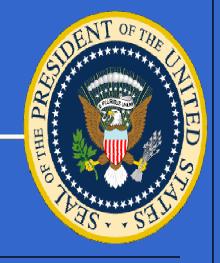
The President's Advisory Panel on

### **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 phaseouts
  - 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

□ Focus: Major Simplification and Reform of the Existing Federal Tax Code

□ Participants: Bill Frenzel, Beth Garrett, Tim Muris, Charles Rossotti

 □ Focus: Fundamental Reform within the Existing Federal Tax Code

 Participants: John Breaux, Ed Lazear, Jim Poterba, Liz Ann Sonders

□ Focus: Complete Replacement of the Existing Federal Income Tax Code

 Participants: Connie Mack, Ed Lazear, Tim Muris, Liz Ann Sonders

□ 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.