

*The President's Advisory Panel on*  
**Federal Tax Reform**

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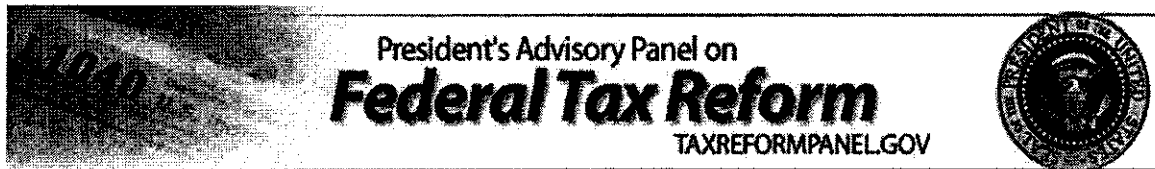
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## **PRESS INFORMATION**

**First Meeting of the President's Advisory Panel on Federal Tax Reform**  
*February 16, 2005*

Ronald Reagan Building & International Trade Center  
Amphitheater, Concourse Level  
1300 Pennsylvania Avenue NW  
Washington, DC 20004

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Embargoed until 10:00 AM  
February 16, 2005

Contact: Jeff Kupfer  
202-622-0064

**OPENING STATEMENT BY SENATOR CONNIE MACK**  
**Chairman, President's Advisory Panel on Federal Tax Reform**  
**First Meeting -- February 16, 2005**

**Introduction**

Today's meeting marks the beginning of the Panel's important work to explore ways to reform the Federal tax code. I believe that it is a good sign that we are holding our first meeting to discuss reform in the building that bears the name of Ronald Reagan, who initiated the last bipartisan effort to reform the tax code twenty years ago. As we will hear today, a lot has changed since then. This panel will take a fresh look at the existing tax code and will formulate options for making the tax system simple, fair, and productive. I am privileged to serve as the Panel's chairman and would like to thank Vice-Chairman Breaux and the rest of the Panel for agreeing to help tackle this challenging task.

We have an ambitious agenda today. First, I will provide some background about what the Panel hopes to accomplish and how we intend to accomplish it. In addition, we will be hearing brief comments from the members of the Panel.

I am very honored that Treasury Secretary John Snow is here as we begin this important work. In addition to Secretary Snow, we will hear from four distinguished witnesses. Our first witness will help us put our current tax system in context and provide us a better understanding of how we got to where we are today. Our second witness will provide needed background about tax system design and valuable insights into how to think about choosing a base for taxation. He will explain the difference between a tax on income and a tax on consumption. Finally, our last two witnesses will describe how the choice of an income tax base or a consumption tax base impacts the overall function of the tax system and the advantages and disadvantages of each system in terms of simplicity, fairness and economic growth.

**\*\*MORE\*\***

## **Our Mission**

The President has stated clearly that tax reform is a key priority and formed this Panel to advise the Secretary of the Treasury on options to reform the tax code. We have been directed to provide the Secretary our findings by July 31. To accomplish this task, we intend to do our work in two stages. First, we will take a comprehensive look at the existing tax system. Our objective is to make sure that we have a full understanding of the current problems in the tax code – specifically its complexity, its impact on economic growth, and its perceived unfairness.

After we have defined the problems that need to be addressed, we will turn to a consideration of options for reform. These options may include making modifications to improve current law, overhauling the existing system, or replacing the current structure and starting over. As part of our effort, we will study the major reform proposals that have been offered in the past, as well as any new ideas.

As we move forward, we intend to hold a number of public meetings like this one. We will announce the dates and locations of those hearings soon. We anticipate holding those meetings in Washington, D.C., and in other parts of the country.

It is vitally important to all of us that the public know what we are doing and have a chance to provide input. We have established a website – [www.taxreformpanel.gov](http://www.taxreformpanel.gov) – that provides information about our activities. We will also use that website to receive – and post – public comments.

We welcome input throughout the process. At the same time, we will also be requesting comments on specific topics. In connection with the first stage of our work - defining the problems in the tax code – we are making our first specific request. We ask that interested parties submit comments to the Panel about:

1. Headaches that taxpayers – both individuals and businesses – face because of the existing system. By headaches, we mean unnecessary complexity and burdens.
2. Aspects of the tax system that you believe are unfair.
3. Specific examples of how the tax code distorts important business or personal decisions.
4. Goals that the Panel should try to achieve as we evaluate the existing tax system and recommend options for reform. At this point, we are not looking for specific proposals.

**\*\*MORE\*\***

There will be additional requests for comments. For example, when we move to the second stage of the process and begin considering options for reform, we will make specific requests for suggestions, alternatives, and proposals for improving the tax system.

### **Why Reform is Necessary**

There is nearly universal agreement that we must reform the tax system. The tax code is a complex and cluttered mess that discourages economic growth and vitality. Our tax laws penalize hard work, discourage savings and investment, and hinder the competitiveness of American businesses abroad.

Compliance with the tax code is complicated and burdensome. It is also a waste of our resources. Nobody likes paying taxes. But instead of making it as easy as possible, the tax code is an obstacle for those who pay their fair share. It is estimated that individuals and businesses spend at least 6 billion hours each year just to file their taxes.

More than half of Americans use a paid preparer to file their taxes. In fact, costs incurred by individuals in connection with their taxes exceed \$100 billion. These numbers are staggering. Americans should not have to hire an expert to help them calculate their taxes. The problems of complexity are not limited to individual taxpayers, however. In fact, the compliance burden on businesses – both large and small – is enormous and adds another \$20 to \$25 billion to the total cost of compliance.

One particular problem that cannot be ignored is the rapidly growing reach of the Alternative Minimum Tax. The AMT imposes a second tax system that is separate, but parallel, to the regular income tax system and requires that taxpayers compute their taxes twice. The AMT was enacted in the 1960s to target a small group of high-income taxpayers who were avoiding paying all income taxes. Since then, changes to the AMT and inflation have caused it to apply to large numbers of middle-class taxpayers by denying families benefits that are available under the regular tax system. The number of Americans who will be confronted by the AMT will grow from 3.8 million this year to 51 million taxpayers by 2015.

### **Conclusion**

Americans are demanding a better tax system. It should be simple, transparent and easy to understand. It should be stable and predictable – in order to permit informed planning and decision making. It should encourage economic growth. And it should minimize the costs of compliance and intrusion into the lives of taxpayers. We look forward to completing this important task – and to presenting options that will ensure a better tax system for ourselves and for future generations.

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**OPENING STATEMENT BY SENATOR JOHN BREAUX**  
**Vice-Chairman, President's Advisory Panel on Federal Tax Reform**  
**First Meeting -- February 16, 2005**

Thank you. I look forward to working closely with Chairman Mack on this worthwhile task to find ways to reform and simplify our tax system. Someone once said that tax simplification is complicated stuff. I agree, but I believe that we have an excellent opportunity to meet this challenge. To accomplish any significant change, it is vital that it be done on a bipartisan basis. I am pleased that the President assembled this panel to begin the process of working together to reform our tax system.

The ever increasing complexity of our tax laws imposes an unnecessary burden on Americans. In 1940, it took only two pages to explain how to fill out a form 1040. Today, the 1040-EZ, or short form, is accompanied by 36 pages of instructions. For more than 80 million taxpayers who filed the long form for 2003 – with its 70 lines, 30 commonly used schedules and more than 130 pages of instructions – the task was even more overwhelming. It's time to think seriously about whether the tax code needs to be so complicated.

This complexity has real consequences. By the time we started the last major reform effort in the 1980s, the vast majority of the public had come to believe that their neighbors were avoiding paying their fair share. It is my view that we again find ourselves in that situation. Some have even said that we are "moving toward a crisis of compliance with the income tax." Simplifying the tax code will make it easier for taxpayers to comply with the tax laws, and will restore confidence in the tax system. We therefore must take action soon before our system of voluntary compliance is undermined.

But reform is not just about the possibility of eliminating mountains of paperwork – it's also about global competition. From the vantage point of today's global marketplace, our tax rules are outdated. It is a problem that grows worse with each passing year as the world's economies become more closely interrelated. Now is the time to take a critical look at whether our tax code is an obstacle to U.S. businesses – both here at home and abroad.

**\*\*MORE\*\***

Over the next six months, we will have a real discussion about what kind of tax system we want in this country. This dialogue will involve many voices. We will hear from academic experts, business leaders and taxpayers who are doing their best to comply with our tax laws. We must first study the problems in the current tax code and then explore available options to create a system that is that is simpler, fairer and more productive. I am honored to serve with the other panel members and look forward to finding ways to improve the lives of Americans.

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*February 16, 2005*

## **FACT SHEET**

### **The President's Advisory Panel on Federal Tax Reform Holds First Meeting**

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#### **OVERVIEW:**

The President's Advisory Panel on Federal Tax Reform held its first meeting in Washington, DC, today. President Bush established the Panel to make recommendations on ways to create a simpler, fairer, and more pro-growth tax system. The panel is led by former Senators Connie Mack and John Breaux, and consists of a distinguished group of experts and experienced people from both parties.

America has a growing, dynamic, and changing economy - but our tax code has not kept up with the times. The current tax code is a maze of special interest loopholes and complex provisions that cause America's taxpayers to spend more than six billion hours every year on paperwork and other headaches. President Bush believes that America's taxpayers deserve better. The tax panel is part of President Bush's pledge to lead a bipartisan effort to reform and simplify the tax code.

The time that people spend complying with an overly complex tax code is a waste of resources that has been growing over time.

- The Internal Revenue Code contains more than a million words.
- The number of pages in the Internal Revenue Code and regulations has more than doubled over the past twenty years.
- In 1940, it took only two pages of instructions to fill out the Form 1040; today, the 1040 -EZ or "short form" is accompanied by 36 pages of instructions.
- Today's "short" income tax form takes more than 11 hours to prepare - about the same as the "long form" did a decade ago.
- It takes 12 pages of instructions to calculate the Earned Income Tax Credit - a basic element of income-support for the working poor.
- By 2010, more than one in five taxpayers will be forced to calculate their income taxes twice - once for the regular income tax and once for the Alternative Minimum Tax - and then pay the greater amount. The number of affected people will continue to grow over time.

**\*\*MORE\*\***

## **President Bush's Action to Promote Tax Reform**

- President Bush announced that he is making tax reform a key priority of his second term.
- On January 7, 2005, the President began this effort by creating, by Executive Order, a bipartisan panel to advise the Treasury Secretary on options to fundamentally reform the tax code to make it simpler, fairer, and more growth oriented.
- The President's goals are to make the tax code simpler and to increase long-run economic growth and job creation. Taxes should be applied fairly, and reform should recognize the importance of homeownership and charity in our American society.

## **Background: The President's Advisory Panel on Federal Tax Reform**

The panel will hold public meetings and seek input from individuals, businesses, and associations and organizations. It will also seek input from Members of Congress.

At today's first meeting, the panel heard from Treasury Secretary John Snow and from other witnesses. The witnesses described the history of the federal income tax and described the differences between income and consumption taxes.

The panel will hold a series of public meetings during the next few months. The next meeting will take place on March 3, 2005 in Washington DC.

- The Panel will examine the existing system and then formulate options for reform, which will be presented to the Secretary of the Treasury by July 31, 2005. This advice will inform the Secretary in his efforts to make recommendations to the President.

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