

Statement Submitted for the Record by

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Before the

Subcommittee on Treasury and General Government  
Committee on Appropriations  
United States Senate

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Chairman Campbell, Senator Dorgan and the Members of the Subcommittee:

***Introduction and Summary:*** I am Jere W. Glover and I was appointed by the President and confirmed by the Senate to serve as Chief Counsel for the Office of Advocacy. Our office was created over twenty years ago to gather information about and represent the interests of small businesses in matters before the executive agencies and Congress. The opinions I express are those of the Office of Advocacy and may not necessarily reflect the opinion of the SBA or any other federal agency.

I regret that I am unable to attend the hearing scheduled for this afternoon before the Subcommittee on Treasury and General Government of the Committee on Appropriations in the Senate. This is a very important hearing on issues important to all small business owners and it is only because I had made a prior commitment to address a large gathering of small business owners in another state that I would miss such an opportunity.

My Office has been asked to review a proposal which may be offered by Senator Dorgan called the Fair & Simple Shortcut Tax Plan (FASST). The proposal would dramatically reduce the paperwork and audit anxiety for wage and salary earning taxpayers. In performing his homework and research on the concept, Senator Dorgan provided my office with a copy of the proposal and requested our opinion and our suggestions. We have reviewed the bill and the Office of Advocacy gives it our strong support.

***Analysis:*** Our first concern with any tax proposal is generally how the direct cost is distributed among taxpayers. We need to know how much revenue will be diverted from small businesses and whether those small businesses pay an unfair proportion of the tax. The FASST proposal should have no impact *directly* because it adds no new tax to the revenue of small business.

Our next concern is whether or not a proposal imposes an *indirect* burden on a small business. For example, how much bookkeeping and extra reporting will be required? Are there complex formulas and time consuming tests? Does the employer have to gather information and turn it over to the federal government in a new and complicated manner? Will the owner probably have to engage skilled assistance and what is the cost? Is the employer required to be the policeman to verify the items that are collected and passed along? Is the act required of small businesses voluntary or mandatory? Is the benefit derived from a changed reporting regime worthy of the burden imposed?

We have reviewed all these questions and asked additional questions of the Senator and his staff before forming our conclusion.

On the “burdens” side, the bill as proposed by Senator Dorgan does impose a slight additional burden on the small business employer. Businesses must present the employee with a slightly longer W-4 form when the employee commences employment or when certain tax related circumstances change. The employer will have to review the slightly longer W-4 and, using a table provided by the IRS to avoid complicated calculations, will have to withhold a precise amount from the employees’ paycheck. Making sure the W-4 is read and applied correctly is important and is an extra burden. Although it is not that much out of line with what is currently required. Finally, if the bill becomes law, and employees want to choose the FASST system, the employer *must* accommodate them and that might mean the owner could be doing two different types of record keeping which might be a burden.

On the “benefits” side of the ledger, the bill has been constructed so that the employee is checking boxes and the employer is reading checked boxes. The amount to be withheld is determined from these boxes and a chart supplied by the IRS that which can be read in a simple and straightforward way. The deductions that are given and the rate of tax applied are static and are not calculated by the business owner. The business owners are not policemen under this proposal and are not liable for inaccuracies in the employee’s W-4 declarations. These new procedures were selected for their simplicity and are reasonable and non-intrusive.

As an additional benefit for the business owner, the FASST proposal includes tax credits to defray any extra costs that the proposal may impose. There is a tax credit for fifty percent of the amounts expended in implementing the program up to \$1000. There is also a fifty percent credit on costs up to \$500 for tax preparation fees if the business sees to it that the information is provided to the government electronically.

We also feel that this proposal provides significant benefits directly to employees and thus would provide a tangential benefit to the small business. We expect employees will be excited to have one flat, reasonable rate of tax. Employees will also be excluded from AMT calculations and retain the benefit of many of the most popular tax deductions and credits. In addition, employees are given a financial incentive to save and invest since a modest amount of investment income will be excluded from tax if the FASST system is used. Last but not least, the most attractive element for employees is *electing* to enjoy the

freedom from filing a tax return and from worrying about an audit. They can participate or not as they wish. These advantages remove another significant element of stress from the working experience of the employees and that will have benefits for the business.

For these reasons, the Office of Advocacy strongly supports the FASST proposal put forward by Senator Dorgan. I would be happy to answer any questions that the Committee might have. With great respect, I remain

Sincerely,

Jere W. Glover  
Chief Counsel for Advocacy