Stanley Surrey was Assistant Secretary of the Treasury for Tax Policy from 1961 to 1969. He died in 1984. He was a pre-eminent tax scholar and a hands-on administrator. He was at the center of several tax issues of high profile today: the invention of “tax expenditures,” the invention of subpart F, and debates over VATs and separating the Internal Revenue Service from the Treasury.

Q What do you think about prospects for tax reform?

A Tax reform requires a President to strongly get behind the effort. Even though President Carter called the tax system a “national disgrace,” he could not move tax reform in 1978 because he did not make it a high enough priority. Tax reform will come when a president gets behind it. Stanley S. Surrey, Reflections on Tax Reform in the United States, 1 CAN. TAX’N 34, 35 (1979).

Q Do you believe that tax reform is a matter of economics or morality or what?

A It is largely a matter of morality. “The present [1970] struggle for tax reform is essentially a moral one. It is totally immoral for us as a nation to continue the inequities of our federal income tax. It is immoral to place income tax burdens on those in poverty or close to it. It is immoral to have an efficient withholding system for wages and salaries that inexorably collects the tax liabilities of the little fellow and the moderately well-off salaried person, and then to tolerate the wholesale escape from their tax liabilities that characterizes our high-income recipients as a class.” Stanley S. Surrey, Federal Tax and Fiscal Policy, 48 TAXES 49, 51 (1970). [In later years the passive loss rules, the at risk rules, and other reforms shut down some of the schemes to which Surrey referred.]

Q What do you think about tax provisions for macroeconomic effects?

A “[W]e should not resort to tax devices for economic stabilization and growth that are so interwoven with the fabric of the regular tax structure … that only the keepers of the temple know which provisions owe their origins to economic stabilization or growth and which to the proper measurement of net income.” Id. at 54.

Q What do you think about a VAT in the U.S.? Should we follow the path of Europe?

A “Unfortunately, we are likely to enter into that subject with a large amount of confusion, rhetoric and dissembling. Partly this is due to the way the tax developed and spread in Western Europe. There the basic question was what to do about existing high level excise taxes on consumption structured in the unsatisfactory form of turnover taxes. The step to a value added tax was perhaps a natural transition, for it led to a more efficient and economically neutral tax that still had the probably necessary political strength of appearing to tax all the productive and commercial sectors as did the turnover taxes. The question in the United States is a different one. We have no general federal tax on consumption. We have, however, a national sales tax of the retail type in the cumulative geographical coverage of the various state taxes…. Where do we want to go from here? If we are to have a unitary national tax on consumption, the immediate questions would seem to center around the use of the retail form in view of our state and local experiences…. Such questions do not even raise the issue of a value added tax…. It would seem we would come to that issue only if one were to assert and prove that the value added method of imposing a final result sales tax on consumption by nonbusiness consumers is clearly superior to the retail sales tax …. In a real sense, the Europeans … never got to that question.” Id. at 55.

Q Don’t you believe that shifting from income taxation toward a VAT would boost the U.S. economy?

A “[T]o say that heavy reliance on indirect taxes compared to direct taxes is a significant factor in economic growth is a naive view of a complex problem. As a matter of fact, one would be just as naive to say that the reason the United Kingdom has had a relatively slow rate of growth in recent years [as of 1968] is because it raises a high proportion of its revenues from indirect taxes…. On the other hand, we have been doing pretty well in the United States as far as growth is concerned—at least for the last eight years—and we do not have a national sales tax.” Stanley S. Surrey, A Value-Added Tax for the United States—A Negative View, 21 TAX EXECUTIVE 151, 154–55 (1968–1969).

Q What do you think about a proposal to separate the Internal Revenue Service from the Treasury Department?

A “I first came across the proposal in the early 1940’s when it was used from time to time by former congressman Knutson as a means of plaguing the then Treasury Secretary
Henry Morgenthau, Jr.…The proposal … in 1952 … was placed … before the Republican Presidential candidate.… The proposal seeks … a rigid cleavage between tax administration and tax policy.… On one analysis, the Bureau is being separated from the thought influence, or the doctrinal influence, or the social philosophy of the Treasury Department. This seems the paramount objective.… (I believe) an antiseptic, sterilized tax administration, uncontaminated by the currents and needs of an ever changing society, is hardly realistic, and is clearly undesirable.… In brief, there are no ‘purely administrative matters’ in our federal tax system. Stated differently, there is no tax problem, certainly no significant tax problem, which should be answered on the basis of administrative considerations alone.… (A witness stated in congressional hearings on the proposal that) ‘I think there would be much less tendency on the part of an independent Bureau of Internal Revenue to read into the tax laws which you [the Congress] enact, interpretations which you did not intend….’ I am afraid that here our witness, who happens to be a very capable attorney in dealing with theoretical matters, was also demonstrating that he is a very capable, practical attorney as well. For he was appealing to the Congressmen in a vein most pleasing to them, that of a defender of their authority against those who would flout the Congressional will.” Stanley S. Surrey, *A Comment on the Proposal to Separate the Bureau of Internal Revenue from the Treasury Department*, 8 Tax L. Rev. 155, 155–56, 157, 160–61 (1952–1953).