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OPENING STATEMENT BY SENATOR CONNIE MACK **Chairman, President's Advisory Panel on Federal Tax Reform** **First Meeting -- February 16, 2005**

Introduction

Today's meeting marks the beginning of the Panel's important work to explore ways to reform the Federal tax code. I believe that it is a good sign that we are holding our first meeting to discuss reform in the building that bears the name of Ronald Reagan, who initiated the last bipartisan effort to reform the tax code twenty years ago. As we will hear today, a lot has changed since then. This panel will take a fresh look at the existing tax code and will formulate options for making the tax system simple, fair, and productive. I am privileged to serve as the Panel's chairman and would like to thank Vice-Chairman Breaux and the rest of the Panel for agreeing to help tackle this challenging task.

We have an ambitious agenda today. First, I will provide some background about what the Panel hopes to accomplish and how we intend to accomplish it. In addition, we will be hearing brief comments from the members of the Panel.

I am very honored that Treasury Secretary John Snow is here as we begin this important work. In addition to Secretary Snow, we will hear from four distinguished witnesses. Our first witness will help us put our current tax system in context and provide us a better understanding of how we got to where we are today. Our second witness will provide needed background about tax system design and valuable insights into how to think about choosing a base for taxation. He will explain the difference between a tax on income and a tax on consumption. Finally, our last two witnesses will describe how the choice of an income tax base or a consumption tax base impacts the overall function of the tax system and the advantages and disadvantages of each system in terms of simplicity, fairness and economic growth.

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Our Mission

The President has stated clearly that tax reform is a key priority and formed this Panel to advise the Secretary of the Treasury on options to reform the tax code. We have been directed to provide the Secretary our findings by July 31. To accomplish this task, we intend to do our work in two stages. First, we will take a comprehensive look at the existing tax system. Our objective is to make sure that we have a full understanding of the current problems in the tax code – specifically its complexity, its impact on economic growth, and its perceived unfairness.

After we have defined the problems that need to be addressed, we will turn to a consideration of options for reform. These options may include making modifications to improve current law, overhauling the existing system, or replacing the current structure and starting over. As part of our effort, we will study the major reform proposals that have been offered in the past, as well as any new ideas.

As we move forward, we intend to hold a number of public meetings like this one. We will announce the dates and locations of those hearings soon. We anticipate holding those meetings in Washington, D.C., and in other parts of the country.

It is vitally important to all of us that the public know what we are doing and have a chance to provide input. We have established a website – www.taxreformpanel.gov – that provides information about our activities. We will also use that website to receive – and post – public comments.

We welcome input throughout the process. At the same time, we will also be requesting comments on specific topics. In connection with the first stage of our work - defining the problems in the tax code – we are making our first specific request. We ask that interested parties submit comments to the Panel about:

1. Headaches that taxpayers – both individuals and businesses – face because of the existing system. By headaches, we mean unnecessary complexity and burdens.
2. Aspects of the tax system that you believe are unfair.
3. Specific examples of how the tax code distorts important business or personal decisions.
4. Goals that the Panel should try to achieve as we evaluate the existing tax system and recommend options for reform. At this point, we are not looking for specific proposals.

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There will be additional requests for comments. For example, when we move to the second stage of the process and begin considering options for reform, we will make specific requests for suggestions, alternatives, and proposals for improving the tax system.

Why Reform is Necessary

There is nearly universal agreement that we must reform the tax system. The tax code is a complex and cluttered mess that discourages economic growth and vitality. Our tax laws penalize hard work, discourage savings and investment, and hinder the competitiveness of American businesses abroad.

Compliance with the tax code is complicated and burdensome. It is also a waste of our resources. Nobody likes paying taxes. But instead of making it as easy as possible, the tax code is an obstacle for those who pay their fair share. It is estimated that individuals and businesses spend at least 6 billion hours each year just to file their taxes.

More than half of Americans use a paid preparer to file their taxes. In fact, costs incurred by individuals in connection with their taxes exceed \$100 billion. These numbers are staggering. Americans should not have to hire an expert to help them calculate their taxes. The problems of complexity are not limited to individual taxpayers, however. In fact, the compliance burden on businesses – both large and small – is enormous and adds another \$20 to \$25 billion to the total cost of compliance.

One particular problem that cannot be ignored is the rapidly growing reach of the Alternative Minimum Tax. The AMT imposes a second tax system that is separate, but parallel, to the regular income tax system and requires that taxpayers compute their taxes twice. The AMT was enacted in the 1960s to target a small group of high-income taxpayers who were avoiding paying all income taxes. Since then, changes to the AMT and inflation have caused it to apply to large numbers of middle-class taxpayers by denying families benefits that are available under the regular tax system. The number of Americans who will be confronted by the AMT will grow from 3.8 million this year to 51 million taxpayers by 2015.

Conclusion

Americans are demanding a better tax system. It should be simple, transparent and easy to understand. It should be stable and predictable – in order to permit informed planning and decision making. It should encourage economic growth. And it should minimize the costs of compliance and intrusion into the lives of taxpayers. We look forward to completing this important task – and to presenting options that will ensure a better tax system for ourselves and for future generations.

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