

TAX DESIGN CHALLENGE

Submission by Jack Flesher

A meaningful redesign of the “taxpayer experience” is not possible unless there is first a major restructuring of the tax system itself. The basic premise of this submission is that most people need to know and feel:

- That they have a stake, and therefore an interest, in the success of the tax system;
- That the tax laws are simple, easy to explain and understand, and treat individuals and entities equitably, to the extent reasonably possible; and
- That the tax laws are administered by an agency that is not grossly underfunded and not burdened with social programs, so that it does what it can do best - - administer the tax laws fairly, accurately and with sufficient resources to enable it to communicate with and assist taxpayers - - as it did before the 1990s.

In order to accomplish the above basic premise, the first step must be a major overhaul of the Internal Revenue Code (“the Code”). The Code is now so complex that no one, not even the country’s most knowledgeable tax experts, can even come close to understanding all parts of it. What was a fairly well administered, understood and accepted Code prior to 1964, published by Commerce Clearing House as a paperback of about 1 inch, has gradually become a 5 inch Code that CCH had to put on much thinner paper, with smaller print. It is no wonder that non-tax professionals and others don’t trust the Code or the agency that administers it.

Meaningful amendment of the Code must have the following general goals:

1. Simplify, simplify, simplify. No more adding exception to exception to exception and calling it “simplification”. No more mere tweaking of rates and calling it “tax reform”. Real reform and simplification, so that, for example, most individuals will be able to file an annual income tax return on a single page with just a few line items.
2. Treat all similarly situated individuals and entities similarly. Thus, eliminate disparities and preferences due to professional, industry, social or marital status.
3. Remove most, if not all, tax credits, most exclusions, most nonbusiness deductions, and discriminating business deductions. If a social program is desirable, provide for it and administer it through the budget process rather than trying to hide it in the complexity of the tax Code and expecting the IRS to manage it (with inadequate resources).

This submission focuses on the income tax, since it is the tax encountered by the most taxpayers, most frequently. As examples (only) of the amendments that might be made in order to attain a fair and simplified Code that more people can understand and appreciate, see the following tentative proposals:

Proposed Amendments to the Internal Revenue Code

<u>Code section</u>	<u>Amendment</u>
1	Repeal (a), (b), (d) and (f) through (i); and remove from (c) reference to “unmarried”, “surviving spouse” and “who is not married”, so that section 1 applies to “every individual”. Under these amendments, each individual will pay tax on his or her own income (without regard to marital status), resulting in substantial simplification for both taxpayers and for the IRS. Also in (c), rates should be lowered substantially, especially for the lowest income levels (hopefully at all levels), in such a way as to result in the optimum level of government revenue (see also Note after section 54F, below, and comment in section 63).
2, 3 & 5	Repeal
11	Repeal all after (b)(1)(D)
21 to 26	Repeal
30 to 30D	Repeal
31	Repeal (b)
32	Repeal
35 to 36C	Repeal
38 to 45D	Repeal
45F to 45R	Repeal
46 to 54F	Repeal

Note: The amendments in sections 21 through 54F, above, will eliminate all or nearly all tax credits for special interest groups, including those benefitting specific industries and certain targeted individuals. Again, if a social program is desirable, it should be handled through the budget process by an agency qualified to do so, not hidden in the Code to be guessed at by tax specialists. Setting the amounts of standard deduction and personal exemption at optimum levels (see section 63, below) will offset the elimination of the earned income credit, in a manner far simplified for all concerned.

55 to 59A	Repeal AMT. It adds much complexity to the Code and accomplishes little that can’t be mitigated by eliminating certain special or discriminatory deductions.
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- 62 Repeal paragraphs referring to sections repealed above and below. Repeal (b)(3).
- 63 ● Adjust amounts of standard deduction, additional standard deduction and personal exemption so as to result in acceptable levels of taxpayer filing requirements and tax, and in an overall optimum level of revenue to the government (see also section 1 above).
● Repeal (c)(2) and (3), (c)(6)(A), the last sentence of (e), (f)(2) after (A), (f)(1)(B), (f)(2)(B), (f)(3) and (g). The elimination of references to marital status will lead to much simplification of the Code and thereby improve the “taxpayer experience”. (Also, it will avoid objection to recognition of marital status for same-sex marriages).
- 66 Repeal. Unnecessary complexity due to state marital laws.
- 67(b) Repeal paragraphs irrelevant due to other provisions repealed.
- 68 Repeal. Unnecessary complexity.
- 7701(a)(17) Repeal
- . . . and so on