

Both Parties Want to Take on Tax Reform

There is bipartisan support for making the tax code simpler

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There's not much that can draw lawmakers together these days. But on the issue of tax reform, there's a lot of bipartisan agreement. With some hope that [Congress](#) and the [White House](#) might be able to act to simplify the tax code during this Congress, the [House Ways and Means Committee](#) held the first of several planned hearings on Thursday to examine the tangled tax code.

Economists and lawmakers across the spectrum agree that the tax system is too complex with too many special exemptions benefitting narrow interests. According to the Internal Revenue Service's Taxpayer Advocate Service, individuals and businesses spend 6.1 billion hours per year on [tax filing](#), and in 2008 spent \$163 billion to ensure they were following all of the rules. Tax reform was also a key plank of last year's plan from the president's deficit commission, which recommended scrapping most exemptions and using the savings to lower the deficit and reduce overall [income tax rates](#). Ways and Means Chairman [David Camp](#), a Michigan Republican, said the tax code "adds more burdens on families and employers—making it more difficult to create jobs in this country." The last major tax overhaul was the Tax Reform Act of 1986, which reduced the number of income brackets and sought to eliminate tax havens.

Of course, deciding which loopholes to cut isn't easy. "Everybody wants to cut the loophole for the other guy, but not the incentive he or she enjoys," said New York Rep. [Charlie Rangel](#), a [Democrat](#), at the hearing. Aside from narrow business exemptions, many income tax breaks, such as those for mortgage interest and employer-provided health insurance, are used by millions of middle-class Americans. "In short, we are all special interests," said National Taxpayer Advocate Nina Olson, who testified during Thursday's hearing.

Much of the discussion has focused on the federal tax on corporate profits. Testifying before the committee, Robert McDonald, CEO of Procter & Gamble, said that America's corporate [tax rate](#) is the "least competitive in the world." Many economists on both the right and left say that ultimately the tax is felt by consumers and employees, not [corporations](#). "The politics of the corporate tax are a lot different than the usual left and right politics on the individual income tax," says Chris Edwards, an expert with the libertarian Cato Institute.

One early point of contention is whether tax reform should ultimately raise or lower the amount the government collects in taxes, or be "revenue neutral," as some Democrats advocate. "This may be somewhat controversial and difficult, but we need to make sure that reform is fiscally responsible," said Michigan Rep. [Sander Levin](#), the ranking Democrat on the committee. [Republicans](#) on the panel have said that it's too early to say how reform should affect the deficit, and some business leaders have said that reform should focus on simplifying the system first. Earlier this month, Treasury Secretary Timothy Geithner said that the White House would look at ways to simplify the tax code while keeping revenue the same. But President Obama may be cautious about eliminating tax exemptions that benefit the middle class, due to his campaign promise not to raise taxes on most Americans.

It's not likely to happen by tax time, but with few avenues open for progress, tax reform may be Obama's best bet for a 2011 accomplishment.

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