



American Institute of CPAs
1455 Pennsylvania Avenue, NW
Washington, DC 20004-1081

July 26, 2013

The Honorable Max Baucus
Chairman
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Orrin G. Hatch
Ranking Member
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

RE: Next Steps on Tax Reform

Dear Chairman Baucus and Ranking Member Hatch:

The American Institute of Certified Public Accountants (AICPA) strongly supports the leadership and bi-partisan approach taken by the Senate Finance Committee in working on tax reform over the past three years. The proliferation of new income tax provisions since the 1986 tax reform effort has led to compliance hurdles for taxpayers, administrative complexity and enforcement challenges for the Internal Revenue Service. We consistently have supported tax reform simplification efforts because we are convinced such actions will significantly reduce taxpayers' compliance costs, encourage voluntary compliance through an understanding of the rules, and facilitate enforcement actions.

We understand that you have requested input from your colleagues as you move forward on comprehensive tax reform. Specifically, you have asked what tax expenditures should be included in a reformed tax code, as well as other provisions that should be added, repealed, or revised as part of tax reform. The AICPA is actively pursuing or has published positions on a number of tax reform issues, developed a ten-principle framework for analyzing proposals, and is available to assist you in this process.

While we believe that taking a thorough and substantive review of each and every expenditure is an essential part of tax reform, we also encourage you to examine other aspects of the tax code to improve the current rules. We stand for a code that is simple, practical, and administrative. In this regard, we submitted for your consideration our Compendium of Legislative Proposals ("Compendium") earlier this year.¹ In our Compendium, we focused on provisions in the tax code that need attention, are technical in nature, and perhaps can be more simply addressed. In the event the Committee decides to retain the selected existing provisions listed in our Compendium, we believe our suggested changes would promote simplicity, administrability, and fairness.

¹ AICPA's Compendium of Legislative Proposals (February 2013) is available at <http://www.aicpa.org/advocacy/tax/taxlegislationpolicy/downloadabledocuments/compendium%20of%20legislation%20proposals%20february%202013.pdf>.

The Honorable Max Baucus
The Honorable Orrin G. Hatch
July 26, 2013
Page 2 of 4

We also have a number of proposals that we have shared with the Committee in the past regarding such important matters as the due dates of tax returns, repeal of the alternative minimum tax (AMT), simplification of the “Kiddie Tax,” consolidation and simplification of the multiple types of tax-favored retirement plans, and the harmonization of education incentives.

The AICPA also appreciated the opportunity to testify on April 16th at the Committee’s hearing on Tax Fraud, Tax ID Theft and Tax Reform: Moving Forward with Solutions.² At the hearing, we addressed some important topics for our members including identity theft, the tax filing season, preparer registration, penalty reform, information reporting, due dates of tax returns, as well as a number of proposals focused on improving the administrative nature of the tax law. We also urged the Committee to consider legislation that would permit taxpayers to report *de minimis* changes in their income from a corrected Form 1099 or amended Schedule K-1 (from a partnership, trust or S corporation) in the year of receipt of the amended form.

Other examples of suggestions that we have provided to Congress and continue to work on that help make the tax system simpler and more administrable include the following items: AICPA’s Report on Civil Tax Penalties: The Need for Reform (which was updated earlier this year to address concerns about the current state of civil tax penalties and shortcomings in current penalty administration)³ and specific legislative proposals on reportable avoidance transactions, reasonable cause exceptions, information reporting penalties for foreign trusts and tax shelters.⁴ We also recently provided comments on the Identity Theft and Tax Fraud Prevention Act of 2013 and specific recommendations on efforts to combat identity theft.⁵

We understand that any suggestion for modifying tax rules raises the question of how to best analyze and compare proposals. We believe a framework based on appropriate tax policies should be utilized to effectively analyze proposals to change tax rules.

² AICPA’s testimony at the Senate Finance Committee hearing on “Tax Fraud, Tax ID Theft and Tax Reform: Moving Forward with Solutions” is available at <http://www.aicpa.org/advocacy/tax/taxlegislationpolicy/downloadabledocuments/aicpa's%20testimony%20on%20senate%20finance%20committee%20hearing%20on%20april%2016,%202013.pdf>.

³ AICPA’s Report on Civil Tax Penalties: The Need for Reform, updated April 11, 2013, is available at <http://www.aicpa.org/Advocacy/Tax/TaxLegislationPolicy/DownloadableDocuments/AICPA-report-civil-tax-penalty-reform-2013.pdf>.

⁴ AICPA’s Tax Penalties Legislative Proposals, dated April 11, 2013, is available at <http://www.aicpa.org/Advocacy/Tax/TaxLegislationPolicy/DownloadableDocuments/AICPA-legislative-proposals-penalties-2013.pdf>.

⁵ AICPA’s letter dated June 27, 2013 on identity theft is available at <http://www.aicpa.org/interestareas/tax/resources/irspracticeprocedure/advocacy/downloadabledocuments/aicpa-identity-theft-comment-letter--6.27.13.pdf>.

The AICPA has developed ten guiding principles of good tax policy to analyze proposals to change a tax rule. (Note that our principles of good tax policy are equal in importance; the numbered order of the principles is for reference only and should not be taken as an indication of the order of importance of these principles.)

1. *Equity and Fairness.* Similarly situated taxpayers should be taxed similarly.
2. *Certainty.* The tax rules should clearly specify when the tax is to be paid, how it is to be paid, and how the amount to be paid is to be determined.
3. *Convenience of Payment.* A tax should be due at a time or in a manner that is most likely to be convenient for the taxpayer.
4. *Economy in Collection.* The costs to collect a tax should be kept to a minimum for both the government and taxpayers.
5. *Simplicity.* The tax law should be simple so that taxpayers understand the rules and can comply with them correctly and in a cost-efficient manner.
6. *Neutrality.* The effect of the tax law on a taxpayer's decisions as to how to carry out a particular transaction or whether to engage in a transaction should be kept to a minimum.
7. *Economic Growth and Efficiency.* The tax system should not impede or reduce the productive capacity of the economy.
8. *Transparency and Visibility.* Taxpayers should know that a tax exists and how and when it is imposed upon them and others.
9. *Minimum Tax Gap.* A tax should be structured to minimize noncompliance.
10. *Appropriate Government Revenues.* The tax system should enable the government to determine how much tax revenue will likely be collected and when.

A more detailed explanation of each of the ten principles is provided in the AICPA's Tax Policy Concept Statement No. 1.⁶ The statement also notes some of the challenges that exist in achieving each of the ten principles. Despite the challenges, however, proposals for changes to the tax law should strive to incorporate all ten principles to yield a simpler, more equitable, and transparent tax system.

* * * * *

The AICPA is the world's largest member association representing the accounting profession with nearly 386,000 members in 128 countries and a 125-year heritage of

⁶ AICPA's Tax Policy Concept Statement No. 1: Guiding Principles of Good Tax Policy: A Framework for Evaluating Tax Proposals, issued March 2001, is available at http://www.aicpa.org/interestareas/tax/resources/taxlegislationpolicy/advocacy/downloadabledocuments/tax_policy_concept_statement_no.1.doc.

The Honorable Max Baucus
The Honorable Orrin G. Hatch
July 26, 2013
Page 4 of 4

serving the public interest. Our members advise clients on federal, state and international tax matters and prepare income and other tax returns for millions of Americans. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America's largest businesses.

If you would like to discuss any of our legislative proposals or principles of good tax policy in more depth or have any questions, please contact me at (304) 522-2553, or jporter@portercpa.com; or Melissa Labant, AICPA Director – Taxation, at (202) 434-9234, or mlabant@aicpa.org.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey A. Porter". The signature is fluid and cursive, with a large initial "J" and "P".

Jeffrey A. Porter, CPA
Chair, AICPA Tax Executive Committee