Congressional Research Service

Tax Reform in the 113th Congress: An Overview of Proposals

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May 6, 2013

Congressional Research Service
7-5700
www.crs.gov
R43060

CRS Report for Congress
Prepared for Members and Committees of Congress

Summary

Most agree that the U.S. tax system is in need of substantial reforms. The 113th Congress continues to explore ways to make the U.S. tax system simpler, fairer, and more efficient. Identifying and enacting policies that will result in a simpler, fairer, and more efficient tax system remains a challenge.

Both the House- and Senate-passed budget resolutions (H.Con.Res. 25 and S.Con.Res. 8) call for substantial changes in current tax law. The House-passed proposal supports revenue-neutral comprehensive tax reform, while the Senate-passed proposal instructs the Finance Committee to draft revenue legislation that would reduce the deficit by $975 billion over the 2013 to 2023 budget window. The President's FY2014 budget proposal also contains substantive changes to current revenue policies.

Presently, the House Committee on Ways and Means and the Senate Committee on Finance are actively engaged in tax reform deliberations. The Committee on Ways and Means has released several discussion drafts outlining options for various components of tax reform, and has also formed tax reform working groups to further consider tax reform as it relates to different issue areas. The Committee on Finance has also started releasing tax reform options papers as a process for developing a tax reform proposal.

Legislation has been introduced in the 113th Congress that would fundamentally change the U.S. federal tax system. The *Fair Tax Act of 2013* (H.R. 25 / S. 122) would replace most current federal taxes with a 23% national retail sales tax. Other proposals would establish a flat tax, where individuals would be taxed on wages and businesses taxed on cash flows (see the *Flat Tax Act* (H.R. 1040) and the *Simplified, Manageable, and Responsible Tax (SMART) Act* (S. 173)). The *Tax Code Termination Act* (H.R. 352) would effectively repeal the current Internal Revenue Code, requiring Congress to write a new tax code that would achieve certain stated objectives.

The prevailing framework for evaluating tax policy considers equity (or fairness), efficiency, and simplicity. Equity examines the distribution of the tax burden across different groups. This information can then be used to assess the "fairness" of the tax system. A tax system that is economically efficient generally provides neutral treatment, minimizing economic distortions and maximizing output. A tax system that is simple reduces administrative and compliance costs while also promoting transparency.

Oftentimes, there are trade-offs to be considered when evaluating tax policy options. For example, shifting towards a consumption tax might enhance economic efficiency. However, taxing consumption rather than income tends to put an increased tax burden on lower-income taxpayers relative to higher-income taxpayers, reducing the progressivity of the tax system. Policymakers may want to consider the trade-off between equity and efficiency when evaluating tax policy options.

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Introduction

Tax reform is likely to be a major issue before the 113th Congress. Both the House Committee on Ways and Means and Senate Committee on Finance continue to evaluate tax reform options. The Committee on Ways and Means has formed tax reform working groups to evaluate tax reform options. The Committee on Ways and Means has also released several discussion drafts, outlining policy options for various components of tax reform.[1] The Committee on Finance has also started releasing tax reform options papers that are part of the committee's process for developing a tax reform proposal.[2] While the tax writing committees are working toward developing comprehensive tax reform legislation, several other comprehensive tax reform bills have already been introduced in the 113th Congress. Both the House- and Senate-passed budget resolutions (H.Con.Res. 25 and S.Con.Res. 8, respectively) also recommend substantial changes to current revenue policies. Additionally, the President's FY2014 Budget proposes substantive reforms to current revenue policies.

There are various policy options for achieving comprehensive tax reform. One option is to enact a base-broadening reform, maintaining the current system with reduced tax rates. A second option is to substantially revise or eliminate the current tax system, instead relying on an alternative tax base for revenues (e.g., taxing consumption rather than income). Either option can be designed to be revenue-neutral or change the revenue outlook, depending on the exact provisions of the reform.

Tax systems are often evaluated using the criteria of efficiency, equity, and simplicity. One goal of tax reform is to enhance economic efficiency, removing provisions in the code that adversely affect decision making and economic output. Changes in tax policy also have equity implications, with respect to "fairness" of the tax code. The current tax code is widely seen as being overly complex. Thus, tax reform provides the opportunity to simplify the U.S. tax system. Balancing these three objectives often involves trade-offs. Balancing the trade-offs in these objectives is one of the challenges policymakers face in implementing tax reform.

A major challenge for tax reform in the 113th Congress is the question of revenues. If tax reform raises revenues, should these revenues be used to reduce tax rates, reduce the budget deficit, or some combination of the two? Revenues from tax reform are one option for reducing budget deficits and the national debt. Some Members maintain that a revenue increase is unnecessary because spending reductions can be sufficient to reduce the deficit.[3]

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1 The Committee on Ways and Means website provides additional background on the Committee's progress on tax reform: http://waysandmeans.house.gov/taxreform/.

2 The Committee on Finance options papers can be found at http://www.finance.senate.gov/issue/?id=6c61b1e9-7203-4af0-b356-357388612063.

3 Americans for Tax Reform (ATR) opposes all tax increases as a matter of principle. In the 113th Congress, 219 U.S. Representatives and 39 U.S. Senators have taken an ATR pledge never to raise income taxes, http://www.atr.org, March 27, 2013.

Tax Reform Options

Fundamental or comprehensive tax reform may be achieved either by modifying the existing income tax system or by adding a new source of tax revenue (e.g., replacing the current tax system). In modifying the existing tax system, base-broadening could raise additional tax revenues. The additional revenues could either be used to reduce tax rates or for deficit reduction. Similarly, revenues from a new tax (e.g., a consumption tax) could be used to offset reductions in current taxes, or to reduce the deficit.

Income Tax Reform: Base-Broadening[4]

Some Members of Congress have expressed concern about the large number and high cost of tax expenditures.[5] Examples of tax expenditures include the deduction for mortgage interest on owner-occupied residences and the deduction for property taxes on owner-occupied residences. Many tax expenditures are seen as targets to be reduced or eliminated. In evaluating tax expenditures, one issue Congress may want to consider whether the benefits of a particular tax expenditure exceed the costs of that tax expenditure.[6] Identifying and quantifying the costs and benefits associated with particular tax expenditure provisions, however, can be challenging.[7]

The current tax reform debate generally deals with the issue of broadening the individual and corporate income tax bases by scaling back or eliminating tax expenditures. The additional revenues could be used to lower marginal tax rates, reduce the deficit, or achieve some combination of these two options. The Fiscal Commission's 2010 tax reform proposal would have financed reduced tax rates by repealing or reforming most major tax expenditures.

The tax expenditures associated with the individual and the corporate tax differ in their size and value, and thus in their scope for potential revenue generation. The potential revenue gain from individual tax expenditures is very large, roughly $1 trillion and about three-fourths of the existing revenue. While these large amounts suggest a significant scope for base broadening, most of these tax expenditures arise from a limited number of provisions, many of which are very popular and broadly used, are difficult to eliminate in a technical sense, and/or are considered desirable provisions.[8] Further, the rate reductions that can be achieved in a revenue-neutral reform may be smaller than might be expected. In recent analysis, the Joint Committee on Taxation (JCT) found that a revenue-neutral reform that (1) repealed the AMT; (2) repealed all itemized deductions; (3) taxed capital gains and dividends at ordinary rates; and (4) retained the earned

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[4] Typically, a base-broadening tax reform is one that eliminates certain tax preferences, such as tax deductions, credits, or exclusions. This allows tax rates to be applied to a larger income base. Base broadening can be used to pay for rate reductions in a revenue-neutral tax reform.

[5] For an analysis of tax expenditures, see CRS Report RL34622, *Tax Expenditures and the Federal Budget*, by Thomas L. Hungerford.

[6] For background material on tax expenditures, see Senate Committee on the Budget, *Tax Expenditures: Compendium of Background Material on Individual Provisions*, S. Prt. 112-45, 112th Congress, 2nd Sess., December 2012.

[7] For background on other considerations to be made when evaluating tax expenditures, see U.S. Government Accountability Office, *Tax Expenditures: Background and Evaluation Criteria and Questions*, GAO-13-167SP, November 29, 2012, http://www.gao.gov/assets/660/650371.pdf.

[8] See CRS Report R42435, *The Challenge of Individual Income Tax Reform: An Economic Analysis of Tax Base Broadening*, by Jane G. Gravelle and Thomas L. Hungerford.

income tax credit (EITC), child tax credit, and tax benefits for retirements savings and healthcare could reduce rates by 4%. Thus, the top individual income tax bracket would be reduced from 39.6% to 38.02%.[9]

Corporate tax expenditures are relatively small in value, partially reflecting the smaller corporate tax base. Analysis suggests that eliminating all corporate tax expenditures would allow the statutory corporate tax rate to be reduced from 35% to roughly 28% to 29%.[10] These base-broadening provisions are also concentrated in a few provisions, which may be difficult to change, such as accelerated depreciation.[11] There are, however, some significant potential base-broadening provisions outside of tax expenditures. For example, additional revenues could result from taxing large pass-through entities that currently pay taxes at the individual level as corporations[12] or by restricting interest deductions.[13] Enacting additional base-broadening reforms could be used to reduce the corporate tax rate below what could be achieved through revenue-neutral policy that only eliminated tax expenditures.

There has been a particular focus, as well, on the tax treatment of foreign source income of multinationals. Under the current system, U.S.-based companies with foreign-source income may be subject to U.S. taxes on that income. However, deferral allows tax payments to be deferred until the income earned abroad is repatriated (returned) to the United States. Some proposals would eliminate the U.S. taxation of income earned abroad by U.S.-based multinationals, which could, depending on the details of the proposal, narrow the tax base. Another option is to increase the taxation of foreign-source income of U.S.-based multinationals, through limiting deferral, for example. Increasing the amount of foreign-source income subject to tax would broaden the tax base. International issues have also been an impetus for lowering the corporate tax rate.[14]

As an additional challenge, corporate tax reform or individual tax reform in isolation would be difficult to achieve, as the systems are highly interconnected. Many of the corporate preferences also benefit unincorporated business, also known as pass-throughs.[15] For pass-through entities, business income is subject to the individual income tax.

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[9] See Letter from Joint Committee on Taxation to Honorable Max Baucus and Honorable Orrin G. Hatch, United States Senate, October 11, 2012, available at http://democrats.waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/112-1671.pdf.

[10] CRS Report RL34229, *Corporate Tax Reform: Issues for Congress*, by Jane G. Gravelle and Thomas L. Hungerford and Memo from Thomas A. Barthold, Joint Committee on Taxation, October 27, 2011, available at http://democrats.waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/JCTRevenueestimatesFinal.pdf.

[11] See CRS Report R42726, *The Corporate Income Tax System: Overview and Options for Reform*, by Mark P. Keightley and Molly F. Sherlock and CRS Report RL34229, *Corporate Tax Reform: Issues for Congress*, by Jane G. Gravelle and Thomas L. Hungerford.

[12] See CRS Report R42451, *Taxing Large Pass-Throughs As Corporations: How Many Firms Would Be Affected?*, by Mark P. Keightley.

[13] According to one estimate, reducing the interest deduction to disallow the inflation premium would allow for a 2.5 percentage point reduction in the corporate tax rate. See CRS Report RL34229, *Corporate Tax Reform: Issues for Congress*, by Jane G. Gravelle and Thomas L. Hungerford.

[14] CRS Report RL34115, *Reform of U.S. International Taxation: Alternatives*, by Jane G. Gravelle and CRS Report R42624, *Moving to a Territorial Income Tax: Options and Challenges*, by Jane G. Gravelle. For a discussion of the international effects of lowering the corporate tax rate, see CRS Report R41743, *International Corporate Tax Rate Comparisons and Policy Implications*, by Jane G. Gravelle. For a primer on international corporate taxation, see CRS Report R41852, *U.S. International Corporate Taxation: Basic Concepts and Policy Issues*, by Mark P. Keightley.

[15] Non-corporate businesses, including S corporations and partnerships, pass their income through to owners who pay (continued...)

A New Tax or Revised Tax Base

Alternative revenue options may be sought for a number of reasons. If the revenues generated through base broadening do not fully finance desired rate reductions, alternative revenue sources may be sought to fill the gap. Revenue from an add-on tax could allow for the retention of more tax expenditures and lower reductions in other tax expenditures, or larger tax rate reductions. Further, Congress may choose to seek alternative revenue sources to reduce the budget deficit and national debt. An alternative revenue source or tax base (e.g., consumption) might also be supported as an option for improving economic efficiency.

There are several options for imposing a broad-based consumption tax. These include a value-added tax (VAT), a retail sales tax, and a flat tax. A value-added tax is a tax on the value that a firm adds to a product at each stage of production.[16] The value the firm adds is the difference between a firm's sales and a firm's purchases of inputs from other firms. The VAT is collected by each firm at every stage of production. A retail sales tax is a consumption tax levied only at a single stage of production, the retail stage.[17] The retailer collects a specific percentage markup in the retail price of a good or service, which is then remitted to the government. Both the VAT and the retail sales tax have the potential of a robust revenue yield.

Another option for implementing a broad-based consumption tax would be to levy a so-called "flat tax" (often referred to as a Hall-Rabushka flat tax after the two economists who popularized this proposal).[18] Flat tax proposals generally have two components: a wage tax and a cash-flow tax on businesses.[19] With this form, a flat tax is essentially a modified VAT, with wages and pensions subtracted from the VAT base and taxed at the individual level. Under a standard VAT, a firm would not subtract its wage and pension contributions when calculating its tax base. Under the flat tax, some wage income may not be included in the tax base because of personal exemptions.

Environmental taxes have been proposed as an option to simultaneously reduce pollution and raise revenue. The most frequently discussed energy tax is a carbon tax that would be levied on the volume of carbon emitted.[20] Another alternative energy tax option would be higher gasoline taxes.[21]

(...continued)

taxes. Collectively, these non-corporate business entities are referred to as pass-throughs. For these types of entities, business income is taxed only once, at individual income tax rates.

[16] For a comprehensive overview of the concept of a U.S. VAT, see CRS Report R41602, *Should the United States Levy a Value-Added Tax for Deficit Reduction?*, by James M. Bickley. For a primer on the VAT, see CRS Report R41708, *Value-Added Tax (VAT) as a Revenue Option: A Primer*, by James M. Bickley.

[17] For a contrast between the VAT and the national sales tax, see CRS Report RL33438, *A Value-Added Tax Contrasted With a National Sales Tax*, by James M. Bickley.

[18] For detailed information, see CRS Report 98-529, *Flat Tax: An Overview of the Hall-Rabushka Proposal*, by James M. Bickley.

[19] A wage tax is a tax only on salaries and wages. A cash-flow tax is generally a tax on gross receipts minus all outlays.

[20] See CRS Report R42731, *Carbon Tax: Deficit Reduction and Other Considerations*, by Jonathan L. Ramseur, Jane A. Leggett, and Molly F. Sherlock.

[21] For an analysis of the gasoline tax, see CRS Report R40808, *The Role of Federal Gasoline Excise Taxes in Public Policy*, by Robert Pirog.

Framework for Evaluation

In evaluating any change in tax policy, the prevailing economic framework is to analyze the tax policy for equity, efficiency, and simplicity. Tradeoffs may exist between these three objectives. For example, if greater income equality is desired, this may conflict with the goal of economic efficiency.

Equity

Economic theory maintains that it is not possible to make interpersonal comparisons of utility. Hence, whether a change in the distribution of income, with gainers and losers, is an improvement in the national welfare is a value judgment. The effects on different groups, however, can be measured and debated. When considering the fairness of the distribution of tax burdens, the concepts of horizontal and vertical equity are often considered.

Horizontal equity holds that taxpayers with similar incomes should face similar tax burdens. Tax preferences that allow certain taxpayers to claim deduction, credits, or exemptions to reduce tax burdens often result in situations where taxpayers with similar incomes face different tax burdens. Evaluating horizontal equity involves exploring whether taxpayers in similar circumstances pay approximately the same amount of taxes. For example, will the tax burden on two single taxpayers be the same as the burden on a similarly situated married couple?

Vertical equity examines the distribution of tax burdens across different income groups. Under an ability-to-pay standard, vertical equity would suggest that taxpayers in higher income groups pay more. How much more is a policy question. Should the after-tax distribution of income be the same as the pre-tax distribution (suggesting taxation should be proportional)? Or should taxpayers with a greater ability to pay have a proportionally higher tax burden (suggesting taxation should be progressive)? In looking at the income of taxpayers, is annual or lifetime income the appropriate ability-to-pay metric?

Evaluating the fairness of tax policy, from an economic perspective, may also involve asking several other questions. For example, what will be the effect on taxpayers in different age groups? Will there be distributional effects by region of the country? Another consideration might be how minority groups could be affected?

Efficiency

Tax policy should promote economic efficiency; that is, tax policy should be as neutral as possible by minimizing economic distortions.[22] Low marginal tax rates tend to lessen distortions. Taxes that are applied to a broad base, with few exclusions or exemptions, also tend to be more economically efficient.

Many efficiency questions concern household decisions, specifically those related to savings and labor choices. In the long-run, savings used for investment promotes economic growth. Increased

[22] The loss in economic efficiency due to a tax is referred to by economists as the deadweight loss or excess burden of the tax.

labor supply can also positively contribute to GDP. Thus, in evaluating economic efficiency, the following types of questions might be asked. What will be the effect of a tax change on households' decisions to save versus consume? Will household decisions about the composition of goods and services consumed be affected? Will households' choices of leisure versus work be affected?

Other efficiency questions concern firms' decisions. What will be the effect on firms' decisions concerning the method of financing (debt or equity), choice among inputs, type of business organization (corporation, partnership, or sole proprietorship), and composition of output?

Simplicity

The greater the simplicity of the tax system, the lower will be the administrative and compliance costs. Tax compliance tends to increase with simplicity such that simplifying the tax system could help reduce the tax gap.[23] Thus, tax policy should eliminate any unnecessary complexity and promote transparency. Numerous questions concerning simplicity arise; among them are the following: How will a tax change affect federal administrative costs? Will the administrative costs of state and local governments change? How will compliance costs of households be affected? Will business compliance costs change?

Tax Reform in the 113th Congress

Comprehensive tax reform is being debated in the 113th Congress. Both the House- and Senate-passed budget resolutions (H.Con.Res. 25 and S.Con.Res. 8, respectively) call for substantial changes to current revenue policies. The House Committee on Ways and Means and Senate Committee on Finance are in the process of reviewing various tax reform options. Additionally, a number of legislative proposals have been introduced that would eliminate and replace the current tax system.

Committee on Ways and Means and Committee on Finance

The Ways and Means Committee continues to work towards comprehensive tax reform in the 113th Congress. During the 112th Congress, the Ways and Means Committee released an international tax reform discussion draft. As of the date of this report, the Committee on Ways and Means has released additional tax reform discussion drafts in the 113th Congress; [24] one related to financial products[25] and another related to small businesses.[26]

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[23] The tax gap is the difference between taxes that should have been paid if taxpayers were fully compliant with all tax laws and taxes that were actually collected.

[24] Committee on Ways and Means discussion drafts can be found on the committee's tax reform website: http://waysandmeans.house.gov/taxreform/.

[25] The financial products discussion draft proposes to tax most financial derivatives using mark-to-market accounting treatment and repeal rules that allow securities dealers to pay capital gains taxes on 60% of their derivatives income.

[26] The small business discussion draft provides two different reform options. Option one would revise existing rules related to pass-through entities, encouraging more C corporations to be taxed as S corporations, and partnership tax avoidance. Option two represents a broader reform option, drafting a new set of rules for taxation of non-publicly traded businesses.

To inform the tax reform debate, the Ways and Means Committee has established eleven "Tax Reform Working Groups" related to various economic sectors.[27] Feedback gathered by the working groups will be included in a report to be prepared by the Joint Committee on Taxation (JCT) that provides background information on each of the working group areas. The JCT report is to be delivered to the Ways and Means Committee by May 6, 2013.[28]

The Committee on Finance has also started holding regular meetings to discuss tax reform options and has begun to release a series of tax reform options papers.[29]

Legislative Proposals

Reform the Income Tax System

As of the date of this report, legislation that could be characterized as proposing a comprehensive reform of the current income tax system has not been introduced. Tax reform efforts underway in both the Committee on Ways and Means and the Committee on Finance appear to be focused on reforming, rather than replacing, the current tax system.

Replace the Income Tax System

Several proposals have been introduced in the 113th Congress that would replace the income tax system with some alternative form of taxation at the federal level. The *Fair Tax Act of 2013* (H.R. 25 / S. 122) would repeal the individual income tax, the corporate income tax, all payroll taxes, the self-employment tax, and the estate and gift taxes.[30] These taxes would be effectively replaced with a national retail sales tax. Thus, under H.R. 25 / S. 122, the current federal tax system, based on taxing income, would be replaced with a system that taxes consumption.

The *Flat Tax Act* (H.R. 1040) proposes to allow taxpayers to elect to be subject to a flat tax, as an alternative to the current tax system. Individuals and businesses electing a flat tax would pay a flat rate of 19% for the first two years, and a rate of 17% thereafter. The Simplified, Manageable, and Responsible Tax (SMART) Act (S. 173) also proposes a flat-tax of 17% on individuals' wages and business taxable income. The flat tax systems proposed in H.R. 1040 and S. 173 are structurally similar to the Hall-Rabushka flat tax proposal.[31]

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[27] The eleven groups are (1) Charitable/Exempt Organizations; (2) Debt, Equity and Capital; (3) Education and Family Benefits; (4) Energy; (5) Financial Services; (6) Income and Tax Distribution; (7) International; (8) Manufacturing; (9) Pensions/Retirement; (10) Real Estate; and (11) Small Business/Pass Throughs.

[28] For more information on the Committee on Ways and Means comprehensive tax reform efforts, see http://waysandmeans.house.gov/taxreform/.

[29] The Senate Finance Committee's tax reform options papers are available online at http://www.finance.senate.gov/issue/?id=6c61b1e9-7203-4af0-b356-357388612063

[30] Similar legislation was introduced in the 112th Congress as the Fair Tax Act of 2011 (H.R. 25 / S. 13).

[31] For background information on the Hall-Rabushka flat tax proposal, see CRS Report 98-529, *Flat Tax: An Overview of the Hall-Rabushka Proposal*, by James M. Bickley.

Replacing the Income Tax System: Legislative Proposals in the 113th Congress

The Fair Tax Act of 2013 (H.R. 25 / S. 122)

This legislation proposes to repeal the individual income tax, the corporate income tax, all payroll taxes, the self-employment tax, and the estate and gift taxes.[32] These taxes would be effectively replaced with a 23% (tax-inclusive, meaning that the rate is a proportion of the after-tax rather than the pre-tax value) national retail sales tax. The tax-inclusive retail sales tax would equal 23% of the sum of the sales price of an item and the amount of the retail sales tax. Every family would receive a rebate of the sales tax on spending amounts up to the federal poverty level (plus an extra amount to prevent any marriage penalty). The Social Security Administration would provide a monthly sales tax rebate to registered qualified families. The 23% national retail sales would not be levied on exports. The sales tax would be separately stated and charged. Social Security and Medicare benefits would remain the same with payroll tax revenue replaced by some of the revenue from the retail sales tax. States could elect to collect the national retail sales tax on behalf of the federal government in exchange for a fee. Taxpayer rights provisions are incorporated into the act. The sales tax would sunset at the end of a seven-year period beginning on the enactment of this act if the Sixteenth Amendment is not repealed. This amendment provided Congress with the "power to lay and collect taxes on incomes."

The Flat Tax Act (H.R. 1040)

This proposal would authorize an individual or a person engaged in business activity to make an irrevocable election to be subject to a flat tax (in lieu of the existing tax provisions). This act would also repeal estate and gift taxes.

For individuals not engaged in business activity who select the flat tax, their initial tax rate would be 19%, but after two years this rate would decline to 17%. The individual flat tax would be levied on all wages, retirement distributions, and unemployment compensation. An individual's taxable income would also include the taxable income of each dependent child who has not attained age 14 as of the close of such taxable year.

The flat tax would have "standard deductions" that would equal the sum of the "basic standard deduction" and the "additional standard deduction."

The "basic standard deduction" would depend on filing status:

- $32,496 for a married couple filing jointly or a surviving spouse
- $20,739 for a single head of household
- $16,248 for a single person or a married person filing a separate return

The "additional standard deduction" would be an amount equal to $6,998 for each dependent of the taxpayer. All deductions would be indexed for inflation using the consumer price index (CPI).

For individuals engaged in business activity who select the flat tax, their initial tax rate would be 19% (declining to 17% when the tax was fully phased in two years after enactment) on the difference between the gross revenue of the business and the sum of its purchases from other firms, wage payments, and pension contributions.

For those employees electing the flat tax, government employers and employers of nonprofit organizations would pay a flat tax on their employees' fringe benefits, except retirement contributions, because activities of government entities and tax-exempt organizations would be exempt from the business tax.

Any congressional action that raises the flat tax rate or reduces the amount of the standard deduction would require a three-fifths (supermajority) vote in both the Senate and the House of Representatives.

The Simplified, Manageable, and Responsible Tax (SMART) Act (S. 173)

This act would replace the current individual and corporate income taxes and estate and gift taxes with a flat tax. This flat tax proposal has two components: a wage tax and a cash-flow tax on businesses.

[32] Similar legislation was introduced in the 112th Congress as the Fair Tax Act of 2011 (H.R. 25 / S. 13).

The individual wage tax would be levied at a 17% rate. The individual wage tax would be levied on all wages, salaries, pension distributions, and unemployment compensation. An individual's taxable income would include taxable income of each dependent child who has not attained age 14 as of the close of the taxable year. The individual wage tax would not be levied on Social Security receipts. Thus, the current partial taxation of Social Security payments to high-income households would be repealed. Social Security contributions would continue to be taxed; that is, they would not be deductible and would be made from after-tax income. Firms would pay the business tax on their Social Security contributions. Individuals would pay the wage tax on their Social Security contributions. The individual wage tax would have "standard deductions" that would equal the sum of the "basic standard deduction" and the "additional standard deduction."

The "basic standard deduction" would depend on filing status:

- $28,140 for a married couple filing jointly or a surviving spouse
- $17,970 for a single head of household
- $14,070 for a single person or a married person filing a separate return

The "additional standard deduction" would be an amount equal to $6,070 for each dependent of the taxpayer. All deductions would be indexed for inflation using the consumer price index (CPI).

Businesses would pay a tax of 17% on the difference (if positive) between gross revenue and the sum of purchases from other firms, wage payments, and pension contributions. This business tax would cover corporations, partnerships, and sole proprietorships. Pension contributions would be deductible but there would be no deductions for fringe benefits. State and local taxes (including income taxes) and payroll taxes would not be deductible.

If the business's aggregate deductions exceed gross revenue, then the excess of aggregate deductions can be carried forward to the next year and increased by a percentage equal to the three-month Treasury rate for the last month of the taxable year.

Government employers and employers of nonprofit organizations would pay a 17% tax on their employees' fringe benefits, except retirement contributions, because activities of government entities and tax-exempt organizations would be exempt from the business tax.

A supermajority of three-fifths of the Members of the House or Senate would be required to (1) increase any federal income tax rate; (2) create any additional federal income tax rate; (3) reduce the standard deduction; or (4) provide any exclusion, deduction, credit, or other benefit which results in a reduction in federal revenues.

Replacing the Current Tax System with a Consumption Tax: Economic Analysis

Relative to the current system, it is often asserted that a flat tax (or consumption tax[33]) would increase economic efficiency.[34] The type of tax is imposed on a broad definition of wage income (or consumption), and there are limited deductions, exemptions, and credits to reduce tax liability.[35] Lower tax rates on a broader tax base tend to promote economic efficiency.[36] If the flat tax (consumption tax) is not applied to capital income or corporate income, the flat tax may

[33] A flat tax is equivalent to a value-added tax (VAT) when there are no personal exemptions. Effectively, the wage portion of the flat tax is paid by households rather than businesses. Thus, a flat tax is effectively a consumption tax.

[34] A flat tax may yield efficiency gains by effectively taxing consumption rather than income, by broadening the tax base, by reducing tax rates, and by reducing compliance costs. For more, see William G. Gale, "Flat Tax," in *The Encyclopedia of Taxation & Tax Policy*, ed. Joseph J. Cordes, Robert D. Ebel, and Jane G. Gravelle, 2nd ed. (Washington, DC: Urban Institute Press, 2005), pp. 149-152.

[35] It is possible that deductions, exemptions, and credits could be used in a consumption tax system. As with an income tax system, deductions, exemptions, and credits that erode the consumption tax base may reduce the efficiency of the overall tax system.

[36] If tax deductions, credits, or exemptions address certain market failures, these provisions may enhance economic efficiency. Eliminating efficiency-enhancing provisions, even if the revenues are used to reduce tax rates, will not necessarily increase the efficiency of the entire tax system.

contribute to additional capital accumulation and investment.[37] A flat tax (or consumption tax) system, however, is likely to be less progressive than the current tax system, particularly at the top of the income distribution. Thus, efficiency gains achieved by moving to a flat tax (or consumption tax) system would come at the cost of reduced equity, as higher-income groups would tend to see tax burdens decline while lower income groups would tend to see increased tax burdens.

Another potential benefit of a flat tax system is simplicity. A flat tax system would impose one tax rate, and eliminate most of the tax deductions and tax credits currently in the tax code. However, much of the complexity in the current tax system is related to the definition of income, rather than the income tax rates. If the tax were applied only to wage income, this would create an incentive for non-wage compensation (e.g., benefits), as is the case in the current tax system with the exclusion for employer-provided healthcare. Further, if the flat tax system were to run parallel to the current income tax system, as proposed in H.R. 1040, the flat tax could create additional complexity for taxpayers trying to decide whether to elect flat tax treatment. There would also be horizontal inequities, as taxpayers with identical incomes and tax circumstances would have different tax liabilities under the flat tax and income tax systems.

Other Tax Reform Legislative Proposals

Other legislative proposals introduced in the 113th Congress would eliminate the current tax code, leaving it to Congress to design a new tax code. The *Tax Code Termination Act* (H.R. 352) would terminate the Internal Revenue Code, and declares that any new tax system should be a simple and fair system that (1) applies a low rate to all Americans; (2) provides tax relief for working Americans; (3) protects the rights of taxpayers and reduces tax collection abuses; (4) eliminates the bias against savings and investment; (5) promotes economic growth and job creation; and (6) does not penalize marriage or families.[38]

The End Wasteful Tax Loopholes Act (S. 8) proposes to express the sense of the Senate that Congress should enact legislation to (1) eliminate wasteful tax loopholes; (2) eliminate corporate tax loopholes and wasteful tax breaks for special interests; (3) enhance tax fairness by reforming or eliminating tax breaks that provide excessive benefits to millionaires and billionaires; (4) crack down on tax cheaters and close the tax gap; (5) use the revenue saved by curtailing tax loopholes to reduce the deficit and reform the federal tax code; (6) address provisions in the tax code that make it more profitable for companies to create jobs overseas than in the United States; and (7) reform the tax code in a manner that promotes job creation, competitiveness, and economic growth.

Legislation has also been introduced in the 113th Congress to address equity concerns in the current tax system by implementing a so-called "Buffett Rule."[39] The Paying a Fair Share Act of

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[37] The amount of additional capital accumulation and investment that occurs depends on the responsiveness of savings to changes in the tax rate. For background on this issue, see CRS Report R40411, *The Economic Effects of Capital Gains Taxation*, by Thomas L. Hungerford.

[38] The *Tax Code Termination Act* (H.R. 462) was also introduced in the 112th Congress.

[39] For additional background on the "Buffett Rule," see CRS Report R42043, *An Analysis of the "Buffett Rule"*, by Thomas L. Hungerford.

2013 (H.R. 766 / S. 321) would impose a 30% minimum effective tax rate on taxpayers reporting at least $1 million in income.[40]

Other Major Fiscal Reform Proposals

Both the Senate- and House-passed budget resolutions recommend substantial changes in current tax law. The House budget resolution (H. Con. Res. 25) calls for revenue-neutral comprehensive tax reform, while the Senate budget resolution (S. Con. Res. 8) instructs the Senate Finance Committee to draft revenue legislation that would reduce the deficit by $975 billion over the 2013 to 2023 budget window.[41]

House and Senate Budget Resolutions

The House budget resolution (H.Con.Res. 25) was passed on March 21, 2013. The accompanying H.Rept. 113-17 states that H.Con.Res. 25 seeks to grow the economy through tax reform.[42] Specifically, tax reform, as outlined in H. Con. Res. 25 would achieve the following objectives:[43]

- Simplify the tax code to make it fairer to American families and businesses.
- Reduce the amount of time and resources necessary to comply with tax laws.
- Substantially lower tax rates for individuals, with a goal of achieving a top individual rate of 25%.
- Consolidate the current seven individual-income-tax brackets into two brackets with a first bracket of 10%.
- Repeal the Alternative Minimum Tax.
- Reduce the corporate tax rate to 25%.
- Transition the tax code to a more competitive system of international taxation.

H. Con. Res. 25 states that revenue-neutral tax reform that meets the objectives listed above should be reported by the Committee on Ways and Means to the House by December 31, 2013. This would allow Congress time to enact comprehensive tax reform during FY2014. The tax reform efforts being undertaken by the Committee on Ways and Means are discussed in greater detail elsewhere in this report (see "Committee on Ways and Means" above).

The Senate budget resolution (S.Con.Res. 8) was passed on March 23, 2013. This budget resolution states that by October 1, 2013, the Senate Committee on Finance will report revenue legislation that raises $975 billion between fiscal years 2013 and 2023. The Committee Report accompanying S. Con. Res. 8 states that these additional revenues will result from tax increases

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[40] The Paying a Fair Share Act of 2012 (S. 2230 / H.R. 3903) was also introduced in the 112th Congress. On April 16, 2012, the Senate voted not to invoke cloture on S. 2230.

[41] Additional legislative action is required to enact any policy proposals from a budget resolution.

[42] U.S. Congress, House Committee on the Budget, *Concurrent Resolution on the Budget - Fiscal Year 2014*, Report to Accompany H.Con.Res. 25, 113th Cong., 1st sess., March 15, 2013, H.Rept. 113-17, p. 6.

[43] *Ibid.*, p. 7.

on "the wealthiest Americans and biggest corporations."[44] The Committee Report also notes that S. Con. Res. 8, as reported, supports the goal of comprehensive tax reform that "simplifies the tax code, increases fairness, generates economic growth, and improves the competitive position of U.S. businesses, if it is done in a way that is consistent with the revenue and progressivity goals" of the budget.[45]

President's FY2014 Budget Proposal

The President's FY2014 proposes substantial changes in current tax policy.[46] Many of the specific revenue policies proposed in the FY2014 budget appeared in earlier Obama Administration budget proposals. The revenue proposals in the President's budget proposal are divided into two groups. The business tax reform proposal expands incentives for certain sectors, repeals incentives available for other sectors, and contains reforms related to the U.S. international tax system and the financial and insurance sectors. The business tax reforms in the President's budget proposal are intended to be revenue neutral. The President's budget also proposes to raise additional revenues for deficit reduction. Most of the revenues to be used for deficit reduction come from changes in individual, estate, or excise taxes.

Many of the proposals in the President's FY2014 budget revenue-neutral business tax reform appeared in previous budgets, including proposed reforms to the international tax system, repeal of last-in, first-out (LIFO), and the repeal of tax preferences for fossil fuels. One proposal that did not appear in previous budgets would require that derivative contracts be marked to market.[47] Some of the revenues raised would be used to provide incentives for manufacturing, research, and clean energy, including making the research and experimentation credit permanent.[48] The budget also proposes tax relief for small businesses, extending increased expensing allowances for small business. Overall, the revenues raised in this section of the President's budget proposal, $94.6 billion over 10 years, would be enough to pay for roughly a one percentage point reduction in the corporate tax rate.[49]

Other revenue proposals in the President's budget would reduce the deficit by $1 trillion over 10 years. Provisions that would raise the most revenue include a 28% limit on the value of itemized deductions and certain other tax expenditures ($529.3 billion), a re-indexing of the tax code using chained-CPI,[50] an increase in tobacco taxes ($78.1 billion), a return to 2009 estate and gift tax parameters ($71.7 billion), a "financial crisis responsibility fee" ($59.3 billion), and a "Buffet Rule" to raise taxes on certain high-income earners ($53.4 billion). The President's budget

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[44] p. 138

[45] *Ibid.*, p. 138.

[46] For information on specific policy proposals, see Department of the Treasury, *General Explanations of the Administration's Fiscal Year 2014 Revenue Proposals*, Washington, DC, April 2013, http://www.treasury.gov/resource-center/tax-policy/Documents/General-Explanations-FY2014.pdf.

[47] A similar proposal appeared in the Ways and Means financial products tax reform discussion draft.

[48] For background, see CRS Report RL31181, *Research Tax Credit: Current Law and Policy Issues for the 113th Congress*, by Gary Guenther.

[49] For discussion see Amy S. Elliott, "News Analysis: Obama's Budget Disappoints on Business Tax Reform Details," *Tax Notes Today*, April 11, 2013.

[50] For background, see CRS Report RL32293, *The Chained Consumer Price Index: What Is It and Would It Be Appropriate for Cost-of-Living Adjustments?*, by Julie M. Whittaker.

proposes several provisions that would reduce revenues, including a temporary tax credit for hiring and wage increases.

Tax Reform in the 112th Congress

Tax reform legislation in the 112th Congress can be categorized as having been either (1) proposals to reform the current income tax system; or (2) proposals to eliminate the income tax system, replacing the income tax with some alternative revenue source. During the 112th Congress, a number of non-legislative tax reform proposals were put forth, including frameworks from the President, a tax reform plan outlined by the President's Fiscal Commission, and tax reform as part of various budget proposals. While substantive revenue policy changes were enacted as part of the American Taxpayer Relief Act of 2012 (ATRA; P.L. 112-240),[51] the 112th Congress did not complete action on comprehensive tax reform measures.

Legislative Proposals

Reform the Income Tax System

The *Bipartisan Tax Fairness and Simplification Act of 2011* (S. 727), introduced in the 112th Congress, would have reformed the current income tax base rather than changing to a consumption base. On the individual side, S. 727 proposed to eliminate most tax preferences (broadening the tax base), simplify the remaining preferences, and reduce the number of tax brackets to three. The corporate tax base would have been broadened by eliminating most corporate tax preferences, and corporate tax rates reduced to 24%. The *Fair and Simple Tax Act of 2011* (H.R. 99) also proposed substantial modifications to the individual and corporate income taxes, reducing the number of individual tax brackets to three and reducing the corporate tax rate to 25%. H.R. 99 also proposed repealing the estate and gift taxes. Additional details on S. 727 and H.R. 99 are provided in the shaded text box below.

Reforming the Income Tax System: Legislative Proposals in the 112th Congress

***The Bipartisan Tax Fairness and Simplification Act of 2011* (S. 727)**

This bill had three stated purposes: (1) to make the federal individual income tax system simpler, fairer, and more transparent; (2) to make the federal corporate income tax rate a flat 24%, repeal the corporate alternative minimum tax, and eliminate special tax preferences that favor particular types of businesses or activities; and (3) to partially offset the federal budget deficit through the increased fiscal responsibility resulting from these reforms.

The progressive individual income tax would have had three rates: 15%, 25%, and 35%. The individual alternative minimum tax would have been eliminated. The standard deduction would have almost tripled in value. While many deductions would have been eliminated, the bill would have included deductions for mortgage interest and charitable contributions. The bill would have permanently extended the enhancements of the child tax credit, the earned income tax credit, and the dependent care credit. The bill would have consolidated the three existing types of IRAs into a new retirement savings account, and a new lifetime savings account. A married couple would have been able to contribute up to $14,000 per year to tax-favored retirement and savings accounts. The corporate tax rate would have been 24% of taxable income. The corporate tax base would have been broadened by the elimination of

[51] For more on the tax policies of ATRA, see CRS Report R42894, *An Overview of the Tax Provisions in the American Taxpayer Relief Act of 2012* , by Margot L. Crandall-Hollick.

numerous tax credits, deductions, and exclusions from income. The growth of small businesses would have been encouraged by allowing businesses with gross annual receipts of up to $1 million to permanently expense all equipment and inventory costs in a single year. The bill included numerous provisions to improve tax compliance.

The Fair and Simple Tax Act of 2011 (H.R. 99)

This bill proposed to establish an alternative determination of tax liability for individuals. A "simplified taxable income" would have been taxed at the rates of 10% on the first $40,000, 15% on the income over $40,000 but under $150,000, and 30% on the income over $150,000. Simplified taxable income would have equaled gross income less the sum of deductions for personal exemptions, the deduction allowed for the acquisition of indebtedness with respect to the principal residence, the deduction allowed for state and local income taxes, the deduction allowed for charitable giving, and the deduction allowed for medical expenses. The estate and gift taxes would have been repealed. The alternative minimum tax exemption amounts would have been indexed for inflation. The maximum corporate income tax rate would have been reduced to 25%. The 15% rate on dividends and capital gains of individuals would have been reduced to 10%. The basis for assets for purposes of determining capital gain or loss would have been indexed for inflation. This bill would have created tax-free accounts for retirement savings, lifetime savings, and lifetime skills. Examples of qualified life skills include assessments of skill levels, development of an individual employment plan, career planning, occupational skills training, on-the-job training, and entrepreneurial training. This bill would have repealed the adjusted gross income threshold in the medical care deduction for individuals under age 65 who have no employer health coverage. This bill would have made the research credit permanent. This bill would have repealed Title IX of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) relating to sunset of provisions. This bill would have repealed Section 107 of the Jobs and Growth Tax Relief Reconciliation Act of 2003 relating to application of EGTRRA sunset to this title.

Replace the Income Tax System

Proposals to replace the income tax system with a consumption tax were also introduced in the 112th Congress. Specifically, the Fair Tax Act of 2011 (H.R. 25 / S. 13) proposed a national retail sales tax to replace the income tax. This legislation was re-introduced in the 113th Congress.[52]

Other proposals to eliminate the income tax, replacing it with an alternative tax system, included the *Debt Free America Act* (H.R. 1125), the *Simplified, Manageable, and Responsible Tax Act* (S. 820) and the *Freedom Flat Tax Act* (H.R. 1040). H.R. 1125 would have repealed the individual income tax, instead raising revenues with a fee on transactions. S. 820 and H.R. 1040 would have enacted a "flat tax," in the spirit of the Hall-Rabushka flat tax proposal.[53] S. 820 would have levied a flat tax that would replace the individual and corporate income taxes, as well as the estate and gift tax. The tax would have had two components: (1) a 17% tax on wages; and (2) a 17% cash-flow tax on businesses. H.R. 1040 would have allowed individuals and businesses to elect to be subject to a flat tax, as an alternative to the current tax system. The *Flat Tax Act* (H.R. 1040) and the *Simplified, Manageable, and Responsible Tax Act* (S. 820) have been re-introduced in the 113th Congress.[54]

[52] Additional information on this proposal can be found above.

[53] For background information on the Hall-Rabushka flat tax proposal, see CRS Report 98-529, *Flat Tax: An Overview of the Hall-Rabushka Proposal*, by James M. Bickley.

[54] Additional information on these proposals can be found above.

Replacing the Income Tax System: Legislative Proposals in the 112th Congress

The Debt Free America Act (H.R. 1125)

The stated purposes of this act were to raise sufficient revenue from a fee on transactions to (1) eliminate the national debt within 10 years and phase out the individual income tax; and (2) provide incentives for private sector investment in capital goods, clean energy generation, and infrastructure development.

In an effort to achieve these goals, this act proposed to impose a transaction fee of 1%, offset by a corresponding nonrefundable income tax credit, on every specialized transaction that uses a payment instrument, including any check, cash, credit card, transfer of stock, bonds, or other financial instrument. This act defined "specified transaction" to (1) exclude any deposit into a personal account of an individual and any transfer between accounts; and (2) include retail and wholesale sales, purchases of intermediate goods, and financial and intangible transactions. The fees would have been collected by the seller or financial institution servicing the transaction and would be paid to the U.S. Treasury. This act would have established in the legislative branch the Bipartisan Task Force for Responsible Fiscal Action, to review the fiscal imbalance of the federal government, identify factors affecting the long-term fiscal imbalance, analyze potential courses of action, and provide recommendations and legislative language to improve the long-term fiscal imbalance.

This act would have repealed, after 2021, the individual income tax, refundable and nonrefundable personal tax credits, and the alternative minimum tax (AMT) on individuals. This act would have directed the Secretary of the Treasury to (1) prioritize the repayment of the national debt to protect the fiscal stability of the United States; and (2) study and report to Congress on the implementation of this act.

The **Fair Tax Act (H.R. 25 / S. 13)**, the **Freedom Flat Tax Act (H.R. 1040),** and the **Simplified, Manageable, and Responsible Tax (SMART) Act (S. 820)** have been re-introduced in the 113th Congress and are summarized above (see "Tax Reform in the 113th Congress").

Other Tax Reform Legislative Proposals

Legislation considered in the 112th Congress proposed to provide expedited consideration for comprehensive tax reform. The *Pathway to Job Creation through a Simpler, Fairer Tax Code Act of 2012* (H.R. 6169) proposed to direct the chair of the House Committee on Ways and Means to introduce a tax reform bill by April 30, 2013. H.R. 6169 stated that this tax reform bill would achieve the following: (1) consolidate the six current individual income tax brackets into a maximum of two brackets (one of 10% and another not higher than 25%); (2) reduce the corporate income tax rate to not more than 25%; (3) repeal the alternative minimum tax (AMT); (4) broaden the tax base so that tax revenues comprise between 18% and 19% of Gross Domestic Product (GDP); and (5) reform the current system of foreign taxation. The bill also provided for its expedited consideration in the House of Representatives and the Senate. On August 2, 2012, H.R. 6169 passed in the House. This legislation also appeared as Title II to H.R. 8, a bill to extend certain tax relief provisions enacted in 2001 and 2003, and to provide for expedited consideration of a bill providing for comprehensive tax relief, and for other purposes. Title I of H.R. 8 contained provisions to extend expiring tax provisions, an issue that was addressed by the enactment of the American Taxpayer Relief Act (ATRA; P.L. 112-240).

Other Major Fiscal Reform Proposals

House Budget Resolution and the Path to Prosperity

The Path to Prosperity: A Blueprint for American Renewal was released alongside the House FY2013 budget resolution (H.Con.Res. 34). *The Path to Prosperity* found that a pro-growth tax reform would simplify the individual income tax system by eliminating "loopholes," reduce the number of individual tax brackets to two (10% and 25%), repeals the Alternative Minimum Tax, maintains revenues at 18% to 19% of GDP, reduces the corporate tax rate to 25%, and shifts to a territorial international tax system. *The Path to Prosperity* called on leadership from the Committee on Ways and Means to advance tax reform.

President's FY2013 Budget Proposal

Previous budget proposals released by the Obama Administration contained substantive revenue policy proposals. Several of the tax policy changes outlined in the President's FY2013 budget proposal were enacted as part of ATRA, including (1) extending and modifying the 2001 and 2003 tax reductions; (2) indexing the Alternative Minimum Tax (AMT) for inflation; and (3) setting the estate and gift tax parameters. Other revenue proposals in the President's FY2013 budget proposal that were not enacted include (1) limiting itemized deductions and exclusions to 28% for high-income taxpayers; and (2) changes to international tax system including provisions targeting specific sources of tax avoidance associated with intangible assets (such as patents and trademarks) and modifying tax rules for calculating foreign tax credits and expenses related to foreign operations.

Other Major Proposals

A number of other major proposals in the 112th Congress put forward tax reform. Many of these proposals were focused on deficit reduction, with tax reform being a part of achieving that end. On April 13, 2011, President Obama gave a speech in which he presented his *Framework for Shared Prosperity and Shared Fiscal Responsibility*. In this framework, President Obama set a goal of reducing the deficit by $4 trillion in 12 years or less. To achieve deficit reduction, President Obama called on Congress to undertake comprehensive tax reform to result in a system that is fairer, with fewer "loopholes" and less complexity.[55] Further, President Obama stated that the 2001/2003 "Bush" tax cuts should not be extended for the highest-income earners, an objective that was partially achieved through the enactment of ATRA.

The President's framework for deficit reduction followed the release of a report on deficit reduction by the National Commission on Fiscal Responsibility and Reform (Fiscal Commission) on December 1, 2010. The Fiscal Commission's report, *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform*, contained tax policy options that would have resulted in $1.1 trillion in additional revenues between 2012 and 2020.[56] In addition to broadening the base by scaling back or eliminating tax expenditures, the Fiscal Commission's

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[55] The White House, Office of the Press Secretary, *Fact Sheet: The President's Framework for Shared Prosperity and Shared Fiscal Responsibility*, April 13, 2011, p. 1.

[56] For additional information, see CRS Report R41641, *Reducing the Budget Deficit: Tax Policy Options*, by Molly F. Sherlock.

revenue options included an increase in the gas tax, the use of chained-CPI, and a broadening of the wage tax base for Social Security.

Making America a More Attractive Place to Hire and Invest: International Tax Reform, the first in what has become a series of discussion drafts put forward by the Committee on Ways and Means, was released October 26, 2011. This proposal would provide for a 95% exemption for dividends from foreign subsidiaries accompanied by provisions to limit profit shifting and other changes.[57]

In February 2012, the Obama Administration released *The President's Framework for Business Tax Reform*.[58] This framework outlined business tax reforms that would allow for lower tax rates through the elimination of tax expenditures and other base broadening options. The Administration's framework states that business and corporate tax reform should not add to the deficit. Specific proposals included in this framework included a special lower rate for manufacturing. In the international area, the plan discussed five elements: the allocation of interest for deferred income, a tax on excess intangibles, a minimum tax on foreign source income in low tax countries, disallowing a deduction for the cost of moving abroad, and providing a 20% credit for costs of moving an operation from abroad to the United States.

Concluding Remarks

The 113th Congress continues to work towards enacting comprehensive tax reform. The House Committee on Ways and Means has released several discussion drafts on various elements of tax reform. The Senate Committee on Finance has also begun to release tax reform options papers.

Both the House- and Senate-passed budget resolutions contain substantial tax policy reforms. The differences in the House and Senate budget resolutions, however, underscore a major challenge to enacting tax reform in the 113th Congress. The House-passed budget resolution calls for a revenue-neutral tax reform that substantially reduces both individual and corporate tax rates. The Senate-passed budget resolution calls for changes in revenue policies that would raise additional revenues. The President's FY2014 budget proposal would use some portion of revenues for revenue-neutral tax reform, while using other revenues, primarily increases in individual income taxes, to reduce the deficit. Should tax reform result in additional revenues, whether those revenues should be used to reduce rates, reduce the deficit, or finance other government initiatives remains an unresolved issue.

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[57] This proposal, as well as a bill submitted by Senator Enzi (S. 2091) and an alternative territorial reform that had been circulating for some time, are reviewed in CRS Report R42624, *Moving to a Territorial Income Tax: Options and Challenges*, by Jane G. Gravelle.

[58] *The President's Framework for Business Tax Reform: A Joint Report by the White House and the Department of the Treasury,* February 2012, http://www.treasury.gov/resource-center/tax-policy/Documents/The-Presidents-Framework-for-Business-Tax-Reform-02-22-2012.pdf.

Acknowledgments

Portions of this report were originally authored by Jane G. Gravelle, Senior Specialist in Economic Policy and James Bickley, former Specialist in Public Finance.