

new york state society | of

NYSSCPA

certified | public accountants

530 fifth avenue, new york, ny 10036-5101
www.nysscpa.org

May 27, 2003

Distribution: New York Congressional Delegation
 Joint Committee on Taxation, US Congress
 Assistant Secretary, US Treasury (for tax policy)
 BNA Daily Tax Report
 Tax Analysts Tax Notes
 The Wall Street Journal
 The New York Times
 Newsday
 Other media outlets

The New York State Society of Certified Public Accountants (NYSSCPA), the oldest state accounting association, represents 30,000 CPAs who work daily with individuals that are impacted by the complexities of the Internal Revenue Code (IRC). The NYSSCPA established a task force on tax simplification to suggest alternatives to decrease the complexity in certain sections of the IRC or the corresponding regulations. Now that Congress has acted this year on a tax bill, we would urge that these suggestions be incorporated to the extent possible in regulations or be considered in future legislation.

The NYSSCPA Task Force on Simplification has drafted the attached comments. Members of the task force would be pleased to meet with you for additional discussion about the comments. Please contact Alan E. Weiner, chair of the task force, at (631) 752-7400 or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303 if such discussions would be helpful.

Sincerely,

Jo Ann Golden
President

Attachment

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**NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC
ACCOUNTANTS**

COMMENTS ON TAX SIMPLIFICATION

MAY 27, 2003

Principal Drafters

Alan E. Weiner, CPA, Task Force Chair

M. David Bahr, CPA

Sheldon Barasch, CPA

Arthur Bloom, CPA

Joseph L. Charles, CPA

Alan Dlugash, CPA

I. Jay Safier, CPA

Harold K. Wiebusch, CPA

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NYSSCPA 2002-2003 Task Force on Simplification

| | |
|------------------------|--------------------|
| Alan E. Weiner (Chair) | Joseph L. Charles |
| M. David Bahr | Alan Dlugash |
| Sheldon Barasch | I. Jay Safier |
| Arthur Bloom | Harold K. Wiebusch |

NYSSCPA Staff

Ernest J. Markezin

NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON TAX SIMPLIFICATION

MAY 27, 2003

General Comments

“Next year simplification.” This phrase, or similar phrases, has been on the tongues of Congressional legislators since 1919 at least. Our task force begins its comments with President Woodrow Wilson’s message to Congress (see Exhibit A attached) on December 2, 1919 (when the top marginal tax rate was 73%). Is this “next year,” we ask?

The members of our task force have examined countless articles and while the word “simplification” appears occasionally, we do not see a concerted effort to simplify the tax law. Is “simplification” a word just to be brought up every other year or in any year in which there is an election or just as a sound bite for press coverage?

The entire Internal Revenue Code need not be simple, nor should it be scrapped as some have suggested, but certainly the areas identified in our commentary, which affect a great many people, or possibly the wrong people, should be simplified even if the Internal Revenue Code is not simplified in its entirety.

Simplification should be an integral part of the current legislative agenda, as the public thought it might be during President Reagan’s term (see Exhibit B attached, a cartoon which appeared in September, 1986), and although we recognize that many sections of the Internal Revenue Code deserve simplification, we have opted to concentrate on the more egregious areas affecting individuals.

Specific Comments

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Item Eligible for Simplification:

Earned Income Tax Credit

Summary of Conclusion:

- Use individual taxpayer identification numbers (ITINs) and adopted taxpayer identification numbers (ATINs)
- Simplify age criteria
- Eliminate self employment tax adjustment in calculation
- Eliminate Form EIC

Problem:

Congress implemented the Earned Income Tax Credit to give low income taxpayers an added benefit to raise all workers above the poverty level, which included an offset to the burden of social security taxes. Taxpayers with income under \$34,178 may receive this refundable credit even if they have paid no taxes and even if they have no tax to offset against. The credit is especially beneficial to taxpayers with children and with earned income in the range of approximately \$10,000 to \$15,000. Such taxpayers can receive an additional refund of over \$4,000, even if no tax has been paid. This is a substantial benefit to low income taxpayers, many of whom know about it and count on it annually to help them pay for their necessities.

The credit is aimed at low income taxpayers, many of whom are not as well educated as other higher income taxpayers and many of whom do not speak or read English. Understanding the intricacies of the Earned Income Credit and the differences with other tax provisions make is a daunting process that sometimes deters those trying to accurately obtain this substantial benefit. In addition, as with no other tax provision, an eligible taxpayer must prove eligibility at the filing stage, not merely later if an item is subject to audit.

Discussion:

With the creation of this substantial benefit, Congress was wary of abuses, so numerous complex criteria were implemented and the Internal Revenue Service (IRS) was mandated to keep a close eye on possible abuses. With the complexities, abuses have been found, partially because the criteria are so complex.

Most taxpayers that file a tax return, claiming the Earned Income Credit, must prepare a separate schedule, Form EIC, containing no calculations at all, proving their eligibility for the credit. This form asks for the name, social security number, birth year, relationship to the taxpayer and number of months living in the taxpayer's household. If this form is not completed properly and accurately, the claimed credit usually will be denied and the taxpayer could be denied the credit for future years. The information requested on this form is provided in other places on the tax return for qualifying children that are also dependents, whose identities and can be verified with Social Security records. An additional form should only be required in cases where such information cannot be found in the tax return. In addition, for most other provisions, such as the Child Tax Credit, or the claiming of a child as a dependent, or claiming certain expenses as deductible, no other proof is required at the filing stage, and it is sufficient to represent on the tax return that such a claim is proper.

Numerous complexities exist in the law regarding the Earned Income Credit which makes compliance difficult. Firstly, there are really two different Earned Income Credits: one for taxpayers without children and another with children. The criteria are different for each one. For the credit for taxpayers with no children, the taxpayer's age must be between 25 and 65. For the credit for taxpayers with a child or two or more children, the taxpayer's age is irrelevant but the ages of the children must fit into one of three categories:

1. Under 19 or
2. Under 24 and a full time student or
3. Disabled, any age.

In order to be eligible for the Earned Income Credit, the taxpayer cannot use the filing status Married Filing Separately, and for the credit for taxpayers with children, must have one child living with him or her for at least six months of the tax year, but the child does not have to qualify as a dependent. These criteria contrast drastically with other provisions of tax law applicable to low income taxpayers. A taxpayer who is married but separated for the last six months of the tax year, and who has a child he or she can claim as a dependent can file as Head of Household and therefore be eligible for the Earned Income Credit. This is different from the rule regarding the Earned Income Credit which otherwise does not require the child to qualify as a dependent.

For the Child Tax Credit, a qualifying child must be under 17 and must qualify as a dependent of the taxpayer, and the taxpayer may file as Married Filing Separately. For the child care credit, the taxpayer may not file as Married Filing Separately and the qualifying child or children must be under 13 or disabled.

Other provisions regarding eligibility for the credit are extraordinarily complex. To claim the credit, a taxpayer may not himself or herself be a qualifying child of someone else claiming the credit, the same child may not be used by more than one person, but two taxpayers that could claim the same child may decide between themselves who will take the credit. This is the situation where a household includes a parent, her child and her grandchild. If both the parent and the child have earned income, there are a number of possibilities but the taxpayers would have to apply the complex rules to avoid disallowance.

A qualifying child must have lived with the taxpayer in the United States for more than half of the tax year and must have a valid Social Security number. An ITIN is acceptable if the parent cannot obtain a Social Security number. An ATIN is acceptable if the parent cannot obtain a Social Security number.

Other complications exist in the actual calculation of the credit. The credit is based upon earned income which is defined narrowly as salary and self employment

income. Self employment income, for this purpose, must be reduced by the adjustment for one-half of self employment tax. Not included as earned income are inmate salaries, Section 457 Plan distributions treated as salary, and workfare payments. A calculation is made, based upon tables provided in the IRS instruction booklet, to determine the Earned Income Credit based upon earned income. However, a second calculation must be made, using the taxpayer's adjusted gross income. The two calculations are compared and the credit is the lower of the two amounts. The calculation based upon adjusted gross income can never increase the credit, it can only decrease it. Another qualification is that a taxpayer with investment income, from interest, dividends and capital gains, of more than \$2,550 is not eligible for the Earned Income Credit at all.

This myriad of rules makes it very difficult for taxpayers eligible for the Earned Income Credit to properly comply so that they may obtain refunds rightfully theirs. Simplification of these rules would greatly facilitate this end.

Conclusion:

1. Allow the use of ITIN's and ATIN's in addition to social security numbers for all qualifying children, since residency, age and relationship tests have to be met in any case, and this would allow easier age verification using Social Security records.
2. Remove the age requirement for the Earned Income Credit for taxpayers with no children. If a taxpayer is under 25 and not being claimed as a dependent by anyone else, they should be allowed the Earned Income Credit. Someone over 65 should also be allowed the credit, unless they are eligible for the Credit for the Elderly and Certain Disabled Individuals. These distinctions appear arbitrary.
3. Eliminate the reduction in the credit based upon the one-half self employment tax adjustment. The net effect of this calculation is minimal but it is an unnecessary complication the computation of the credit
4. Eliminate Form EIC and provide a check off box similar to that utilized for the Child Tax Credit.

Item Eligible for Simplification:

Alternative Minimum Tax (AMT)

Summary of Conclusion:

The AMT no longer serves the purpose for which it was intended, functions inequitably in certain cases, and adds enormous compliance burdens. It should therefore be changed

- to eliminate the adjustments for state and local taxes
- to eliminate the adjustments for miscellaneous deductions and personal exemptions
- to update rates
- to modify its exemption amount.

Problem:

The AMT presents hardships to the practitioner as well as the taxpayer who prepares his own return by imposing a second tax calculation mechanism, as its name implies. This mechanism brings with it major record keeping and calculation complexities. Yet the experience of recent years has brought home the fact that the tax revenue collected by the AMT is not coming from taxpayers who were the intended targets of this tax.

Discussion:

The AMT was instituted in its present form when the prior “add on” Minimum Tax” was transformed into the AMT in the early 1980’s. Its “stated” purpose was to require that all taxpayers paid at least a fair share of tax. It was to do this by identifying “loophole” type deductions. (These are referred to as either “preferences” or “adjustments” in the law, and will be referred to hereinafter as “preferences”.) There would then be an alternative calculation using lower tax rates applied against this taxable income as increased by the preferences. Instead of focusing on these loophole type preferences however (which would have limited the tax to a very small number of tax law “abusers”), the law that as passed included items that were not loopholes at all. It was

then embedded in a static exemption structure which guaranteed that over time all taxpayers would be moved towards paying this tax.

From the beginning, a very substantial majority of all AMT paid by taxpayers results from the following five factors:

1. Treating state and local taxes as a preference
2. Treating miscellaneous deductions as a preference
3. Treating personal exemptions as a preference
4. Not modifying the rate to correspond to changes in the regular income tax rates
5. Allowing lower exemptions than the regular tax.

1. State and local taxes are not a loophole. The taxes exacted by state and local governments are not “voluntarily” paid by taxpayers in an attempt to avoid paying federal taxes. Nor does reducing a taxpayer’s federal tax liability because of state and local taxes paid on that same income constitute a loophole.

2. Miscellaneous deductions is the category of deductions that consists primarily of expenses incurred to earn income that is subject to tax. It includes unreimbursed employee expenses, investment expenses, etc. This is the most basic and important deduction needed for a truly fair income tax system. For example, if an individual pays a lawyer a fee for collecting back wages, the legal fee is a miscellaneous deduction. If an individual pays the lawyer \$300 for collecting \$1,000 of back pay, netting \$700, the AMT would tax the individual on the full \$1,000.

3. Personal exemptions allowable for regular income tax purposes are disallowed and added back in calculating alternative taxable income. The reasons for allowable exemptions under the regular tax system are equally valid under the AMT system and should be retained.

4. The AMT rate is generally 28%. This was its rate when regular tax rates were 39.6%. Regular tax rates have dropped, but the AMT rate remains at 28%.

5. The exemption available under the AMT tax system is a fixed dollar amount, which, unlike exemptions and standard deductions under the regular tax system, is not indexed for inflation. Furthermore, it is phased out entirely over certain income levels. That an AMT liability could be caused (or increased) by simply having a lower exemption than the regular tax is inconsistent with the original intent of the AMT. By not keeping this exemption at least as high as the exemption and lower brackets of the regular tax, an illogical and inequitable tax increase has been created.

Conclusion:

The AMT in its present form is out of step with the current tax law. The AMT is difficult to administer because of its complex provisions, its illogical and inequitable effects, and its conflicting interactions with other provisions of the Internal Revenue Code.

The addbacks for taxes, miscellaneous deductions, and personal exemptions must be eliminated, the rate modified to be appropriately related to regular tax rates, and the exemption made comparable (or greater) than the exemption for purposes of the regular income tax.

Item Eligible for Simplification:

“Phase-Outs” - Taxpayers are denied various income tax deductions and credits, either completely or partially, as their adjusted gross income or some form of modified adjusted gross income exceeds certain specified levels.

Summary of Conclusion:

The phase-outs of various income tax deductions and credits are not calculated on a consistent basis and result in an overly complex tax system. If higher tax revenues are desired, a similar result could be accomplished simply through the tax rate structure.

Problem:

The Internal Revenue Code contains numerous phase-out provisions applicable to allowable income tax deductions and credits. The phase-outs serve to reduce the income tax benefits for individuals as their income increases. The phase-outs are inconsistent in their application in that certain phase-outs are based on levels of adjusted gross income and others on some form of modified adjusted gross income. Varying percentages of excess amounts over phase-out levels are applied in many of these circumstances to determine the amount of reduced or eliminated income tax deductions or credits. Congress continues to use the phase-out mechanism in new tax legislation.

Discussion:

Examples of the phase-out provisions are:

1. Overall limitations on itemized deductions.
2. Phase-out of personal exemptions.
3. Phase-outs of individual retirement account deductions.
4. Phase-outs of participation in various individual retirement accounts.
5. Phase-out of the exclusion for interest on education savings bonds.
6. Phase-out of the deduction for student loan interest.
7. Phase-out of the HOPE and Lifetime Learning credits.
8. Phase-out of the child tax credit.
9. Partial phase-out of the dependent care credit.

10. Phase-out of the adoption credit and exclusion.

Conclusion:

The necessary calculations to determine the applicability of phase-outs and their impact combined with the inconsistency in the phase-out provisions to the various tax deductions and credits make it difficult for taxpayers and their advisers to perform tax planning. The phase-out system also imposes an element of difficulty for taxpayers in preparing their tax return without professional assistance or tax preparation software. Eliminating the phase-outs would eliminate complicated calculations and make both tax planning and compliance easier. Since the phase-out provisions effectively increase a taxpayer's tax liability as his (her) adjusted income increases, the same objective can be more simply attained through the tax rate structure.

Item Eligible for Simplification:

Uniform Definition of a “Child”

Summary of Conclusion:

Make the definition of a “child” consistent.

Problem:

A Proposal for Uniform Definition of a Qualifying Child was prepared by the Department of the Treasury in April, 2002. In that study, a detailed analysis was made of the differing definitions for a qualifying child for various tax purposes:

1. Dependent Exemption
2. Head of Household filing status
3. Child Tax Credit
4. Child Care Credit
5. Earned Income Tax Credit

The study pointed out that tens of millions of taxpayers with children avail themselves of these benefits and that many millions of taxpayers are eligible for multiple benefits. It then states, “But to obtain these benefits, taxpayers must wade through pages of bewildering rules and instructions because each provision defines an eligible ‘child’ differently...,” depending upon the age of the child, who the child lives with, where the child resides, the relationship of the child to the taxpayer, and who is supporting the child. Because of these differing definitions, the Treasury found that many taxpayers did not claim benefits to which they were legally entitled and that there were large numbers of errors by those taxpayers who did claim the benefits.

Discussion:

The June 17, 2002 issue of Tax Notes provided a table (see Exhibit C attached) showing the differing criteria for qualifying children for the following benefits, highlighting the myriad of rules leading to the confusion.

One of the differing rules is the age of a child qualifying the taxpayer for each of the benefits. These are as follows:

1. Dependent exemptions – a child’s income is ignored for the gross income test if under 19 or a student and under 24.
2. Child Tax Credit - a child must be under 17.
3. Child Care Credit – a child must be under 13 or disabled.
4. Earned Income Credit – one child, or two or more children, must be under 19, or a student under 24, or disabled.

These rules should be simplified and be made consistent. The age criteria for the Child Tax Credit and the Earned Income Credit should be made the same to avoid confusion and inconsistency. The rule should be consistent with that for dependency exemptions. The age for child care should remain at under 13 so that the rationale for the benefit, that of making it more economically feasible for workers to earn a living and still provide care for their young children, would not be subverted by the use of the credit to pay for summer camp for older children.

Another area of confusion and inconsistency, is the treatment of a foster child, brother, sister, niece or nephew as a child of the taxpayer. A foster child must live with the taxpayer for at least half the year for the Earned Income Credit, but must live with the taxpayer for the entire year for the dependency exemption, the Child Tax Credit and the Child Care Credit. For the purpose of the Child Tax Credit and the Earned Income Credit, the foster child must have been placed in the taxpayer’s home by an authorized placement agency, but for dependency and child care credit, all that is required is that the child is cared for by the taxpayer as his or her own . With regard to brothers, sisters, nieces and nephews, a child does not have to qualify as a dependent for the Earned Income Credit but must qualify as a dependent for the Child Tax Credit and the child care credit. Such a child must be cared for as the taxpayer’s own for the Child Tax Credit and the Earned Income Credit, but not for dependency or the Child Care Credit.

In order to claim Head of Household status, a taxpayer's child can be any age but must have lived in the household for more than six months and generally does not have to qualify as a dependent. If the taxpayer is married but separated for the last six months of the year, however, and if a child who can be claimed as a dependent lived in the household, the taxpayer can file as a head of household instead of married filing separately.

Conclusion:

These rules must be made consistent so that taxpayers can more readily understand them, so that they can properly utilize tax benefits available to them and to eliminate errors.

Item Eligible for Simplification:

“Floors” - Floors are limitations on deductions.

Summary of Conclusion:

The 2% of Adjusted Gross Income (AGI) floor on miscellaneous itemized deductions and the 3% of adjusted AGI modification of overall itemized deductions should be eliminated to relieve individuals of the associated recordkeeping burdens and complexity of the calculations.

Problem:

The 2% floor presents particular problems with miscellaneous deductions flowing through from pass-through entities and the 3% floor is so complicated that it requires a separate worksheet to calculate.

Discussion:

Floors are used in tax code provisions dealing with individuals to reduce the amount of allowable deductions by a percentage of another amount, generally one's AGI. Four examples are: (1) the 7.5 percent of AGI limitation of deductible medical expenses; (2) the 10 percent of AGI limitation on deductible casualty losses; (3) the 2 percent of AGI limitation on miscellaneous deductions; and (4) the 3 percent reduction in allowable total itemizations for taxpayers who have an AGI above a certain level. These limitations are used in determining the total amount of itemized deductions detailed on Schedule A - Itemized Deductions. Items (1) and (2) serve to limit deductions for medical expenses and casualty losses to individuals with catastrophic losses, and generally acceptably serve this purpose. Items (3) and (4) require simplification.

Miscellaneous Deductions:

The category of miscellaneous deductions consists primarily of expenses incurred to earn income that is subject to tax. It includes such items as unreimbursed employee expenses and investment expenses. These deductions are necessary to enable taxpayers

to pay tax on only the net income they have earned. Under present law, before these deductions can be claimed, they must be reduced by an amount equal to 2% of the taxpayer's AGI.

On an individual return, the calculation seems innocent enough. After all the deductions are aggregated, an amount equal to 2% of AGI is subtracted. But many individuals receive income through estates, trusts, partnerships, LLC's, etc. In the preparation of the flow through information, separate records need to be kept and reported so that the individual can separately include the total income and deduction items.

3% of overall itemized deductions limitation

Itemized deductions, which include medical expenses, taxes, interest expense, charitable contributions, and miscellaneous deductions, reduce an individual's taxable income. However, any individual whose AGI is more than a fixed amount, indexed for inflation (e.g., \$137,300 for 2002), has his total itemized deductions reduced by an amount equal to 3% of the excess of the AGI over the fixed amount. This adjustment may further be modified by a limitation on the amount of the reduction. This modification serves to increase taxes on higher income earners without actually increasing the tax rates.

Conclusion:

The imposition of a 2% floor on miscellaneous itemized deductions imposes an enormous record keeping and reporting burden on pass-through entities and individuals who are affected by them. The 3% modification of overall itemized deductions creates calculation complexities in lieu of higher rates.

Item Eligible for Simplification:

Taxation of Social Security Benefits

Summary of Conclusion:

The current method of taxing social security benefits is complicated, cumbersome, and confusing. It also can result in the taxation of up to 85% of the social security benefits and it can reduce or even eliminate the benefit of receiving tax exempt interest. It would be more efficient to tax, at most, 50% of the social security benefits received in excess of a base amount of adjusted gross income prior to the inclusion of social security benefits and eliminate the various modifications in determining the tax base.

Problem:

Currently up to 85% of the social security benefits received by a taxpayer can be subject to tax (regular or alternative minimum tax). Calculating the amount subject to tax requires a computation of modified adjusted gross income (MAGI) to which 50% of the social security benefits received are added. Modified adjusted gross income for this purpose is the taxpayer's adjusted gross income determined without regard to:

1. Social security benefits included in income.
2. The exclusion of savings bond proceeds used for higher education.
3. The exclusion of qualified adoption expenses.
4. The deduction for qualified higher education expenses.
5. The deduction for student loan interest.
6. The foreign earned income exclusion.
7. The exclusion for income from Guam, American Samoa and the Northern Mariana Islands.
8. Puerto Rico source income

Once all these modifications have been made, tax exempt interest received by the taxpayer is added. To this modified adjusted gross income one-half of the social security benefits received is added. This readjusted MAGI is then compared to a base amount

(\$32,000 for joint filers, \$25,000 for single filers). The base amount is not indexed for inflation. The amount of social security benefits included in income is the lesser of ½ the benefit received or ½ of the excess of the readjusted MAGI over the base amount. If the readjusted MAGI is greater than \$44,000 for joint filers or \$34,000 for single filers, up to 85% of the social security benefits can be included in taxable income.

The instructions for Form 1040 include a separate eighteen line worksheet to enable taxpayers to calculate the taxable portion of their social security benefits. The majority of taxpayers reporting taxable social security benefits are over age 65 and should not be subject to such complicated rules.

Discussion:

The taxation of social security benefits is unduly complicated and cumbersome. Numerous modifications to income must be considered and calculations done to compute the amount taxable. The inclusion of tax exempt income in the calculation can effectively result in all or a portion of this income as taxable. This can impact a taxpayer's investment results as well as their investment decisions.

Conclusion:

The amount of social security benefits included in income should be a fixed percentage not exceeding 50%. The 85% inclusion should be repealed and the base amounts should be indexed and should not include the various modifications including the tax exempt income add back to determine the amount of taxable social security benefits. Adjusted gross income, prior to the inclusion of taxable social security, without the current modifications, should be used to measure the amount of taxable social security benefits. This approach would eliminate unnecessary calculations and would be easier to understand.

Item Eligible for Simplification:

Sunsets

Summary of Conclusion:

Sunsets make for bad tax law.

Problem:

Sunsets create uncertainty in the market place and prevent legitimate financial planning.

Discussion:

As stated in an article in the *New York Times* on May 11, 2003, “. . . lawmakers . . . have discovered a budget tool called a sunset.”

What is a sunset? Again, quoting from the same article in the *New York Times*, May 11, 2003, “[T]his is a device in which a popular tax benefit is put into place and then allowed to expire abruptly to save money.” Sunsets also have been described in recent *Wall Street Journal* articles as “. . . tax cuts that vanish after a few years”; “[T]ax relief designed to die . . .”; “budget gimmickry”; “. . . a gimmick that will confuse investors and gum up the tax code”; and “. . . a gimmick whose only purpose is to make the books look better than they truly are.” *Newsday* used the term “creative accounting.”

In all probability, sunsets started off innocently enough; however, just as was true with Enron and WorldCom when the financial people at those companies first began to apply their financial wizardry, sunsets in the tax law continue to grow and Congress is now accepting them as a way of life. If someone at Enron or WorldCom had said “stop” at an earlier time, the public obviously would have been much better off. We are now urging Congress to say “stop”: no more sunsets. Sunsets are confusing and create uncertainty in the tax law. The words “financial and tax planning” are commonly used by the taxpaying public, over 95% of whom are not talking about tax shelters but are merely attempting to structure their personal lives.

Sunsets have served a purpose of technical compliance with revenue balancing acts of prior sessions of Congress. Businesses are currently under severe criticism for making similar use of their accounting rules to achieve short-term goals. We would urge Congress to take the high road and set the positive example of dealing with national financial issues in a way that eliminates the uncertainties created by sunsets.

Conclusion:

If Congress cannot pass a bill without an automatic triggering device to cause its collapse, then the bill should not be enacted in the first place. Similarly, legislation should not be enacted if the full change cannot be implemented immediately and without phase-ins. Creative accounting (such as sunsets) has no place in the tax law.

President Woodrow Wilson's Message to Congress on December, 1919

The President's Message: re Taxation.

Mr. Wilson, in his message to Congress, December 2, 1919, said:

"I trust that the Congress will give its immediate consideration to the problem of future taxation. Simplification of the income and profits taxes has become an immediate necessity. These taxes performed indispensable service during the war. They must, however, be simplified, not only to save the taxpayer inconvenience and expense, but in order that his liability may be made certain and definite.

"With reference to the details of the revenue law, the Secretary of the Treasury and the Commissioner of Internal Revenue will lay before you for your consideration certain amendments necessary or desirable in connection with the administration of the law—recommendations which have my approval and support. It is of the utmost importance that in dealing with this matter the present law should not be disturbed so far as regards taxes for the calendar year 1920, payable in the calendar year 1921. The Congress might well consider whether the higher rates of income and profits taxes can in peace times be effectively productive of revenue, and whether they may not, on the contrary, be destructive of business activity and productive of waste and inefficiency.

"There is a point at which in peace times high rates of income and profits taxes discourage energy, remove the incentive to new enterprise, encourage extravagant expenditures and produce industrial stagnation, with consequent unemployment and other attendant evils.

"The problem is not an easy one."

December 3, 1919.

THE CORPORATION TRUST COMPANY
37 Wall Street, New York.

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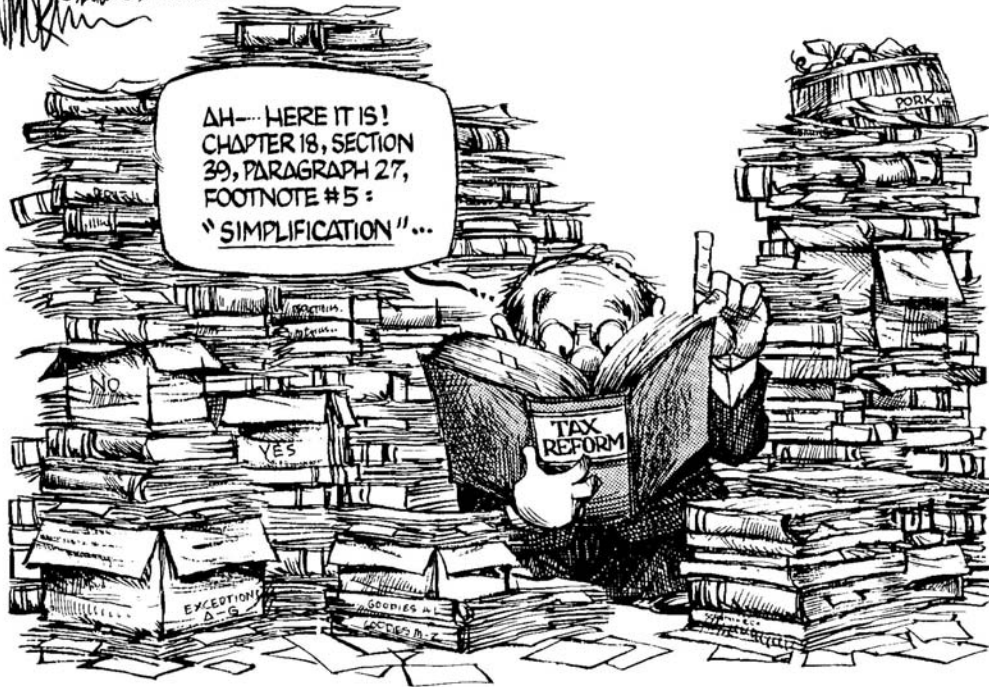


Exhibit C

TAX NOTES, June 17, 2002

Comparison of Key Provisions Relating to Qualifying Children under Current Law and the Proposal

| | ----- Current Law ----- | | | | | Proposal |
|---|--|--|--|---|---|---|
| | Dependency Exemption | Head of Household Filing Status | Child Tax Credit | Child and Dependent Care Tax Credit | Earned Income Tax Credit | |
| 1. Relationship test | | | | | | |
| Sons, daughters, grandchildren | Yes | Yes | Yes | Yes | Yes | Yes |
| Brothers, sisters, nieces, nephews | Yes | Yes, if qualifies as a dependent | Yes, if qualifies as a dependent and taxpayer cares for child as his or her own | Same as dependency exemption | Yes, if taxpayer cares for child as his or her own | Yes, if taxpayer cares for child as his or her own |
| Foster children (which may include relatives and unrelated children) | Any child may be treated as own child if lives with taxpayer for entire year and the taxpayer cares for the child as his or her own | Yes, if qualifies as a dependent | Yes, if lives with taxpayer for entire year, is placed by an authorized placement agency, and taxpayer cares for the child as his or her own | Same as dependency exemption | Yes, if lives with taxpayer for over half the year, is placed by an authorized placement agency, and taxpayer cares for the child as his or her own | Yes, if lives with taxpayer for over half the year and is placed by an authorized placement agency |
| 2. Age limit | Under 19 or under 24 if full-time student | No age limit for unmarried sons, daughters, grandchildren, and stepchildren. Otherwise, same as dependency exemption. | Under 17 | Under 13 (no age limit for disabled dependent) | Same as dependency exemption, but no age limit for disabled children | Under 19, under 24 if full-time student, and no age limit for disabled children (however, under 17 for child tax credit and under 13 for child and dependent care tax credit) |
| 3. Gross income limit | Individual cannot be claimed as a dependent if earns more than the exemption amount, except if son, daughter, stepson, stepdaughter, or foster child under age limit | No limit for unmarried sons, daughters, grandchildren, and stepchildren regardless of age; otherwise, same as dependency exemption | Same as dependency exemption | Same as dependency exemption | No limit | No limit |
| 4. Residency requirements | Certain related children do not have to live with the taxpayer, otherwise entire year | Child must live with the taxpayer for over one half of the year | Same as dependency exemption | Child must live with the taxpayer for the period during which the expenses were incurred | Child must live with taxpayer for over one half of the year | Child must live with the taxpayer for over one half of the year |
| 5. Support test | Taxpayer must provide over one half of the child's support. | No support test for unmarried sons, daughters, grandchildren, and stepchildren; otherwise, same as dependency exemption | Same as dependency exemption | Same as dependency exemption | None | None |
| 6. Household maintenance test | None | Taxpayer must provide over one half of the costs of maintaining the household | None | Taxpayer must provide over one half of the costs of maintaining the household for the period during which child lived with taxpayer | None | None |

Source: <http://www.treas.gov/press/releases/child.pdf>