

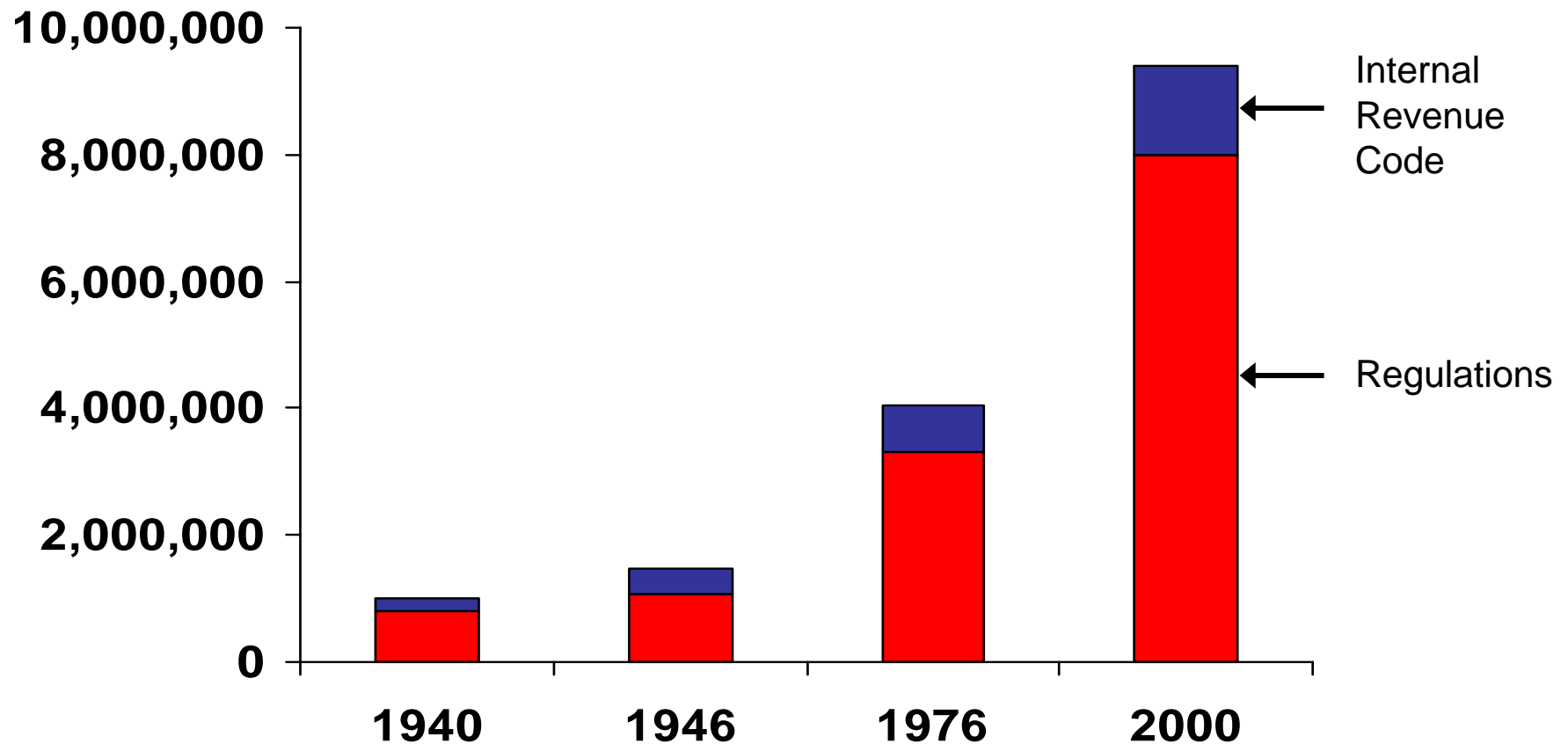
The President's Advisory Panel on
Federal Tax Reform

www.taxreformpanel.gov



Complexity and Instability
Staff Presentation
July 20, 2005

Complexity: Words in the Tax Code and Regulations



Source: Professor Michael Graetz: Calculations based on U.S.C. (1940, CCH 1952) and C.F.R. (1940, 1949) and Tax Foundation calculations, based on West's Internal Revenue Code and Federal Tax Regulations (1975), Study of the Overall State of the Federal Tax System 4 (2001).

Understanding Complexity and Instability

- Sources of Complexity
 - Duplicative and Overlapping Provisions
 - Savings – multiple defined contribution retirement plans, individual retirement accounts, and education and healthcare savings accounts
 - Education – over a dozen different provisions to encourage education
 - Phase-Outs
 - Expiring Provisions
 - Add to the tax code’s unpredictability
 - Make long term economic planning difficult for individuals and businesses
- The “Complexity Tax”
- Transparency and Fairness
 - Horizontal Equity
 - The “Hazy Tax”

Frequently-Encountered Phase-Outs

- Personal Exemptions (“PEP”)
- Itemized Deductions (“Pease”)
- Child Credit
- Child and Dependent Care Credit
- Adoption Credit
- IRA Contributions
- Saver’s Credit
- Roth IRA Contributions
- Earned Income Tax Credit
- AMT Exemptions
- Social Security Benefits
- Credit for the Elderly and Disabled
- HOPE Credit
- Lifetime Learning Credit
- Tuition Deduction
- Coverdell Accounts
- Student Loan Interest Deduction

Elements of a Phase-Out

- Threshold Amount
 - Phase-outs now exist at every income level
- Phase-Out Rate
 - Examples:
 - Cliffs
 - Steep descents
 - Gradual declines
 - All create higher tax rates
- Definition of Income
 - Examples:
 - AGI
 - Modified AGI
 - Alternative Minimum Taxable Income
 - Require taxpayers to compute their income multiple ways to determine the phase-out amounts.

Phase-Outs Examples



- **Social Security Benefits – Section 86**
 - *If modified AGI is:*
 - (1) *Less than \$32,000, benefits are not subject to Federal income tax.*
 - (2) *Between \$32,000 and \$44,000, taxable benefits are the lesser of: 50 percent of total benefits or 50 percent of the amount by which modified AGI exceeds \$32,000.*
 - (3) *More than \$44,000, taxable benefits are the lesser of 85 percent of total benefits, or the sum of: (a) \$6,000, and (b) 85 percent of the amount by which modified AGI exceeds \$44,000.*
 - *“‘Modified AGI’ means AGI determined without regard to this section and sections 135, 137, 199, 221, 222, 911, 931, and 933, and increased by [tax-exempt interest]”*
- **IRA Contribution – Section 219**
 - *“The amount determined under this paragraph with respect to any dollar limitation shall be the amount which bears the same ratio to such limitation as (I) the taxpayer’s [AGI], over (II) the applicable dollar amount [\$70,000], bears to [\$10,000].”*
- **Child Credit – Section 24**
 - **Refundable Portion** – *“The aggregate credits allowed . . . shall be increased by the lesser of—*
 - (A) the credit which would be allowed under this section without regard to this subsection. . . , or*
 - (B) the amount by which the aggregate amount of credits ... would increase if the limitation imposed by subsection (b)(3) were increased by the greater of--*
 - (i) 15 percent of so much of the taxpayer’s earned income . . . which is taken into account in computing taxable income for the taxable year as exceeds \$ 10,000, or*
 - (ii) in the case of a taxpayer with 3 or more qualifying children, the excess (if any) of--(I) the taxpayer’s social security taxes for the taxable year, over [the Earned Income Credit]”*
 - **Phase-Out at Higher Income** - *“The credit allowable...shall be reduced (but not below zero) by \$50 for each \$1,000 (or fraction thereof) by which the taxpayer’s modified [AGI] exceeds [\$110,000]. ‘Modified AGI’ means AGI increased by any amount excluded from gross income under section 911, 931, or 933.”*

Social Security Benefits Worksheet

- 22 Boxes
- 18 Lines of Instructions
- 9 Computations
- 2 Stop Signs

Before you begin:

- ✓ Complete Form 1040, lines 21, 23 through 25, and 28 through 34a, if they apply to you.
- ✓ Figure any write-in adjustments to be entered on the dotted line next to line 35 (see the instructions for line 35 on page 31).
- ✓ If you are married filing separately and you lived apart from your spouse for all of 2004, enter "D" to the right of the word "benefits" on line 20a.
- ✓ Be sure you have read the **Exception** on page 24 to see if you can use this worksheet instead of a publication to find out if any of your benefits are taxable.

1. Enter the total amount from box 5 of all your Forms SSA-1099 and Forms RRB-1099	1.	<input type="text"/>
2. Enter one-half of line 1	2.	<input type="text"/>
3. Enter the total of the amounts from Form 1040, lines 7, 8a, 9a, 10 through 14, 15b, 16b, 17 through 19, and 21	3.	<input type="text"/>
4. Enter the amount, if any, from Form 1040, line 8b	4.	<input type="text"/>
5. Add lines 2, 3, and 4	5.	<input type="text"/>
6. Enter the total of the amounts from Form 1040, lines 23 through 25, and 28 through 34a, plus any write-in adjustments you entered on the dotted line next to line 35	6.	<input type="text"/>
7. Is the amount on line 6 less than the amount on line 5?		
<input type="checkbox"/> No.  None of your social security benefits are taxable.		
<input type="checkbox"/> Yes. Subtract line 6 from line 5	7.	<input type="text"/>
8. If you are:		
• Married filing jointly, enter \$32,000	}	8. <input type="text"/>
• Single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2004, enter \$25,000		
• Married filing separately and you lived with your spouse at any time in 2004, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17		
9. Is the amount on line 8 less than the amount on line 7?		
<input type="checkbox"/> No.  None of your social security benefits are taxable. You do not have to enter any amounts on line 20a or 20b of Form 1040. But if you are married filing separately and you lived apart from your spouse for all of 2004, enter -0- on line 20b. Be sure you entered "D" to the right of the word "benefits" on line 20a.		
<input type="checkbox"/> Yes. Subtract line 8 from line 7	9.	<input type="text"/>
10. Enter: \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2004	10.	<input type="text"/>
11. Subtract line 10 from line 9. If zero or less, enter -0-	11.	<input type="text"/>
12. Enter the smaller of line 9 or line 10	12.	<input type="text"/>
13. Enter one-half of line 12	13.	<input type="text"/>
14. Enter the smaller of line 2 or line 13	14.	<input type="text"/>
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-	15.	<input type="text"/>
16. Add lines 14 and 15	16.	<input type="text"/>
17. Multiply line 1 by 85% (.85)	17.	<input type="text"/>
18. Taxable social security benefits. Enter the smaller of line 16 or line 17	18.	<input type="text"/>
• Enter the amount from line 1 above on Form 1040, line 20a.		
• Enter the amount from line 18 above on Form 1040, line 20b.		

TIP If any of your benefits are taxable for 2004 and they include a lump-sum benefit payment that was for an earlier year, you may be able to reduce the taxable amount. See Pub. 915 for details.

IRA Deduction Worksheet



- 21 Boxes
- 10 Lines of Instructions (per spouse)
- 6 Computations
- 1 Stop Sign
- 1 Caution Sign

IRA Deduction Worksheet—Line 25

Keep for Your Records 

Before you begin:

- ✓ Complete Form 1040, lines 28 through 34a, if they apply to you.
- ✓ Figure any write-in adjustments to be entered on the dotted line next to line 35 (see the instructions for line 35 on page 31).
- ✓ Be sure you have read the list on page 26.

	Your IRA	Spouse's IRA
1a. Were you covered by a retirement plan (see page 26)?	1a. <input type="checkbox"/> Yes <input type="checkbox"/> No	
1b. If married filing jointly, was your spouse covered by a retirement plan? Next, if you checked "No" on line 1a (and "No" on line 1b if married filing jointly), skip lines 2 through 6, enter \$3,000 (\$3,500 if age 50 or older at the end of 2004) on line 7a (and 7b if applicable), and go to line 8. Otherwise, go to line 2.		1b. <input type="checkbox"/> Yes <input type="checkbox"/> No
2. Enter the amount shown below that applies to you. <ul style="list-style-type: none"> • Single, head of household, or married filing separately and you lived apart from your spouse for all of 2004, enter \$55,000 • Qualifying widow(er), enter \$75,000 • Married filing jointly, enter \$75,000 in both columns. But if you checked "No" on either line 1a or 1b, enter \$160,000 for the person who was not covered by a plan • Married filing separately and you lived with your spouse at any time in 2004, enter \$10,000 	2a. _____	2b. _____
3. Enter the amount from Form 1040, line 22	3. _____	
4. Enter the total of the amounts from Form 1040, lines 23, 24, 28 through 34a, plus any write-in adjustments you entered on the dotted line next to line 35	4. _____	
5. Subtract line 4 from line 3. Enter the result in both columns	5a. _____	5b. _____
6. Is the amount on line 5 less than the amount on line 2? <input type="checkbox"/> No.  None of your IRA contributions are deductible. For details on nondeductible IRA contributions, see Form 8606. <input type="checkbox"/> Yes. Subtract line 5 from line 2 in each column. If the result is \$10,000 or more, enter \$3,000 (\$3,500 if age 50 or older at the end of 2004) on line 7 for that column and go to line 8. Otherwise, go to line 7	6a. _____	6b. _____
7. Multiply lines 6a and 6b by 30% (.30) (or by 35% (.35) in the column for the IRA of a person who is age 50 or older at the end of 2004). If the result is not a multiple of \$10, increase it to the next multiple of \$10 (for example, increase \$490.30 to \$500). If the result is \$200 or more, enter the result. But if it is less than \$200, enter \$200	7a. _____	7b. _____
8. Enter your wages, and your spouse's if filing jointly, and other earned income from Form 1040, minus any deductions on Form 1040, lines 30 and 32. Do not reduce wages by any loss from self-employment	8. _____	
 CAUTION If married filing jointly and line 8 is less than \$6,000 (\$6,500 if one spouse is age 50 or older at the end of 2004; \$7,000 if both spouses are age 50 or older at the end of 2004), stop here and see Pub. 590 to figure your IRA deduction.		
9. Enter traditional IRA contributions made, or that will be made by April 15, 2005, for 2004 to your IRA on line 9a and to your spouse's IRA on line 9b	9a. _____	9b. _____
10. On line 10a, enter the smallest of line 7a, 8, or 9a. On line 10b, enter the smallest of line 7b, 8, or 9b. This is the most you can deduct. Add the amounts on lines 10a and 10b and enter the total on Form 1040, line 25. Or, if you want, you can deduct a smaller amount and treat the rest as a nondeductible contribution (see Form 8606)	10a. _____	10b. _____

TIP You may be able to take the retirement savings contributions credit. See the instructions for line 50 on page 36.

Refundable Child Credit – Form 8812

Form 8812 Additional Child Tax Credit

OMB No. 1545-9920
2004
Attachment Sequence No. 47

Department of the Treasury
Internal Revenue Service (98)

Complete and attach to Form 1040 or Form 1040A

Name(s) shown on return _____ Your social security number _____

Part I All Filers

- Enter the amount from line 1 of your Child Tax Credit Worksheet on page 38 of the Form 1040 instructions or page 37 of the Form 1040A instructions. If you used Pub. 972, enter the amount from line 8 of the worksheet on page 4 of the publication **1**
- Enter the amount from Form 1040, line 51, or Form 1040A, line 33 **2**
- Subtract line 2 from line 1. If zero, stop; you cannot take this credit **3**
- Enter your total earned income. See the instructions on back **4a**
- Non-taxable combat pay included on line 4a **4b**
- Is the amount on line 4a more than \$10,750?
 - No. Leave line 5 blank and enter -0- on line 6.
 - Yes. Subtract \$10,750 from the amount on line 4a. Enter the result **5**
- Multiply the amount on line 5 by 15% (.15) and enter the result **6**
Next, do you have three or more qualifying children?
 - No. If line 6 is zero, stop; you cannot take this credit. Otherwise, skip Part II and enter the smaller of line 3 or line 6 on line 13.
 - Yes. If line 6 is equal to or more than line 3, skip Part II and enter the amount from line 3 on line 13. Otherwise, go to line 7.

Part II Certain Filers Who Have Three or More Qualifying Children

- Enter the total of the withheld social security and Medicare taxes from Form(s) W-2, boxes 4 and 6. If married filing jointly, include your spouse's amounts with yours. If you worked for a railroad, see the instructions on back **7**
- 1040 filers: Enter the total of the amounts from Form 1040, lines 30 and 58, plus any uncollected social security and Medicare or tier 1 RRTA taxes included on line 62. 1040A filers: Enter -0-. **8**
- Add lines 7 and 8 **9**
- 1040 filers: Enter the total of the amounts from Form 1040, lines 65a and 66. 1040A filers: Enter the total of the amount from Form 1040A, line 41a, plus any excess social security and tier 1 RRTA taxes withheld that you entered to the left of line 43 (see the instructions on back). **10**
- Subtract line 10 from line 9. If zero or less, enter -0- **11**
- Enter the larger of line 6 or line 11 here **12**
Next, enter the smaller of line 3 or line 12 on line 13.

Part III Your Additional Child Tax Credit

- This is your additional child tax credit **13**

Enter this amount on Form 1040, line 47, or Form 1040A, line 42.

For Paperwork Reduction Act Notice, see back of form. Cat. No. 10644E Form 8812 (2004)

Form 8812 (2004) Page 2

Instructions

Purpose of Form
Use Form 8812 to figure your additional child tax credit. The additional child tax credit may give you a refund even if you do not owe any tax.

Who Should Use Form 8812
First, complete the Child Tax Credit Worksheet that applies to you. See the instructions for Form 1040, line 51, or Form 1040A, line 33. If you meet the conditions given in the ZIP at the end of your Child Tax Credit Worksheet, use Form 8812 to see if you can take the additional child tax credit.

Effect of Credit on Welfare Benefits
Any refund you receive as a result of taking the additional child tax credit will not be used to determine if you are eligible for the following programs, or how much you can receive from them. But if the refund you receive because of the additional child tax credit is not spent within a certain period of time, it may count as an asset for resources and affect your eligibility.

- Temporary Assistance for Needy Families (TANF)
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

Earned Income
Nontaxable combat pay. If you, or your spouse if filing a joint return, received nontaxable combat pay and you did not elect to include this pay in computing the earned income credit (EIC) for you are not claiming the EIC, you must include this amount in the total on line 4a. Do this by adding the amount of your nontaxable combat pay to the amount figured following questions 2 or question 4 on this page. Also, enter the amount of your nontaxable combat pay on line 4b.

- Did you or your spouse if filing a joint return have net earnings from self-employment and use either optical method to figure those net earnings?
 - No. Go to question 2.
 - Yes. Use Pub. 972 to figure the amount to enter on Form 8812, line 4a.
- Are you claiming the earned income credit (EIC) on Form 1040, line 67, or Form 1040A, line 41a?
 - Yes. Use the following chart to find the amount to enter on Form 8812, line 4a.

IF you are filing Form . . .	AND you completed . . .	THEN enter on Form 8812, line 4a, the amount from . . .
1040	Worksheet B on page 46 of your 1040 instructions Step 5 on page 43 of your 1040 instructions (but not Worksheet B)	Worksheet D, line 4b,**
1040A	Step 5 on page 41 of your 1040A instructions	Step 5, Earned Income**

* If you were a member of the clergy, subtract the following from the amount on line 4b: (i) the total value of a home or the nontaxable portion of an allowance for a home furnished to you (including payments for utilities), and (ii) the value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience.
** If applicable, add to this amount the amount described in Nontaxable combat pay above.

No. 1040 filers: Go to question 3.
1040A filers: Skip question 3 and go to question 4.

- Were you, or your spouse if filing a joint return, self-employed, or are you filing schedule SE because you were a member of the clergy or you had church employee income, or are you filing Schedule C-EZ as a statutory employee?
 - No. Go to question 4.
 - Yes. Use Pub. 972 to figure the amount to enter on Form 8812, line 4a.

4. Does the amount on line 7 of Form 1040 or Form 1040A include any of the following amounts?

- Taxable scholarship or fellowship grants not reported on a Form W-2.
- Amounts paid to an estate in a partial liquidation for work (enter "PRL" and the amount paid in the space next to line 7 of Form 1040 or 1040A).
- Amounts received as a pension or annuity from a nonqualified deferred compensation plan or a congressional section 457 plan (enter "DFC" and the amount received in the space next to line 7 of Form 1040 or 1040A). This amount may be reported in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.
- Amounts from Form 2555, line 41, or Form 2555-EZ, line 18.

No. Enter the amount from line 7 of Form 1040 or Form 1040A on Form 8812, line 4a. (If applicable, add to this amount the amount described in Nontaxable combat pay on this page.)

Yes. Subtract the total of those amounts from the amount on line 7 of Form 1040 or Form 1040A. (If an amount is included in more than one of the above categories, include it only once in figuring the total amount to subtract.) Enter the result on Form 8812, line 4a. (If applicable, add to this amount the amount described in Nontaxable combat pay on this page.)

Railroad Employees
If you worked for a railroad, include the following taxes in the total on Form 8812, line 7.

- Tier 1 tax withheld from your pay. This tax should be shown in box 14 of your Form(s) W-2 and identified as "Tier 1 tax."
- If you were an employee representative, 50% of the total tier 1 tax and tier 1 Medicare tax you paid for 2004.

1040A Filers
If you, or your spouse if filing a joint return, had more than one employer for 2004 and total wages of over \$87,000, figure any excess social security and tier 1 railroad retirement (RRTA) taxes withheld. See the instructions for Form 1040A, line 43. Include any excess on Form 8812, line 43.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and returns information are confidential, as required by Internal Revenue Code section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: Recordkeeping, 6 min.; Learning about the law or the form, 9 min.; Preparing the form, 29 min.; Copying, assembling, and sending the form to the IRS, 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the Instructions for Form 1040 or Form 1040A.

Child Tax Credit Worksheet

Child Tax Credit Worksheet Keep for Your Records

CAUTION To be a qualifying child for the child tax credit, the child must be under age 17 at the end of 2004 and meet the other requirements listed on page 2.

Part 1

1. Number of qualifying children: _____ × \$1,000. Enter the result. 1

2. Enter the amount from Form 1040, line 37, or Form 1040A, line 22. 2

3. **1040 Filers.** Enter the total of any—
 • Exclusion of income from Puerto Rico, and
 • Amounts from Form 2555, lines 43 and 48; Form 2555-EZ, line 18; and Form 4563, line 15.
1040A Filers. Enter -0-.

4. Add lines 2 and 3. Enter the total. 4

5. Enter the amount shown below for your filing status.
 • Married filing jointly - \$110,000
 • Single, head of household, or qualifying widow(er) - \$75,000
 • Married filing separately - \$55,000

6. Is the amount on line 4 more than the amount on line 5?
 No. Leave line 6 blank. Enter -0- on line 7.
 Yes. Subtract line 5 from line 4.
 If the result is not a multiple of \$1,000, increase it to the next multiple of \$1,000. For example, increase \$425 to \$1,000, increase \$1,025 to \$2,000, etc.

7. Multiply the amount on line 6 by 5% (.05). Enter the result. 7

8. Is the amount on line 1 more than the amount on line 7?
 No. You cannot take the child tax credit on Form 1040, line 51, or Form 1040A, line 33. You also cannot take the additional child tax credit on Form 1040, line 67, or Form 1040A, line 42. Complete the rest of your Form 1040 or 1040A.
 Yes. Subtract line 7 from line 1. Enter the result. 8
 Go to Part 2 on the next page.

Child Tax Credit Worksheet—Continued from page 4 Keep for Your Records

Part 2

9. Enter the amount from Form 1040, line 45, or Form 1040A, line 28. 9

10. Add the amounts from—
Form 1040 or **Form 1040A**
 Line 46 _____
 Line 47 _____ Line 29 _____ + _____
 Line 48 _____ Line 30 _____ + _____
 Line 49 _____ Line 31 _____ + _____
 Line 50 _____ Line 32 _____ + _____
 Enter the total. 10

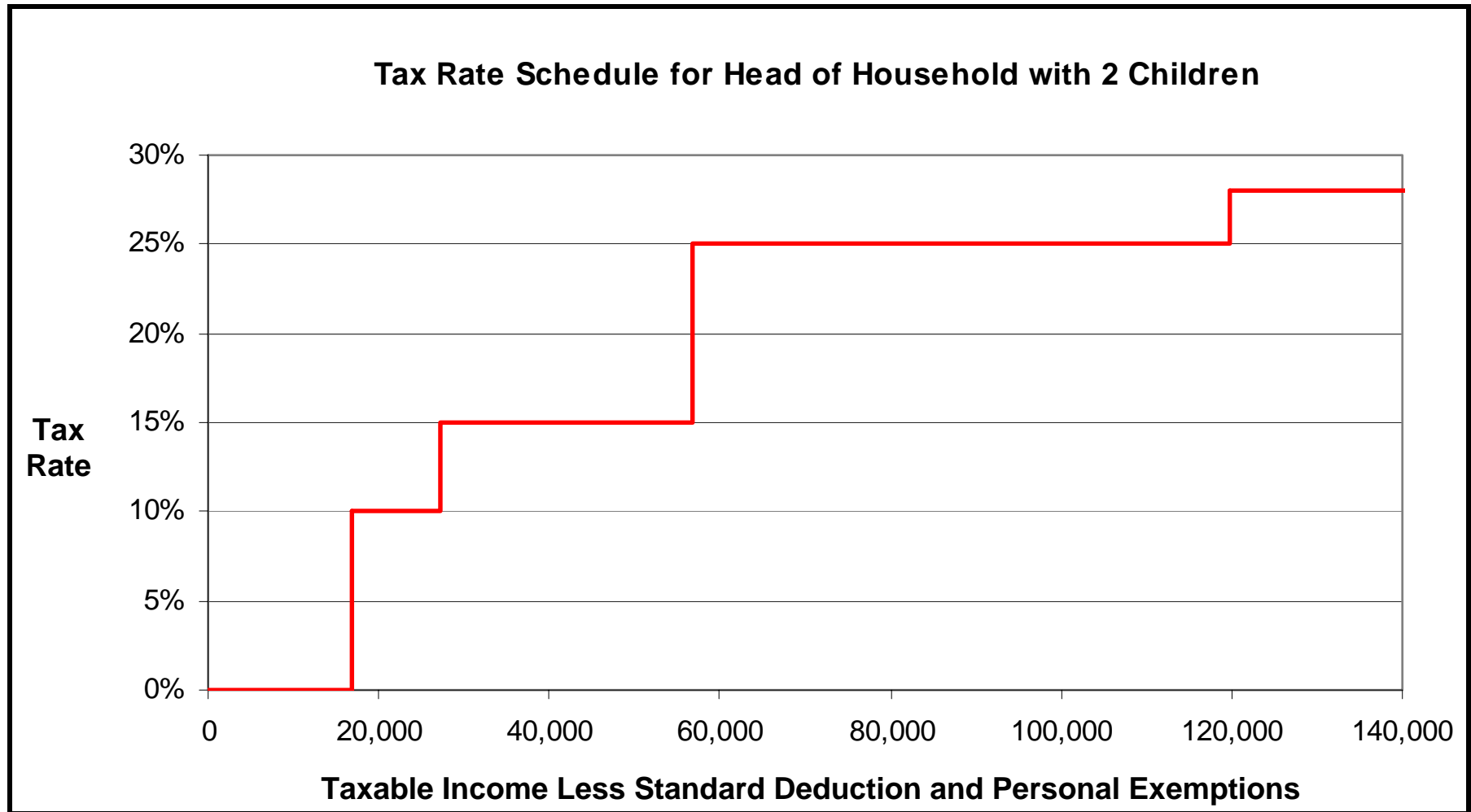
11. Are you claiming any of the following credits?
 • Adoption credit, Form 8839
 • Mortgage interest credit, Form 8396
 • District of Columbia first-time homebuyer credit, Form 8859
 No. Enter the amount from line 10.
 Yes. Complete the Line 11 Worksheet on the next page to figure the amount to enter here. 11

12. Subtract line 11 from line 9. Enter the result. 12

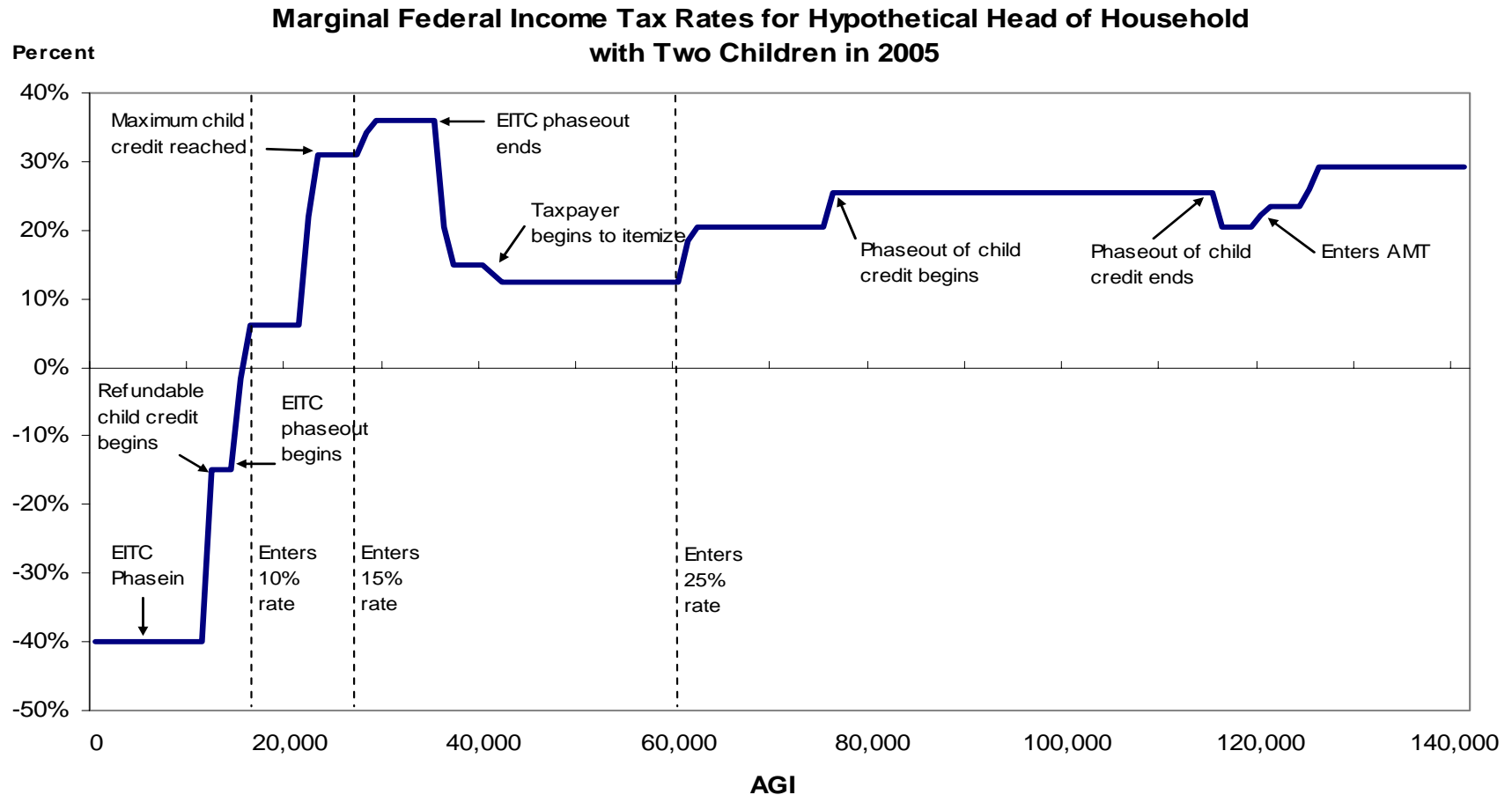
13. Is the amount on line 8 of this worksheet more than the amount on line 12?
 No. Enter the amount from line 8.
 Yes. Enter the amount from line 12. See the **TIP** below. 13
This is your child tax credit.
 Enter this amount on •
 Form 1040, line 51, or •
 Form 1040A, line 33. •
 •
 •

TIP You may be able to take the **additional child tax credit** on Form 1040, line 67, or Form 1040A, line 42, only if you answered "Yes" on line 13.
 • First, complete your Form 1040 through line 66, or Form 1040A through line 41a.
 • Then, use Form 8812 to figure any additional child tax credit.

Statutory Marginal Tax Rates



Phase-Outs Increase Marginal Tax Rates



Note: Calculations are for a head of household with two children under 17. Itemized deductions are assumed to be 18 percent of income.

Source: Department of the Treasury, Office of Tax Analysis

Instability of Current Code

- Frequent Amendments
 - 14,400 changes to the tax code since 1986.
- Expiring Provisions
 - Multiply compliance costs.
 - Create instability and make planning for the future geometrically more complicated.
 - Undermine faith in the tax system by causing annual unpleasant surprises.

Selected Expiring Income Tax Provisions*

Item (Expiration Date)	2005	2011
Individual Tax Rates (2010)	10% 15% 25% 28% 33% 35%	15% 28% 31% 36% 39.6%
Marriage Penalty Relief (2010) -15% bracket thresholds -Standard deduction	200% of single amount	167% of single amount
Child Credit (2010)	\$1,000	\$500
Tuition Deduction (2005)	\$4,000/\$2,000	Unavailable
IRA Contribution Limit (2010)	\$4,000 (\$4,500 if over 50)	\$2,000
Dividends (2008)	5/15%	Ordinary rates
Capital Gains (2008)	5/15%	10/20% 8/18% (if held over 5 years)
AMT Exemption (2005)	\$58,000	\$45,000
Small Business Expensing (2007)	\$105,000	\$25,000

*Married filing joint

“Complexity Tax”

- Complexity is costing the U.S. economy \$140 billion per year
 - Roughly the same as giving \$1,000 to every family in America, or
 - The amount needed to fund: the Department of Homeland Security, the State Department, NASA, HUD, the EPA, the Department of Transportation, the United States Congress, our Federal courts, and all foreign aid
- Over 3.5 billion hours spent doing taxes
 - 25 hours on average -- more than half a work week
 - Like having almost 2 million extra IRS agents
- Over 60 percent of Americans use a paid preparer
 - 1.2 million paid tax preparers in 1999 (Twice the number of police officers and four times the number of firefighters)
 - Less than 13 percent of returns are still prepared by hand!

Transparency and Fairness

- Complexity --
 - Reduces the transparency of the tax system.
 - Rewards those who have the means and inclination to find all the angles.
 - Undermines trust in the fairness of the tax system, which may in turn undermine voluntary compliance.
- Taxpayers who play by the rules should be able to have confidence that they and their neighbors are all paying their fair share.
- The “Hazy Tax”
 - Additional amount paid by honest and careful taxpayers due to noncompliance and evasion of others.
 - In 2001, the Tax Gap was between \$312 and \$353 billion* (most recent IRS estimate).
 - Although factors other than complexity certainly play a role, a simpler tax code would improve compliance and reduce the gap.

*Includes \$70 - \$75 billion in employment and excise taxes.