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Senate Finance Members Consider Simpler Tax Code Without Revenue Implications

By [Aaron E. Lorenzo](#)

Senate Finance Committee members from both parties met March 21 to address simplifying the tax system to ease compliance and improve enforcement, but not necessarily to raise more revenue.

The unsettled question over neutrality aside, a [committee document](#) released in conjunction with the closed-door meeting signaled a bipartisan willingness to consider numerous ways to make paying taxes easier, including repealing the individual and corporate alternative minimum tax. Among other things, panel members also are looking at phasing out the personal exemption and itemized deductions, and ensuring Internal Revenue Service regulation of tax return preparers, according to the paper.

That shows that the committee discussion process has gotten off to a good start, said David Kautter, managing director of American University's Kogod Tax Center. "This document provides a very solid foundation for discussing how to simplify a number of aspects of the tax system," he said.

Kautter, previously a partner at Ernst & Young LLP, praised not only options outlined in the paper to make things simpler for taxpayers but also administrative reforms aimed at improving collection and enforcement, reducing fraud, and clarifying penalties.

AMT, Phase-Outs Not Seen as Intuitive

The repeals being contemplated could go a long way toward simplification, Kautter said.

He said the alternative minimum tax and phase-outs of the personal exemption and itemized deductions are not intuitive, and therefore defy most taxpayers' levels of understanding, so software is often a necessity to compute them correctly. But however they are completed, they add time and aggravation to compliance, he said.

The individual alternative minimum tax, in particular, causes a second calculation based on different rules from one's initial tax

calculation.

"Having to compute your taxes twice and then pay the greater of the two is burdensome," Kautter said.


Though such repeals would reduce revenue, he suggested that loss could be made up by compensating elsewhere, perhaps through higher rates. In addition, such a trade-off for simplicity could lead to better compliance, Kautter said, because filing taxes under more streamlined rules could prove less intimidating and generate fewer errors.

Other suggestions for simplification in the committee document call for making uniform definitions for categories such as "qualifying child," "modified adjusted gross income," and "related party." Kautter said such standardization would consume less time and fewer resources for filers.

Better Fraud Enforcement Needed

Among other options, the committee paper includes ideas to reduce tax fraud and identity theft, such as limiting access to the Social Security numbers of recently deceased individuals.

To improve information sharing and strengthen tax collection from those who underreport, it includes a mandate for better information from banks on financial accounts, and it points to a need for better coordination between federal, state, and local law enforcement. Restructuring and simplifying the penalty system by consolidating similar penalties could improve voluntary compliance and ease administrative burdens, the committee paper says.

It also lends support for IRS regulatory authority over non-licensed tax preparers, which has come into question following a January court ruling that said the agency does not have such power (20 DTR G-6, 1/30/13 ). IRS has appealed.

The committee gathering marked the first in a series of meetings on overhauling the tax code, with members scheduled to convene weekly for the next several months to discuss the wide range of options for taking on tax reform.

The list of tax simplification options set aside the revenue question to help facilitate the first discussion, the committee paper said.

The simplification paper is at <http://www.finance.senate.gov/issue/?id=b1ae1ce3-c25c-43c3-82da-6d33378e62bf>.

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