

THE TAXONOMIST

This is Simplification?

By Robert S. McIntyre

There are many things to criticize about the recent report from President Bush's Advisory Panel on Federal Tax Reform. Personally, I'm appalled at the report's call for adding \$7 trillion more to the deficit over the next two decades—a catastrophe the panel weirdly styles as “revenue-neutral.” If that's not bad enough, the panel's zeal to shift the tax burden even further away from investors and onto wage-earners seems wrong-headed in the extreme to me. But while opinions may vary on these issues, one thing's for sure: this program is not tax simplification.

Bush's panel does boldly insist that its ideas would make tax filing easier—an assertion that gullible stenographers in the news media have dutifully repeated. To prove its plan would be simpler, the panel has produced a new sample tax form, modestly titled the “1040-Simple,” that condenses the basic tax form down to a mere one page, rather than the current two. Indeed, the panel crows, the new form can be squeezed onto a large two-sided postcard if the typeface is small enough.

Don't start cheering yet. It's a hoax. For example, near the top of the current form 1040, taxpayers must state their filing status (e.g., married, single, etc.) and list their dependents. The panel's new “1040-Simple” moves these essential items to a separate form. Whereas various types of business income (self-employment, farm, etc.) currently get their own entries, the new form provides only one line for the sum of all of them. A mysterious line called “other income” encompasses a number of items, from alimony to unemployment, that are now reported individually. Of course, they'd still need to be detailed elsewhere. Likewise, various adjustments to income are moved off the 1040 to supporting forms.

If such a silly rearrangement of the deck chairs is all it takes to make taxes simpler, then the panel obviously lacked ambition. Why not cut the current form down to a single line? How about, “Write down your tax or refund due. See relevant schedules A to Z to calculate”?

Bush's panel also makes a big deal about how its plan to eliminate or restructure itemized deductions would curb complexity. Deductions for things like extraordinary medical expenses, union dues, casualty losses (sorry, Louisiana) and so forth would be out the window. Also gone would be write-offs for state and

local income and property taxes—although these are just about the easiest deductions to compute, not to mention the most defensible.

When it comes to two of the most common current deductions, mortgage interest and charitable donations, however, the panel's proposal is the exact opposite of simplification. Right now, about 41 million taxpayers (roughly a third of us) itemize deductions of any sort. Everyone else takes the standard deduction, because it's bigger. But the Bush panel would replace the standard deduction with a tax credit, and provide tax breaks for mortgage interest and charitable donations on top of that.

The panel brags that under its plan, 57 million returns would itemize mortgage interest (to compute a new 15-percent credit). By my calculations, a similar number would deduct charitable gifts, which the panel wants to allow for everyone whose donations exceed 1 percent of income. Counting people with either of these write-offs, that would bring the total number of itemizers up to more than 60 million returns—half again more than now!

No plan that does that can plausibly be called “simplification.” As former IRS Commissioner Sheldon Cohen notes, “these guys don't seem to understand why we have a standard deduction. As it now stands, you get to deduct *more* than your mortgage interest, charitable donations and so forth. And you don't have to keep track of anything.”

The list of added complications doesn't end here. There are, for example, complex new rules for taxing (or not taxing) dividends and capital gains; new tax-free savings accounts to be layered on top of existing ones; and a corporate “reform” plan that the panel admits would probably make it even easier for multinational corporations to move their U.S. profits into tax havens. All of these fit the pattern of having little or nothing to do with simplicity and everything to do with shifting taxes away from the well off.

I'll be reporting more details about the Bush panel's proposals soon. But for now, keep in mind: when a group handpicked by President Bush and run by his Treasury Department talks about “tax simplification,” you should take it with many large grains of salt.

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