

The President's Advisory Panel on
Federal Tax Reform

www.taxreformpanel.gov



Introductory Remarks for Tenth Public Meeting
Senator Connie Mack
July 20, 2005



Executive Order

- President Bush established the Panel by Executive Order on January 7, 2005
- Directed the Panel to provide revenue neutral tax reform options that are simple, fair, and promote economic growth
 - At least one option must use the current income tax system as a base
- Report our recommendations to the Secretary of the Treasury by September 30, 2005



Nine Panel members

- ❑ Connie Mack, Chairman
- ❑ John Breaux, Vice-chairman
- ❑ William Frenzel
- ❑ Elizabeth Garrett
- ❑ Edward Lazear
- ❑ Timothy Muris
- ❑ James Poterba
- ❑ Charles Rossotti
- ❑ Liz Ann Sonders



Stage 1: Thorough evaluation of our current tax system

- Seven meetings (three in the Washington area; four in other locations around the country)
- 52 witnesses: policymakers, experts, practitioners, taxpayers, business owners



Stage 1: Thorough evaluation of our current tax system

- Topics covered at hearings
 - Complexity and compliance
 - Business and entrepreneurship
 - Impact of taxes on taxpayer decisions
 - Fairness and families
 - Economic growth and international competitiveness
 - Business investment
 - State and local interaction with the federal tax system



Comments from public hearings

- Every witness conveyed the dismal condition of our tax system
 - Overbuilt and dilapidated house with conflicting architectural styles
 - Sick patient who is about to expire
 - Factory floor littered with too much garbage
 - Milton Friedman: “blackboard with no further place to write”



Written comments from our website

- Thousands of written comments
- Most comments reflected the sentiment of one family who wrote,
" tax reform is necessary and long overdue"



Our current system is overwhelmingly complex

- Overwhelmingly complex and constantly changing
 - 60% use a paid preparer
 - \$140 billion per year: equivalent to \$1,000 per family
 - Targeted provisions with different definitions and phase-outs
 - Fifteen common tax benefits available to families with fourteen different phase out levels, and nine different definitions of income
 - 14,400 changes since 1986



Our current system is unfair

- ❑ Our code makes it difficult to figure out whether you are complying – and rewards those who have the means or the inclination to find angles to reduce their taxes
- ❑ Special provisions must be subsidized by higher rates on everyone else



Our current system restrains economic growth

- ❑ The tax code causes taxpayers to devote more resources to tax advantaged investments and activities at the expense of more productive alternatives
- ❑ Impacts a wide range of business decisions - such as how much to invest, how to finance investment, and whether to incorporate and take a company public
- ❑ 1.2 million paid preparers in the U.S.; more resources could be devoted to developing new products and services, expanding operations, and hiring new workers

Themes



- We have lost sight of the fundamental purpose of our tax system - to raise revenue to fund the government
- A rational tax system would favor a broad tax base - providing special treatment only where it can be persuasively demonstrated that the effect of that treatment justifies the higher taxes paid by all other taxpayers
- There are trade-offs inherent in any tax system - but meaningful reform could deliver a system that is simpler, fairer, and more growth oriented than our current code



Stage 2: Consider and Evaluate Specific Reform Options

- Two meetings covering three days
 - 35 witnesses
 - Every major reform option of the last twenty years
 - Critiques of proposals by leading tax experts



Working groups

- Rationale
 - Huge record to digest
 - Numerous issues to consider
 - Panel members have full time jobs and are located across the country
- Purpose
 - Identify and gather information about relevant proposals and issues, so that the entire Panel can meet to discuss and evaluate the issues.
- We have broken into 4 working groups



Working Group 1

- Focus: Major Simplification and Reform of the Existing Federal Tax Code
- Participants: Bill Frenzel, Beth Garrett, Tim Muris, Charles Rossotti



Working Group 2

- Focus: Fundamental Reform within the Existing Federal Tax Code
- Participants: John Breaux, Ed Lazear, Jim Poterba, Liz Ann Sonders



Working Group 3

- Focus: Complete Replacement of the Existing Federal Income Tax Code
- Participants: Connie Mack, Ed Lazear, Tim Muris, Liz Ann Sonders



Working Group 4

- Focus: Partial Replacement of the Existing Federal Income Tax Code
- Participants: Connie Mack, Bill Frenzel, Beth Garrett, Jim Poterba



A better tax system for America

- Filing taxes will be straightforward and easy to understand.
- Our tax system will be fair and transparent.
 - Taxpayers will be able to understand their tax obligations and have confidence that they and their neighbors are all paying their fair share.
 - Hidden tax hikes and gimmicks will be eliminated.
- Our tax system will be clean.
 - No more complicated and inefficient tax breaks and loopholes that benefit special interests and unnecessarily interfere with taxpayers' decisions.
- Our tax system will encourage savings in a simple and efficient manner.
 - Saving for the future will be straightforward and convenient.
- Barriers to the competitiveness of American businesses will be torn down.
 - Investment will be encouraged to spur innovation, productivity, and job growth.
 - Our antiquated international tax system will be updated to keep pace with global competition and to make U.S. businesses more competitive worldwide.