be recognized and approved by the National Tax Service. It must also apply for each Credit Certificate in the donor's name and certify the contribution. The Credit Certificates can be sold in commerce and will be accepted by the government for tax payments at full face value.

Summary documentation, also called returns or reports, of the seller's monthly tax remittances may be voluntarily submitted to the National Tax Service. If timely, meaning within five working days after the tax due date, the seller may deduct 1 percent of their tax deposit to offset expenses for collection and

NESARA

The National Economic Stabilization and Recovery Act

keeping records. If everyone files, sellers will divide \$6 billion annually. What at first seems like a lot of money comes to only \$600 per year when split equally among 10 million sellers. Of course the big companies get most of it but they also do most of the work.

Failure to make tax deposits within the ten-day designated period can be costly. Penalties for late deposits are set at 2.5 percent per month and continue to accumulate each month for a maximum of six months or 15 percent. In addition, interest charges are added at the rate of 1 percent per month without an upper limit. Expect the government's accountants to compound those interest charges. They really want tax money deposited on time. This tax system provides little enough forgiveness except for inadvertent clerical errors, which are subject to interest but not penalty charges, and unusual hardship circumstances. In the latter case, penalty or interest charges or any portion of either may be waived by the National Tax Service or by Executive Order of the President of the United States.

Sellers who go out of business must file a report with the National Tax Service within thirty days. Anyone acquiring the business or its stock of goods becomes liable for taxes due and not remitted unless the buyer has a receipt showing that the taxes were paid to the seller. By continuing in business new owners become liable for the collection and remittance of taxes on future sales.

Qualified and approved purchasers or sellers may apply for and obtain Certificates of National Sales and Use Tax Exemption from the National Tax Service. These certificates, valid for 12 months, are identified by serial number. Their use is voluntary—one can never be penalized for participating in an exempt transaction—but desirable because they simplify nontaxable commerce.

Revenuers appreciate Exemption Certificates because they make tracking nontaxable sales easier. When they are used in commerce, the seller becomes liable for maintaining sales records for two years from the date of the sale. To encourage their use and the reporting of exempt sales, the National Tax Service offers Credit Certificates applicable to tax liabilities equal to 0.15 percent of the total amount of exempt sales timely reported. This offer excludes sales made to the federal government; presumably records of these sales are already available to the National Tax Service.

Every month 15 percent of the national sales tax collected is deposited in the Treasury Reserve Account. These funds may not be used by the government without authorization of the Board of Governors of the Treasury Reserve System. The Treasury Reserve Account joins the Siamese twins of fiscal and monetary policy at the hip. They live in Washington, D.C., in a glass house, largely ignored during periods of good behavior while a thriving nation runs smoothly. But family squabbles upset the neighbors who are sure to notice and complain. Continued disruptions tempt them to become personally involved, a situation everyone finds distasteful.

Section 7 of Part II addresses occasions of negligence or refusal to pay, collect or remit the national sales and use tax as required by law. Conflicts will arise but should be minimal. Sellers have little reason not to collect the tax: A lawful statute, clearly worded and easily understood, requires that they collect it; Uniform taxes do not unduly affect their competitive position; They are not the ones paying the tax; and the government compensates them, at least in part, for obeying the law. Purchasers refusing to pay the tax are unlikely to obtain goods and services from sellers. No sale, no problem with the law.

Simple procedures handle the difficulties that do occur. Each step taken by the National Tax Service is explicitly marked by the title of the notification document: Assessment / Preliminary Notice of Deficiency, Preliminary Determination, Final Notice of Deficiency, Final Determination, and Notice of

NESARA

The National Economic Stabilization and Recovery Act

Levy. One or more remedies are available at every stage for an alleged delinquent taxpayer to challenge the government's assertion.

Upon receiving either a Final Notice of Deficiency or a Final Determination, one may bypass the National Tax Service, placing the argument before a court of competent jurisdiction. The stakes get higher. Win, even partially, and the government must pay your legal fees plus twice the amount of tax relief ordered by the court. Lose and the court may order you to pay its costs and all legal fees in addition to the tax, penalties and interest.

A Notice of Levy cannot be issued more than two years after the date on which a tax was payable or due and it automatically expires three years after the tax due date. During that period the National Tax Service may agree to an Offer in Compromise in partial settlement of taxes due or by mutual agreement extend the limitation period in hopes that the taxpayer might acquire the money and pay the debt.

To avoid the many problems associated with collections under the current income tax system, NESARA clearly defines that a warrant of distraint be issued before continuing with any seizure. Additionally, because the national sales and use tax is collected only in activities of commerce, real and personal property is exempt from seizure and collections. Innocent third party owners of property are also protected, eliminating some of the repulsion with current asset forfeiture laws.

The government prefers to obtain something for taxes due rather than nothing. It is one thing to drill for oil, quite a different matter when you know it will be a duster. Revenuers cannot use the remedies of garnishment against a delinquent taxpayer while the taxpayer can declare bankruptcy any time. Better for everyone to make the best of a bad situation, reach a compromise settlement if possible and move on.

The provisions of **Section 8 of Part II** define four federal tax crimes and specify the punishment for convicted offenders. A seller who misrepresents or hides the national sales tax attempts to gain unfair competitive advantage or to defeat its visibility, a misdemeanor. Knowingly participating in a taxable transaction and willfully evading responsibility to pay, collect or remit the tax may be a misdemeanor or a felony depending on the amount of money involved. If the amount is over \$100 but less than \$1,000, the crime is a misdemeanor punishable by a fine of not more than \$1,000 or a term of imprisonment of not more than six months, or both. For amounts over \$1,000 the crime is a felony punishable by a fine of not more than \$5,000 or a term of imprisonment of not more than two years, or both. Making or conspiring to make fraudulent use of a Certificate of National Sales and Use Tax Exemption is a felony. Conviction may subject you to either a fine of not more than \$5,000 or a term of imprisonment of not more than two years, or both.

Rudimentary procedures are more than sufficient to enforce the federal sales and use tax laws. Simple, understandable tax law invites public participation. People know what goes on and some will tell. Sting operations by revenuers will be almost as easy a handing out traffic tickets. To catch the bad guys they need only make a purchase in a taxable sale from a careless or imprudent seller trying to beat the system. Anyone smart enough to contemplate evading the tax or defrauding the government is smart enough to recognize that the risk exceeds the potential gain.

Section 9 of Part II simply repeals all previous legislation or any parts of previous legislation inconsistent with the provisions of this part.

NESARA

The National Economic Stabilization and Recovery Act

Appendix C

Imagine Legislation That...

Terminates or Drastically Reduces Mortgage Debt

The proposed National Economic Stabilization and Recovery Act, known as NESARA, is based on a new theory of money, its fundamental tenet being that all currencies are debt instruments, including gold and silver coin with substantial intrinsic value. Explicitly identifying the characteristics of currency clarified the process of its creation by commercial lenders.

Using this information, NESARA amends the Federal Reserve Act of 1913 (as amended) to modify the nation's monetary system. The effects of these modifications are dramatic:

1. The national economy is stabilized through the use of new control mechanisms.
2. Several revisions to current commercial lending rules and regulations eliminate massive amounts of public and private debt.
3. Under NESARA, compound interest on secured loans made by commercial lenders on a fractional reserve basis is eliminated, being replaced by a monetization fee. Commercial lenders must credit all loan repayments in excess of their regulated service charges to the principal loan amount, collecting the entire principal before they can collect their monetization fee.

Because the new rules apply to all existing secured loans made by commercial lenders operating on a fractional reserve basis, outstanding balances must be recalculated. In every case, the outstanding balance will be reduced and in many cases totally eliminated.

Example: The recalculated outstanding balance will be zero for someone who has made 17 years of payments against a 30 year home mortgage loan at 8.5% interest. The lender will return the mortgage marked *paid in full* to the borrower saving 13 years of loan payments.

Promotes Universal Home Ownership

NESARA replaces compounded interest on secured loans made on a fractional reserve basis with a simple monetization fee, thus making home ownership much more affordable.

Replacing compound interest with a monetization fee is fair and equitable to all parties since borrowers pay less and lenders still receive a sizable stipend for their efforts. Unlike compound interest, which is calculated on the unpaid balance of a loan, NESARA's monetization fee applies to the repaid principal of the loan, all principal being repaid before the fee is due.

For example, under current banking practices and laws, a \$100,000 loan at 7.9% interest repaid over 30 years would cost the borrower a total of \$261,649.95. The interest fee for that loan amounts to \$161,649.95.

NESARA

The National Economic Stabilization and Recovery Act

With a straightforward monetization fee replacing compound interest, that same 30-year loan costs the borrower \$178,791.49 (includes a monthly service fee of \$25). Under NESARA, the monetization fee for the loan is \$78,791.49.

Furthermore, the monthly payment under the current banking system (excluding taxes and insurance) would be \$726.81, whereas under NESARA that monthly payment would be \$496.64.

These numbers demonstrate how the new equations benefit borrowers. However, the new equations also benefit lenders. NESARA requires principal to be repaid before the monetization fee, greatly reducing risk for lenders. With principal repaid first, lenders free their reserves faster, thus providing more opportunities to loan money on a fractional reserve basis. Therefore, rather than making one loan every thirty years, lenders can make three loans every thirty years, increasing their profits and, incidentally, provide great service to their communities by increasing total home ownership. A win-win situation for all.

Replacing compound interest with a straightforward monetization fee provides tremendous stability to the lending business. The buyer gains equity faster and at much lower cost while the lender makes higher profits at much lower risk. Reducing risk provides lenders with more incentive to loan, thus creating more opportunities for borrowers to own their own home.

With NESARA's new bank loan equations, home ownership suddenly becomes more affordable to all, encouraging universal home ownership.

NESARA also changes the rules for home sales. Under NESARA, all current taxes on income are replaced with a national retail sales tax.

After NESARA becomes law, a sales tax on real estate sales will be due only if the cost basis for the property increases. During the transition, the sales tax basis of all real estate will be the previous purchase price of the property.

For example, the sales tax basis for a new \$100,000 home will be \$100,000. At 14%, the sales tax would be \$14,000. If that same \$100,000 home later sells again for \$150,000, the subsequent sales tax basis would be \$50,000 and at 14% the sales tax would be \$7,000.

If an existing home was purchased years ago for \$110,000 and now sells for \$120,000, the sales tax would be 14% of \$10,000, or \$1,400. If the home sold for \$110,000, no sales tax would be due. Under these rules, the new sales tax on consumption discourages the runaway effects of continually rising property prices, makes existing homes much more desirable, and slows the mad dash to abandon existing property.

What about inflation? NESARA is designed to end currency inflation. However, there will be an initial surge of home sales during the transition period as NESARA moves from bill to law. This action will superficially raise home prices simply because of supply and demand as people hurry to avoid the new sales tax.

After NESARA becomes law, existing homes will probably sell for a little more than actual value, simply because the sales tax bite will be less on them than that for a new home of equal value. Initially this will encourage sales of existing homes over new homes and sellers will take advantage by increasing their

NESARA

The National Economic Stabilization and Recovery Act

prices. Buyers also will be willing to pay the slightly inflated prices in order to avoid the larger sales tax bite on new homes of the same relative value.

In the end, however, once the effects of currency inflation are eliminated, real estate prices will shake out and settle down. Instead of appraisers having to always compensate for currency inflation, appraisals will reflect actual “replacement” value. Real estate appraisals suddenly have real meaning, particularly on multi-million dollar commercial or industrial property.

As a bonus, because real estate prices finally stabilize, property owners can finally say good-bye to the effects of property taxes rising due to acquisition values and currency inflation. With price stabilization, the local costs of continual appraisals also drops, reducing overhead at the local government level, thus further reducing property taxes.

Encouraging universal home ownership means NESARA discourages renting. As home prices fall and stabilize, landlords will be forced to respond to market pressures and lower rental fees. However, as home ownership becomes less expensive than renting, tenants will leave the lease behind in favor of ownership.

For example, suppose you rent an apartment for \$625/month. After ten years you have paid \$75,000 with “nothing” to show for those payments. Let’s say another landlord down the street converts apartments to condos and sells each condo for \$75,000. Under NESARA, with a 15-year payment schedule at 4.9%, the total cost will be \$100,935.88 (includes a monthly service fee of \$25) with monthly payments of \$560.75. You save more than \$64 per month and build equity at the same time. You could spend that \$64 outfitting your new home. Of course, you also could apply that \$64 toward your loan, reducing your total payments by almost three years.

Let’s say after ten years you decide to sell the condo for \$75,000. No sales tax is due and you’ve paid the lender almost all of the original principal. You roll over the original loan (you still owe some principal plus the monetization fee, a total of \$32,145.29) and buy a nice \$125,000 ranch home in the suburbs, using the \$75,000 received from the sale of your condo as down payment and borrowing additional principal of \$50,000. If the seller of the ranch home originally paid \$125,000, no sales tax is due. At 4.9% and a new 15-year payment schedule on the \$82,145.29 loan, your payments will be \$611.80. You are still paying less than your original monthly rent and have quite a bit of equity too!

By the way, why the low monetization fee (interest rate) in this example? NESARA imposes an excise tax of 10% on monetization fees between 5% and 12%, and an excise tax of 20% on fees higher than 12%. This is a fair tax because banks do not really loan money—they have been granted a special government license to create money, that is, to monetize debt. As such, banks perform a public service and the excise tax promotes that purpose. Therefore NESARA greatly encourages home ownership merely by promoting lower monetization fees!

With many people owning homes instead of renting, what will smart apartment building owners do? They cannot reduce rent by an absurd amount. They can convert the building into condos and sell at a profit further encouraging home ownership throughout the land. Everyone wins!

NESARA

The National Economic Stabilization and Recovery Act

Restores High-Paying Productive Jobs

In traditional manufacturing industries, economists have long recognized a direct relationship between business capital investment and wages. That is, more capital investment per worker increases worker productivity and drives labor rates higher.

American industry, searching for higher profits through lower costs, shifted domestic investment and production to foreign lands where labor costs are much lower. This shift created a double jinx on formerly high-paying secure jobs in our once relatively stable industrial environment. That is, America suffers from less local investment coupled with more local unemployment.

NESARA counters these effects in several ways:

1. NESARA stimulates the national economy through debt reduction. This reduction of debt creates more disposable income and immediately increases the consumption of consumer goods which provides additional incentive for their production.
2. Reduces the debt burden for previous domestic capital investment and lowers the cost for future domestic capital investment, thus stimulating expansion of domestic production facilities.
3. The hidden embedded domestic production costs of an inefficient income tax system are eliminated, lowering the cost of domestic items. Nationally, the revenue is replaced dollar for dollar by a national sales tax. The combined effects of lower domestic production costs and the additional cost of a sales tax on imported items eliminates much of the free ride previously enjoyed by imported items, thus encouraging domestic production instead of foreign.

Even though the exact magnitude of these projected outcomes are unpredictable, all proposed changes in NESARA are focused in the right direction to restore high-paying jobs, a statement typically untenable with many of the bills passed by Congress.

Increases Benefits to Senior Citizens

Does the following statement sound familiar?

“The Social Security Administration (SSA) estimates that in 30 years it will only collect enough in taxes to pay about 75 percent of the benefits it will be liable to pay.”

Scary, don't you think?

Does this mean that YOU will be receiving LESS than what Congress led you to believe? Will you have to continue working for a roof over your head or just to have something to eat? And what about your medical costs, which are certain to increase?

Review that Social Security Administration statement again—closely. The SSA is talking about a potential problem 30 years from now! If you are just over-the-hill at thirty-something, collecting future benefits you are paying dearly for today may be of concern to you. But if you are sixty-something or seventy-something and trying to survive on meager Social Security benefits, you are much more likely to be concerned about next week than 30 years from now!

NESARA

The National Economic Stabilization and Recovery Act

What then do you suppose all the media fuss is about? Perhaps the politicians are crying “WOLF!” attempting to frighten Seniors to gain personal political advantage or to drum up support for some pet project such as “privatizing” Social Security for Wall Street’s benefit.

Well, if the politicians are looking for a project to support, a good one is available. A proposed Bill, *The National Economic Stabilization and Recovery Act*, called NESARA, promises to double the average standard of living for all Americans, including all Seniors, in only 20 years, 10 years before the projected potential problem.

The argument is not who should receive what or when. These types of arguments clearly create “class wars.” Such fighting among the people is unnecessary. Whether you are a person receiving benefits now or thirty years from now should not be the issue.

After NESARA passes, those who do not expect to draw benefits for another thirty years will have the resources to immediately help themselves and, at the same time, America gains the resources to increase benefits for those Seniors who need help now.

One thing is for sure—the politicians will not be talking about providing only 75% of what was promised and paid for in advance!

Eliminates Federal Income Taxes

The proposed National Economic Stabilization and Recovery Act, known as NESARA, amends the Internal Revenue Code of 1939 (as amended), to eliminate all federal taxes based on income: personal, corporate, gift and capital gains.

Under this new plan, volumes of complex tax code are replaced with a few pages of simple rules creating a national sales and use tax, on specified retail sales and changing the Internal Revenue Service, IRS, into the National Tax Service, NTS, to administer the new revenue system.

Exemptions from the federal sales tax for the necessities of life make the tax a progressive tax, a characteristic often claimed for the federal income tax, but which, in reality, never existed.

NESARA’s major goals are stated simply:

1. To increase the efficiency of the federal revenue collection system through the elimination of billions of hours of nonproductive labor.
2. To shift the largely hidden (regressive) tax burden on production to very visible taxes on consumption, revealing to the people the true cost of government.
3. To eliminate constant Congressional temptation to tinker with income tax legislation for social manipulation and to maintain and enhance federal political power.

NESARA

The National Economic Stabilization and Recovery Act

Restores Financial Privacy

The current income tax invades and violates America's privacy like no other legislation. Any person with access can learn anything and everything about you. The entire income tax system is nothing but a large roll of toilet paper stuck to the bottom of your shoe. The ultimate paper trail.

How much money did you earn? How many children do you have? What do you do for a living? For whom do you work? How much did you earn in interest and dividends? How many bank accounts do you have? What stocks do you own? Were you employed for the entire year? Were you injured for part of the year? Who provides your health insurance? Are you married? Single? Divorced? Widowed? Are you blind? A veteran? Do both parents work?

Parents cannot obtain deductions for newborns without receiving a government number. That child is marked and tracked for the remainder of his or her life.

Laws require every penny that can possibly be traced be recorded for the purposes of monitoring a person's income stream.

Americans cannot even die in peace because the IRS waits at the door like the grim reaper to collect its alleged due.

The Constitution protects each citizen's right to arbitrary searches and seizures. Yet, the entire income tax system permeates the lives of Americans like a virus from a horror film.

Enough!!!

The destruction of privacy is the destruction of freedom.

The National Economic Stabilization and Recovery Act, NESARA, changes this picture.

NESARA alters America's fiscal policy, replacing the income tax with a national sales tax.

The tax is paid just like many state sales taxes. The tax is paid at the cash register. Other than the sales receipt, there is no paper trail. America's privacy is restored.

Enables Single Parents to Support Their Families

Many single parents find themselves strapped financially. Many live paycheck to paycheck, with little or no expectation of ever getting ahead. Such subsistence is not enjoying the fruits of one's labor, but simply existing. The National Economic Stabilization and Recovery Act, NESARA, changes this picture.

NESARA alters America's fiscal policy by replacing the income tax with a national sales tax.

Under the current income tax system, many low-income single parents pay little or no income tax, so why should single parents be interested in replacing the income tax with a national sales tax? Simply because NESARA is designed to eliminate the hidden costs of the income tax and to double the standard of living for everyone within one generation.

NESARA

The National Economic Stabilization and Recovery Act

At a minimum wage of \$5.15/hour, a single parent wage earner provides for her or his family an annual income of \$10,712, ($\$5.15/\text{hour} \times 40 \text{ hours/week} \times 52 \text{ weeks/year} = \$10,712$).

According to the March 1999 Current Population Survey by the U.S. Census Bureau, this annual salary places the family below the poverty level, providing \$3,168 less than the \$13,880 Poverty Guideline set by the U.S. Department of Health and Human Services for 1999.

The family members squeeze by each year, subsisting day-to-day. For them real middle-class status is beyond a distant dream.

With standard deductions and standard child care credit, this family pays no federal income tax.

Suppose Congress replaces the income tax with a 14% national sales and use tax; but exempts the necessities of life such as groceries, rents or leases of real estate, insurance, and medical items and services. Unlike other families earning a higher income, abolishing the federal income tax adds nothing to this family's monthly income immediately.

Of course, this family will be immediately affected by the new federal retail sales and use tax. If 90% of the family's income is spent on necessities—nontaxable items, a reasonable figure for a poor family, the annual taxes actually paid becomes 14% of the remainder, or \$149.97 ($\$10,712 \times 10\% \times 14\%$).

At first glance, this appears to be an annual net loss for this family of \$149.97, making a national sales tax a bad choice. But what about those hidden embedded income taxes and the cost of collection?

When spending money for necessities the family pays directly for the goods and services received, and pays indirectly all of the embedded costs of the income tax. The hidden embedded cost of the income tax affects all purchases. Assuming the national sales tax system is a mere 2.5% more efficient than the current income tax system (a conservative estimate), this family will avoid an additional \$267.80 of hidden embedded taxes ($2.5\% \times \$10,712$), providing an annual net savings of \$117.83 per year ($-\$149.97 + \267.80).

As does every family and person, people near or below the poverty line, about 14% of the nation, daily pay income taxes and their associated collection costs hidden in the price of necessities. Eliminating these hidden embedded costs effectively increases everyone's standard of living by at least 2.5%.

Furthermore, replacing the current income tax with a 14% national sales and use tax provides an approximate 4.85% rise in true purchasing power for every additional quarter per hour earned by workers.

With two children and child care costs of \$5,000 per year this single parent wage earner starts paying a federal income tax with an hourly wage of \$10.58/hour. At that wage the single parent would pay an income tax of only \$6.96. At the same wage the single parent would directly pay \$308.09 annually if a 14% sales tax was imposed. However, because of the improved efficiency of the new sales tax system, and the elimination of hidden embedded income taxes, this family would see a net annual gain of \$1,353.03!

The hidden effects of the income tax cannot be ignored. Therefore, in addition to a true rise in purchasing power caused by the higher wage, a 2.5% increase in the efficiency of the tax system increases purchasing power by that same percentage on the total money earned.

NESARA

The National Economic Stabilization and Recovery Act

Regardless of the wage earned, converting to a national sales tax causes an immediate and significant increase in everyone's purchasing power.

Restores Inner Cities as Vital Economic Areas

Shifting from a policy of taxing production to taxing consumption suddenly makes the use of existing resources more efficient. By taxing what is consumed, people suddenly slow their consumption rate and begin to treasure the old rather than the new.

Under NESARA, all real estate sales are subject to a new national sales and use tax. The basis for existing property will be the last sale price, for new structures the basis will be zero. Therefore new real estate developments suddenly become more expensive, older properties more valuable. This action inevitably slows the mad dash to abandon existing property.

At 14%, a new \$200,000 suburban home carries a \$28,000 national sales tax burden. Many people could achieve the same increase in standard of living, spend less money and avoid most of these taxes by playing This Old House with an older property.

With the new banking equations NESARA provides, the cost of borrowing money to purchase older homes drops dramatically.

With no income taxes, consumers are provided more disposable income, and combined with a hope to be debt free and own a home, older properties become more attractive.

The net effect revitalizes inner cities and older neighborhoods at little or no cost to the government. In fact, federal, state and local governments all collect revenue from these activities while avoiding the expense of supporting new expansion projects. Instead of local governments having to provide "brownfield" legislation, local governments can let citizens do the rebuilding.

Taxpayers win by spending less, avoiding some sales tax, but also with lower property taxes due to more efficient use of the existing infrastructure.

Revitalizing the inner city, at little or no expense by taxpayers, channels more private investment funds back to the older properties.

Businesses too will be once again attracted to the inner city as property values stabilize and business expansion becomes less expensive using older property. Relocating businesses to the inner city creates complete neighborhoods. As businesses spend less on their own infrastructure, and production costs decrease by eliminating the costs of the income tax, the door is opened for businesses to begin offering higher wages. Higher wages motivate people to stay located in the neighborhood.

As the inner city revitalizes, those areas once again become communities, where people take pride in their neighborhood. Restoring pride reduces stress. Building a community, where both homeowners and business relocate, reduces transportation and commuting costs, and pollution.

NESARA

The National Economic Stabilization and Recovery Act

Benefits Americans with an Unprecedented Economic Boom

The exact amount of public and private debt to be eliminated by NESARA is unknown. Estimates depend upon the assumptions of those making them, but numbers in the range of one trillion dollars are reasonable.

The one sure expectation in this scenario: Americans suddenly free of massive amounts of debt will immediately go on a spending spree. Prices will naturally rise with the higher consumption of consumer goods, even in the face of a 14% National Sales Tax, and will reach epic proportions. Those higher prices, largely due to demand rather than an increase in the available quantity of money, encourage the production of more consumer goods and services.

With full implementation of NESARA, all Americans enjoy an unprecedented economic boom, the economy expanding at a long term annual rate in excess of 5% and perhaps with short term growth surges at better than 8.5%.

Unlike all previous expansions, monetary policy regulators need not kill this expansion with higher interest rates to fight inflation. NESARA provides regulators with powerful new tools to control the quantity of money in circulation. Properly using these new tools and the inherent self-regulation built into the new monetary system will automatically promote excellent economic stability.

Increased production and competition in world markets along with the increased efficiency of the new revenue system will soon drive prices back down. Within about one year, elimination of the hidden costs in the old income tax system will put additional downward pressure on prices.

Thanks to NESARA, all Americans experience a higher standard of living, the double beneficiaries of reduced debt servitude and increased consumption of consumer goods.

Provides 500 Billion Dollars for Infrastructure Projects

NESARA creates a new national monetary system, within the limits established by the Constitution, consisting of three types of currency: silver coin, gold coin and treasury credit-notes.

New banking regulations, specifying how accounts in each of the currencies are to be handled, opens the door for some creative infrastructure project financing at the local level.

Suppose Congress instructs the Treasury to sell small-denomination, nontransferable interest-bearing gold and silver savings bonds to U.S. citizens through their bank specie accounts. These bonds are redeemable in 5 to 20 years, interest paid annually, calculated in specie but paid in treasury credit-notes at the current exchange-ratio. Americans could exchange their paper currency for lawful money, deposit the coin in a specie bank account, then convert those funds to interest-bearing gold or silver savings bonds.

This immediately creates a tremendous circulating market for the Treasury's gold and silver coin, most of which never leaves the vaults. The sale of \$50 billion in specie bonds at par removes that amount in paper currency from general circulation. Under the new banking rules, the bonds are nontransferable, thus the bonds never enter the stream of commerce and cannot replace the paper currency. Nor under the new banking rules can the bonds be used as bank reserves. Due to the expansion factor built into the fractional reserve monetary system, the nation's available currency and credit drops, perhaps by \$500 billion.

NESARA

The National Economic Stabilization and Recovery Act

At the least this move is sharply deflationary, and probably recessionary. Since the nation's aggregate of currency and credit is only about \$3,000 billion, the government would have to increase the money supply before the economy collapsed. Suppose Congress decides to accomplish this by redistributing the proceeds from the bond sales as restricted bank reserves, setting the restricted reserve requirement at 10 percent. State and local governments could borrow funds for infrastructure projects from local banks equal to 10 times the reserve amounts (provided local taxpayers agree to new taxes to repay the loans).

Everybody wins. The federal government, using the bullion now collecting dust at the Treasury, redirects a significant portion of net national production toward rebuilding a crumbling America, new roads, bridges, and other public facilities including water supply and waste disposal plants. Bankers earn a fee for handling the transaction. Voters once again get back into the loop. Proposed projects die without local approval. Lastly, because principal is repaid before the monetization-fee, low debt-service factors on long-term projects keep the cost down and local taxes low.

NESARA offers a tremendous opportunity to rebuild the national infrastructure. Congress initiates the plan, but the plan is administered and controlled at the local level where the people build their own prosperity.

Just like the Founding Forefathers intended.

Eliminates Bank Failures

In the 1930s, regulatory policies encouraged savings and loan institutions (S&Ls), traditionally funded with short-term deposits, to make long-term fixed-rate mortgages to facilitate home ownership. In line with this policy, state laws imposed interest-rate ceilings on mortgages and Federal law banned adjustable-rate mortgages.

This made excellent public policy until interest rates spiked in the 1980s and S&Ls lost so much money that many institutions failed. The initial legislative and regulatory response to the impending crisis? Wait and hope: Capital standards, the amount of cash the S&Ls were required to have, were reduced and insolvent institutions continued to operate.

As the situation got worse, new legislation appeared. The Depository Institutions Deregulation and Monetary Control Act of 1980 (DIDMCA) and the Garn-St. Germain Act of 1982 granted expanded investment powers in hopes of recovery.

Imagine yourself as the manager of one of these troubled institutions: Profitability is declining or already negative. Regulation, such as it is, is lax. With the new legislation, you have the power to raise more funds by promising additional yield to all of your depositors who are protected by flat-rate deposit insurance and you are suddenly able to legally invest in previously forbidden high-risk schemes which might produce higher returns. What are you likely to do? Forget caution; you take the risk and possibly survive.

Because of continuing bailouts, by the mid-1980s the Federal Savings and Loan Insurance Corporation (FSLIC) was broke while failures continued. Regulators, attempting to protect their reputations and jobs, hid the problems from the public. Needing a solution without money, they arranged mergers between failed institutions and solvent ones, routinely offering non-cash incentives such as yield guarantees, promises difficult if not impossible to keep.

NESARA

The National Economic Stabilization and Recovery Act

By the time the dust settled, direct cost to the taxpayers for the bailout was somewhere between \$150-\$200 billion. Add the cost of insurance premiums, always paid by somebody, and those numbers really move up.

General economic instability and downright mismanagement hit the S&Ls hard. Meanwhile, the commercial banks, operating in the same environment, faced severe challenges of their own.

Deregulating deposit pricing, the return offered for making the deposit, and expanding permissible investment activities for the S&Ls increased the level of competition at commercial banks. Money Market Mutual Funds, paying higher interest rates, siphoned off large volumes of their deposits. At the same time, commercial banks lost many of their major corporate clients, as the market then allowed obtaining short-term financing with commercial paper instead of bank loans.

Other traditional commercial banking products fell under an attack of financial innovation and specialization. Their home mortgage business slowly drifted away and their letters of credit and forward contracts were replaced by exchange-traded derivatives.

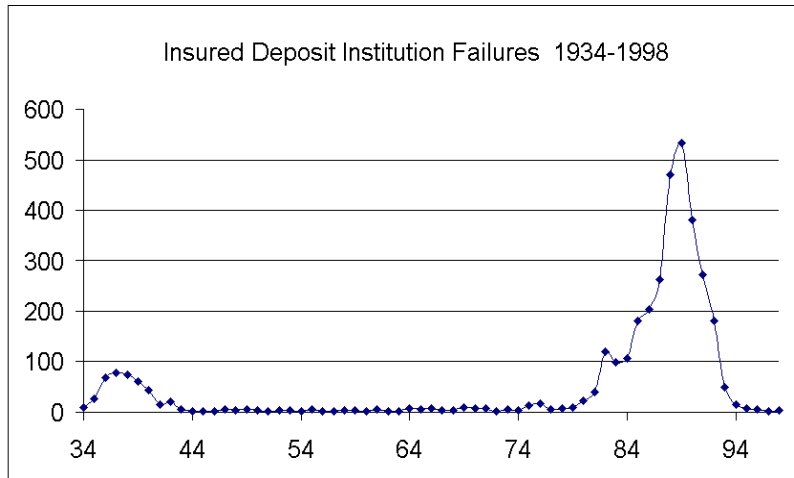
This was a long way from earlier and better times. The Federal Deposit Insurance Act of 1950 used a rebate system to cut the assessment rate on insured deposits from 8.7 cents per \$100 to 3.7 cents per \$100. FDIC insurance reserves were invested in Treasury securities and in 1961, for the first time, investment income exceeded assessment income. Insurance coverage was increased by the 1950 Act from \$5k to \$10k. (It increased to \$15,000 in 1966, to \$20,000 in 1969, to \$40,000 in 1974 and to \$100,000 with the DIDMCA.) The 1950 Act also provided for direct “open-bank assistance” to a failing insured bank whenever, in the opinion of the Board of Directors of the FDIC, its continued operation was essential in maintaining adequate banking services to the community.

This last provision of the 1950 Act likely contributed to another shift in the regulators’ attitude which added to the scope of the problem. The Too Big To Fail (TBTF) Doctrine, based on the premise that the failure of a large institution could, through a domino effect, start banking runs that might bring down the whole monetary system, was implemented twice: First Pennsylvania Bank, with \$8 billion in assets, in 1980 and Continental Illinois National Bank, with \$45 billion in assets, in 1984.

NESARA

The National Economic Stabilization and Recovery Act

Total failures of insured deposit institutions hit a peak of 534 in 1989.



Note: Data for S&Ls prior to 1980 not shown.

Meanwhile, Congress did not just sit on its hands. In 1989 it enacted the Financial Institution Reform, Recovery, and Enforcement Act (FIRREA), with many of its provisions pointed at the FDIC. The former Federal Deposit Insurance Fund was renamed the Bank Insurance Fund (BIF). A new Savings Association Insurance Fund (SAIF) replaced the defunct Federal Savings and Loan Insurance Fund under FDIC management. And the FSLIC Resolution Fund of the Resolution Trust Corporation (RTC) created by FIRREA to resolve failed and failing savings associations problems and to manage savings association receiverships, was placed under FDIC management.

With the Federal Deposit Insurance Corporation Improvement Act (FDICIA), enacted in December of 1991, Congress addressed FDIC procedures and practices. The flat rate for deposit insurance, set by statute became a risk based assessment system with each bank's assessment reflective of the risks it posed to its insurance fund. Five capital zones, ranging from well-capitalized to critically undercapitalized, were established along with increasingly harsh restrictions and mandatory prompt corrective action by regulators who now had authority to close a failing insured bank.

In situations threatening systemic risk, that To Big To Fail Doctrine, FDICIA requires the FDIC Board, the Board of Governors of the Federal Reserve System, and the Secretary of the Treasury, in consultation with the President, to agree that the closure of the insured institution would have a serious effect on economic conditions or financial stability. To cover insurance losses, FDIC may borrow up to \$30 billion from the Treasury, money to be repaid through deposit insurance assessments.

The banking industry struggled through the 1990–91 recession with lingering losses on commercial real estate, loan demand down, and the Bank Insurance Fund insolvent by \$7 billion. Thanks to legislative action and taxpayer bailout, it recovered, but only at enormous cost.

Following the 1990–91 recession, the U.S. economy began a major expansion. Interest rates plummeted, the average yield on three-month Treasury bills fell and remained near 3% throughout 1993. The number

NESARA

The National Economic Stabilization and Recovery Act

of unprofitable banks decreased from one out of 9 in 1991 to less than one in 20 by 1997. Southwest Bank of Jennings, Louisiana, failed on November 21, the only bank to fail that year.

By developing new products and services (ATMs, derivatives, etc.) less affected by interest rate swings, commercial banks became less reliant on net interest income. Consolidation reduced their numbers by more than 3,000. Bank holding companies, responding to the Riegel-Neal Interstate Banking and Branching Efficiency Act of 1994, combined their bank subsidiaries. The Act also enabled interstate combinations between unaffiliated banks. Some of the nation's largest banks merged.

Record profits in the banking industry wetted appetites for financial deregulation and the elimination of what many perceived to be obsolete Depression-era laws. The 1933 Glass-Steagall Act (P.L. 48-162, Sections 20 and 32) prohibited banks and securities firms that dealt in ineligible securities from owning or controlling each other. Banks could not own securities firms or underwrite or sell most stocks and bonds. Insurance companies could not own banks or take deposits. Each type of institution had its own regulatory agency jealously guarding its authority.

During the past 20 years, technological advances and innovative managers, using seemingly minor loopholes in the law and technological advances, bypassed long established divisions of authority. Commercial banks increased their securities activities up to the legal limits. Securities companies bought or established new companies, known as non-bank banks, offering credit cards and other banking products. As distinctions between their products blurred, Congress moved toward deregulation of financial services culminating in the Gramm-Leach-Bliley Act of November 1999.

The G-L-B Act repealed the affiliation prohibitions of the Glass-Steagall Act, eliminating restrictions applicable to many banks, securities firms and insurance companies, and amended the Bank Holding Company Act of 1956 to permit cross-ownership and control among bank holding companies.

Qualified Financial Holding Companies (FHCs) may now engage in a broad range of financial activities such as: dealing in securities; dealing in insurance in any state; lending, exchanging, transferring, investing for others or safeguarding money or securities; and acting as a financial or investment advisor. In addition FHCs may engage in related activities including making "merchant banking" investments. This allows an FHC to own a company engaged in activities not otherwise permissible for an FHC.

If nothing else, the G-L-B Act is written in politically correct language with appropriate public safeguards. Its supporters claim that allowing one company to meet all of its customers' financial needs will save \$15 billion a year in fees due to greater competition and efficiency. That may be true, but it could just as easily be false.

The effect of the G-L-B Act is to put a lot of eggs in a few very large baskets. It makes sweeping changes in magnitude but none of these changes are fundamental. They all follow established Congressional policies of improving banking regulations, earlier and better detection of problem banks and more efficient resolution of bank failures. Without a doubt, this is a safer system but humans remain in charge. Bank failures as the result of human error, even catastrophic failures, remain possible.

NESARA takes a different approach, calling for fundamental changes in monetary and banking policy, changes that make bank failures virtually impossible. It reorganizes banks as public service utilities, as fiduciary institutions, giving them responsibility for handling other peoples' money but never allowing them to put that money at risk.

NESARA

The National Economic Stabilization and Recovery Act

Under NESARA, banks acquire a market segment, namely the making of secured loans by monetizing their clients' debts, with such a tremendous competitive edge that no other type of financial institution could compete. As regulated public utilities, commercial banks earn a steady, though not exceptional, profit for their owners at almost no risk. Bank size becomes less important. Small, local banks can effectively serve their communities as well as the larger national banks.

Recognizing commercial banks as public service utilities settles once and for all who actually owns the nation's supply of currency and who receives the benefits of that ownership — We, the American people.

NESARA

The National Economic Stabilization and Recovery Act

Please Support the NESARA Institute

NESARA began as a one-man crusade; then there were two, and now three. Many people warned that we were wasting our time, that we could never win against the special interest groups. Yet, look at how far we have come with pure desire and modest resources!

The newly created NESARA Institute, a non-profit educational organization, does not yet have an office, any staff, or even a telephone. This effort to heal America is truly a grass roots movement and before creating the Institute this effort was supported strictly through personal efforts.

However, despite these growing pains, the NESARA Institute does have a goal and a straightforward plan for achieving that goal.

With most of the work completed, national publicity is the primary task remaining. At this point we could definitely use your help in two areas.

Spreading the word:

Invest some of your time learning about NESARA and telling others of the immediate personal benefits.

Financial Support:

Provide a contribution to:

NESARA Institute
7635 Jefferson Hwy. No. 354
Baton Rouge, Louisiana 70809

Or visit the web site to transfer funds electronically.

Although very expensive, national advertising is still the most cost effective and powerful way to quickly inform a lot of people about the benefits of NESARA. The amount of serious attention Congress provides to new proposals is directly proportional to demonstrations of public support. Like many things in life, the benefits we expect to receive are often related to our own initial efforts. A little support now provides huge rewards later.

It's your life and your country, and long past time for you to become directly involved in writing the laws that shape our destiny. If three people can get this far working by themselves, just think what a few more could do!