

The Washington Post

Volcker-led economic panel pushes lawmakers to simplify U.S. tax code

By Lori Montgomery
Washington Post Staff Writer
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American taxpayers spend 7.6 billion hours and roughly \$140 billion a year to comply with the bewildering thicket of requirements in the federal tax code, according to a report released Friday by a White House advisory board whose members urged Congress to adopt their ideas for simplifying people's lives at tax time.

In an exhaustive 18-month review, the President's Economic Recovery Advisory Board found that the complexity of the nation's tax laws has increased dramatically in recent years. Lawmakers have changed the code more than 15,000 times since the last major overhaul in 1986. Meanwhile, instruction booklets for the standard Form 1040 have swelled from 14 pages to 44 pages last year.

The board also found that the profusion of credits, deductions, phaseouts and conflicting eligibility requirements frays the sanity of ordinary taxpayers just as surely as it complicates the calculations of wealthy families and business owners. Tax provisions affecting families and children were among the most frequently cited sources of confusion, the report said.

"What the report makes clear is the enormous complexity of the tax law . . . for an ordinary

family trying to figure out and make sure they are complying with the laws and taking advantage of benefits offered," said Harvard economist and former Reagan administration economic adviser Martin Feldstein, who led the board's effort to develop a series of options for disentangling the code.

"If those kinds of changes were accepted by the Congress in a revenue-neutral way," Feldstein said, "we would have a much better tax system."

The board - a group of economists, policymakers and business leaders led by former Federal Reserve chairman Paul A. Volcker - was established soon after President Obama took office last year and was charged with developing a series of options for simplifying the tax code, improving compliance and bringing down a corporate tax rate that, at 35 percent, is the

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second highest in the industrial world, after Japan's.

Its report initially was due in December, but the board chose to delay its release to study more than "600 serious submissions of tax reform ideas from the public," according to Austan Goolsbee, a member of the president's Council of Economic Advisers who serves as the board's staff director.

The board's charge did not include deficit reduction; a separate, bipartisan panel has been appointed by Obama to tackle that task. Despite recent statements by Volcker in favor of a European-style sales tax known as a value-added tax, the board did not consider that or any other "overarching tax reform," the report said.

The board also was prohibited from considering ideas that would break Obama's pledge not to raise taxes on families earning less than \$250,000 a year.

The resulting 118-page report nonetheless offers dozens of ideas for improving the code, starting with simplification for average people.

For example, the report cites more than 20 tax laws that provide incentives to save for retirement and other purposes, such as education and medical expenses, and that together deprive the Treasury of an estimated \$118 billion year. But their sheer number and conflicting rules leave taxpayers confused

and intimidated, the report says, raising doubts about their effectiveness.

At least 18 provisions benefit taxpayers with educational expenses, the report says, requiring families to fill out endless work sheets to determine which ones are available and most beneficial. Meanwhile, families with children face myriad additional calculations to claim an array of credits and deductions.

The report suggests consolidating many of these provisions. One option would replace the dependent exemption, standard deduction and child tax credit with a single "family credit" available to all taxpayers. Tax benefits for higher education could be replaced by "a similarly generous extended family credit for full-time students under age 22," the report says.

The report also proposes a "simple return" that could be pre-filled by the Internal Revenue Service and mailed to as many as 60

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million taxpayers who don't itemize deductions and receive all their income from employers who report to the IRS directly. People could simply check it for accuracy, sign it and send it back in.

"As we looked into the taxes that affect the average American, the moderate-income individual and households, we discovered that we have loaded into our tax code a plethora of different options and approaches, each one of which probably made sense when it was adopted" but that now "looks to be very much an untended garden," said Roger Ferguson, who served with Feldstein on the tax subcommittee.

Ferguson, chief executive of Teachers Insurance and Annuity Association and a former vice chairman of the Federal Reserve, urged lawmakers to view simplification for individuals "as an area that really does need to be addressed."

The report now goes to Obama and the deficit commission, as well as to congressional policymakers. It is unclear how much influence it will have. A 2005 panel developed detailed recommendations for changes to the tax system that were quickly shelved by President George W. Bush. Tax experts said the latest report at least outlines a series of sensible trade-offs that may be useful as the tax debate advances before the deficit commission and in Congress.

"It does more than I expected, given the

constraints under which the board had to operate," said Roberton Williams, senior fellow at the nonpartisan Tax Policy Center. "The report is more than a simple laundry list of options but rather a coherent set of options that really would simplify the income tax" for individuals, he said.

To read the report, go to <http://wapo.st/b67U2u>.

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