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U.S. House of Representatives

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REPUBLICANS CREATE TAX COMPLEXITY, TALK OF TAX SIMPLIFICATION

Dear Democratic Colleague:

Next week, two bills with grandiose short titles will be considered on the Floor: H.R. 4840, the "Tax Simplification for America's Job Creators Act of 2004", and H.R. 4841, the "Tax Simplification for Americans Act of 2004". It is easy to ridicule the substance of those bills for reasons discussed below. However, I believe that we should use the consideration of those two bills as an opportunity to focus public attention on the fact that the Republicans have greatly increased the complexity of our tax laws since they took control of the Congress. Also, we should note that these two bills do not reflect the real agenda of the Republican majority in the House when it comes to tax reform. Republican Majority Leader Tom DeLay made that agenda clear when he endorsed a 30% retail sales tax to replace our current income and payroll tax structure.

Republican Record on Tax Reform

When the Republicans took control of the Congress, they promised to make the tax law simpler and more fair. Former Ways and Means Committee Chairman Archer promised on numerous occasions to "rip the code out by its roots" and replace it with a simpler system. Former Republican Majority Leader Dick Armey, like current Majority Leader DeLay, campaigned to replace our present income tax with a regressive consumption tax.

Despite all those promises and all that rhetoric, the Republicans have added increased complexity to our tax system. Since 1994, they have enacted 42 new laws with 3,533 changes to our tax code contained in more than 10,000 additional pages of complex public laws.

The impact on the average individual has been quite dramatic. According to the Internal Revenue Service, today it takes an average middle-income American family 7 ½ hours longer to fill out their tax return than it did in 1994, an increase from 11 ½ hours in 1994 to 19 hours today.

Republican tax policies mean that many taxpayers now are required to fill out two tax returns, the regular tax return and the minimum tax return. In 1994, approximately 420,000 individuals were subject to the minimum tax, approximately 3/10 of 1% of all taxpayers. Last year, approximately 3.3 million taxpayers were subject to that tax. By 2010, over 35 million Americans will be required to prepare two tax returns in order to determine their ultimate liability. All of this complexity is due to the conscious decision of the Bush Administration to use the minimum tax to take back many of the tax cuts promised in the big print of the Bush Tax Cut.

The Republicans have been so eager to enact tax cuts that they have seemed to pay little attention to the details of those tax cuts. Taxpayers with capital gains face a complex 35-line schedule. Taxpayers with children in college are required to calculate three different benefits (the Hope credit, the lifetime learning credit, and the deduction for higher education expenses) to determine which one of those provide the greatest benefit.

As a result of the growing complexity, more individuals have chosen to use income tax preparers to complete their tax returns. Today 60% of individuals use professional tax return preparers, up from 50% in 1995. The fact that 85% of all tax returns currently filed are computer generated is an indication that it is now nearly impossible to file an individual tax return using pen and paper.

Even Republican Members, like Rep. Cox, concede that the overall size of the tax law has grown under the Republican tenure. He stated, "The code is far too long and continues to grow."

Hidden Republican Agenda

The real Republican agenda was made clear earlier this year when the Republican Majority Leader DeLay endorsed the retail sales tax proposal that has been introduced by Rep. Linder (H.R. 25). H.R. 25 would repeal the current individual and corporate income taxes, payroll taxes and the estate and gift taxes. It would replace those taxes with a retail sales tax with an effective 30% rate. The retail sales tax included in that bill is quite different than any retail sales tax currently imposed by state and local governments.

1. The bill endorsed by Majority Leader DeLay would tax all goods and services including food, health care, prescription drugs, home rents, and new home purchases.
2. It would tax purchases of goods and services (other than education-related) by State and local governments and by the Federal government. The result would be a large additional burden placed on State and local governments.

3. It would result in dramatic shifts in the tax burden. It is difficult to quantify the amount of the shift because of the unrealistically low rate that the proposal advertises. Also, the proposal places enormous new taxes on State and local governments, and it is impossible to know how they would fund those new tax burdens.
4. Retired individuals, particularly individuals on Social Security, would face extraordinarily large tax increases. Most Social Security benefits are exempt from tax under current law. Under the bill endorsed by Majority Leader DeLay, the elderly would be required to pay a large retail sales tax when they spend their Social Security benefits. Also, many retired individuals maintain their standard of living by using their accumulated savings. They have no income tax liability now because they are consuming savings that already had been taxed under the income tax. Under the bill they would pay new retail sales taxes when they spent their savings.
5. H.R. 25 would eliminate the current tax deduction for mortgage interest. It would actually impose a 30% retail sales tax on the privilege of borrowing money to buy a home. The amount of the tax would be 30% of the gross profit realized by the lender, i.e., the difference between the interest rate paid by the homeowner and the lender's borrowing costs.

Description of Suspension Bills

H.R. 4842, the individual simplification bill introduced by Rep. Burns, contains four provisions with little or no substance:

1. The first section would redefine the date on which an individual is treated as having attained a specific age. With minor exceptions, this provision will be relevant only in cases where the taxpayer was born on January 1 or has a child who was born on January 1. Parents with children born on January 1 may receive some benefits available to parents with young children; taxpayers who are born on January 1 may lose some benefits available to elderly individuals.
2. Under current law, there is a special filing status for heads of household. The bill doesn't change the criteria for qualifying for this filing status, but simply inserts the word "single" before "head of household" each place it appears in the Internal Revenue Code. The provision doesn't simplify or change anything. Indeed it may create some confusion because some individuals who are legally married under State law currently can qualify for head of household status.

3. The bill would require the Internal Revenue Service to make the forms 1040EZ and 1040A available to more taxpayers. This is an action that the Internal Revenue Service could take under current law if it thought it were appropriate.
4. The bill eliminates some “deadwood” provisions of the tax code, i.e., provisions that no longer has any legal effect. Repealing provisions that do not apply to any taxpayer, by definition, will not simplify the tax treatment for any taxpayer

H.R. 4840, the business simplification bill introduced by Rep. Crane, is slightly more meaningful. It does contain one provision of importance, an extension of the current higher level of expensing allowed for small business. However, this is a provision that is not new and has passed the House as part of the FSC/ETI replacement legislation. Another section of Rep. Crane’s bill would index for inflation the \$5 million gross receipts test applicable in determining whether a business can use the cash method of accounting. The provision will effect few businesses. For example, if the provision were in effect for this taxable year, with inflation of around 2%, businesses with gross receipts between \$5 million and \$5.1 million would be the only beneficiaries. Finally, the Crane bill also includes repeal of “deadwood” provisions. Again, repealing provisions that do not apply to any taxpayer, by definition, will not simplify the tax treatment for any taxpayer.

I would encourage all Democratic Members to participate in the debate on tax simplification. The Republicans have a record, a record that is very difficult to defend.

Sincerely,

A handwritten signature in cursive script, appearing to read "Charlie", with a long horizontal flourish extending to the left and underlining the name.

Charles B. Rangel
Ranking Democrat