March 25, 2003

The Honorable John W. Snow
Secretary of the Treasury
Suite 3330
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 202220

Re: 2004 Budget Proposals: Tax Simplification

Dear Secretary Snow:

The American Institute of Certified Public Accountants, the American Bar Association Section of Taxation,* and the Tax Executives Institute have been working together over the past few years to sensitize the public, the Administration, and the Congress to the urgent need for major simplification of the tax laws. We therefore are pleased that the Administration has included several specific simplification provisions in the 2004 revenue proposals. This letter reflects our jointly-held views only on the simplification aspects of the Administration's proposals.

We especially welcome the proposals to adopt a uniform definition of qualifying child for purposes of various child-based benefits and to eliminate the income-related phase-outs for the adoption tax credit and exclusion. Adopting a uniform child definition and eliminating income-related phase-outs were two of the three priorities our group identified to the Administration last fall as warranting immediate attention.

We are pleased as well that the Administration included simplifying elements in other proposals designed to further certain narrower policy objectives, for example: increasing the expensing limits for small business; excluding the value of employer-provided computers and equipment from income; and repealing the restrictions on the use of qualified section 501(c)(3) bonds for residential rental property. Moreover, we appreciate the Administration's willingness to seek simplification of the retirement savings regime.

Notwithstanding these very positive initiatives, we believe the revenue proposals should have included more in the way of simplification measures -- in particular, more extensive relief from phase-outs, as well as immediate repeal of the individual and corporate alternative minimum taxes (AMT). While the Administration's proposals do contain a stop-gap measure providing temporary AMT relief for individuals, the widely recognized and long acknowledged gravity of the AMT problem warrants an

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* The positions expressed in this letter are those of the American Bar Association Section of Taxation and, except as noted below, have not been approved by the House of Delegates or the Board of Governors of the American Bar Association. Accordingly, they should not be construed as representing the policy of the Association. The positions expressed on phase-outs and uniform definition of a child represent the policy of the American Bar Association.
immediate, permanent solution. Stop-gap measures simply postpone the inevitable and increase the revenue cost of the ultimate resolution.

Certain other items in the Administration's proposals, although designed to further laudable social objectives, may present administrative challenges for the Internal Revenue Service and impose significant additional compliance burdens on taxpayers. For example, the refundable health insurance credit introduces a new phase-out; and the health insurance credit, the failing public schools credit, and the energy tax credits introduce many complex new qualification requirements that will consume scarce Internal Revenue Service administrative resources and likely be confusing to affected taxpayers. In addition, permitting the charitable contribution deduction for non-itemizers will add significant complexity by subjecting non-itemizers to substantiation requirements and increasing the IRS's audit burden.

The Administration’s dividend exclusion proposal is of great interest to a broad spectrum of taxpayers and their advisers. Alleviation of the double taxation of corporate earnings is a tax policy goal that each of our organizations generally has embraced. The appropriate committees of our respective organizations are still reviewing the dividend exclusion proposal (as well as other Administration proposals), and may submit separate additional comments at a later time.

We recognize that revenue and other pressures may impede progress on wider simplification reforms. However, the complexity of the tax system imposes substantial economic costs, as well as fostering non-compliance. It is therefore imperative that all involved in the tax-writing process give much greater priority to simplification when deciding whether to advance a public policy goal through tax incentives rather than through direct spending programs.

It is often said that tax simplification has no constituency. We hope to work with the Administration in changing that perception. Our group has previously submitted recommendations concerning tax simplification, and we stand ready to assist the Administration in implementing these and other recommendations. We applaud the efforts of the Administration in helping to focus public attention on the need for simplification and urge you to continue identifying and pursuing new opportunities for simplifying the Internal Revenue Code.

Very truly yours,

Robert A. Zarzar    Herbert N. Beller  J.A. (Drew) Glennie
Chair      Chair     International President
AICPA Tax Executive Committee  ABA Section of Taxation  Tax Executives Institute, Inc.

cc:    Pamela F. Olson, Assistant Secretary, Tax Policy, Department of Treasury
       Gregory F. Jenner, Deputy Assistant Secretary, Tax Policy, Department of Treasury
       Helen M. Hubbard, Tax Legislative Counsel, Department of Treasury
       Mark A. Prater, Republican Chief Tax Counsel, Senate Finance Committee Staff
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