



Simplifying and Improving the Tax Code

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Draw on available resources

- President's Advisory Panel on Federal Tax Reform (November 2005)
- Joint Committee on Taxation (March 2001, January 2005)
- National Taxpayer Advocate annual reports

Simplify family and work benefits

- Current law has several provisions to aid low-income workers and parents
- Consolidate into family credit and work credit

Avoid income-based phase-outs

- Current law has numerous phase-outs
- Phase-outs penalize earning of income in same way as explicit tax-rate increases
- But, phase-outs more complex, less transparent
- Ideally, no phase-outs except in family and work credits

Simplify education incentives

- Current law has numerous incentives
- Consolidate into one or two provisions
- Clarify tax treatment of M.B.A. tuition –
Tax Court cases have spawned confusion

Simplify savings incentives

- Numerous tax-preferred accounts
- Consolidate into three or fewer provisions
- If desired, provisions can be structured to preserve role of employer plans

Simplify calculations

- Tax flat percentages of dividends, capital gains, Social Security benefits
- Let more mutual-fund shareholders use simplified foreign tax credit computation
- Change child care credit to above-the-line deduction
- Flat research tax credit

Eliminate unnecessary complexity

- Credit for elderly and disabled
- Non-itemizer property tax deduction
- Taxation of gambling winnings, losses
- Small-business stock exclusion

Goal of business tax reform

- Neutrality – equal effective tax rates
- Let market pick winners and losers
- Eliminate energy tax credits, export subsidies, “domestic production” tax break
- End discrimination against big business
- Remove tax penalty on inventories (de-link tax-return LIFO from financial statement)

Pitfalls in business tax reform

- Don't view base broadening and rate reduction as end in itself – goal is to equalize effective tax rates
- Don't give undue weight to simplification – legitimate objective, but limited scope – goal is to equalize effective tax rates

Improve compliance

- Prevent and prosecute evasion of tax on offshore interest income
- Proposals in President's fiscal 2010 budget