



Tax Simplification That Works for Everyone

By Alexandra Thornton September 2016

Introduction and summary

The idea of simplifying the U.S. tax code is perennially appealing. Yet proposals to simplify the tax code often promise more than they can deliver, by dramatically changing the balance of who pays taxes or significantly reducing tax receipts needed to fund government services.

Some congressional proposals would achieve simplification by repealing whole sections of the tax code—such as the top tax rates,¹ capital gains taxes,² the corporate income tax,³ or the estate tax⁴—taxes that are mainly paid by wealthy individuals and big companies. Those plans, while they seem simpler, would also lose unprecedented amounts of revenue⁵ and ultimately would place a heavier burden on middle-class individuals and families by increasing their taxes or cutting programs that benefit them, such as Social Security, education, and infrastructure. Furthermore, there is scant evidence that such huge tax cuts in the name of tax simplification would increase economic growth, despite claims to the contrary.⁶

Other tax simplification proposals focus on the number of hours taxpayers spend preparing their tax returns⁷ or promise tax returns that can be filed on a postcard. Yet no one would argue that time spent on securing important education or retirement tax incentives is worthless or that such tax benefits should be tossed out in favor of a postcard tax return.

How policymakers simplify the tax code matters. A tax code that is fair as applied to the diverse range of individuals and entities in the country and raises sufficient revenue necessarily requires a significant degree of complexity. But there are steps policymakers can take to simplify the tax code without jeopardizing the important goals of fairness and fiscal responsibility. For example, it makes sense to clear out complex and unnecessary tax loopholes that enable corporations and those who are wealthy to avoid paying their fair share. Those types of provisions reduce tax revenues needed for important public programs and erode public confidence in the system. It is also prudent to fix tax provisions that are fair but have become too complicated for the average individual or small business to use.

This report outlines three steps policymakers can take to simplify the tax system so that it works better for everyone, raises adequate revenue, and meets Americans' fundamental understanding of fairness:

1. Eliminate special rules and loopholes in the current tax system that complicate the tax code and primarily benefit high-income individuals and large corporations
2. Use some of the revenue saved from closing those tax loopholes to simplify two of the most important areas of middle-class tax incentives—education and retirement savings—so that those incentives better accomplish what they were intended to do
3. Eliminate some of the accounting and other administrative tax burdens faced by truly small businesses, which lack the resources of large corporate taxpayers to deal with tax compliance

The nation does not need to abandon fairness and fiscal responsibility in order to simplify the tax code. Tax simplification that improves tax fairness for everyone and supports fiscal responsibility is possible.

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