

The New Budget Environment: Will Tax Simplification Fit In?

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On January 6, the Office of Management and Budget increased its forecast of the fiscal 1999 budget surplus to \$76 billion. (See Tax Notes, Jan. 11, 1999, p. 162.) This will be only the first of several announcements about current and future budget surpluses. The higher surplus for this year will lead in turn to higher projections of surpluses in the following years as well—at least until the force of baby boom retirements begins to increase federal outlays and reduce federal revenues.

Outside of a few spending increases, last year the surplus was "saved" in anticipation of a social security fix. It seems unlikely that 1999 will merely be a repeat of 1998. Many elected officials want to put a mark on the direction of policy, and larger surpluses will offer a significant temptation. Other officials seem to be less motivated by the goal of determining the direction of policy than ensuring that someone else doesn't use the surplus to push an agenda with which they don't agree. Put another way, many elected officials are worried that if they don't spend the surplus, someone else will. Thus, there is significant momentum building for new legislation. Adding to the hurry is the conventional wisdom that any significant action is more likely to occur in 1999 than in 2000 because of the presidential elections.

Consider the major items already on the table:

- The social security debate has moved to center court, and the president has already suggested that he wants to reach a compromise with Congress over the next few months. To attain that goal, the administration must put forward a proposal or the plan of action it has promised. This process could easily dominate the policy debate for the year.
- Partly because of the surplus, a number of proposals are surfacing in Congress to spend general revenues on individual accounts for retirement—either in conjunction with or independent from social security reform. Depending on the design, these proposals at least initially add to the revenues available to finance future retirement needs. For budget purposes, the proposals would treat the moneys put into the accounts as current outlays, thus lowering the measure of the deficit. Many proponents believe this type of approach enhances the chance that the surplus will be "saved" (albeit at the individual level) than would an open-ended budget battle in which the surplus was "spent" on other expenditures or tax programs.
- Tax cuts are being suggested, as well. Some would like to spend all of the current surplus in the unified budget accounts, others want to confine the cuts to when there is a surplus excluding social security. Since the latter date will come much sooner under the new budget projections, the differences between these two approaches are becoming relatively smaller.
- Not to be outdone, the administration has begun to put forward a number of tax expenditures for long-term care, parks, and other causes. (See story on p. 279.) Initially these expenditure proposals are likely to be paid for through "loophole closers." However, several of the loophole closers are unlikely to be given much consideration. Nonetheless, this approach allows the administration to play in the tax arena under two different scenarios. Under the first, they fight against any large net changes in taxes until social security is reformed. Under the second, a tax bill gets up a head of steam anyway—either because social security reform seems imminent or because there is no progress on social security and Congress still wants to have a tax cut. By having some proposals on the table, the administration can argue that its tax expenditures are the types of tax relief that should receive priority.

My purpose here isn't to predict how these elements will come together. What I would suggest is that tax simplification so far is not on the discussion list, and that it should receive some attention.

First, some amount of simplification is simply required by the evolution of the individual alternative minimum tax. The constant inclusion of more and more taxpayers in that complex system makes some reform inevitable. AMT reform, taken by itself, loses revenues under our current methods of scorekeeping—even

though it isn't all that expensive relative to overall revenues.

One could come up with a much longer list of useful simplifications, although many are likely to involve some losers in the absence of other tax relief. There is no carefully balanced tax simplification package on the table now, but I feel quite confident that the Joint Committee on Taxation and the Treasury Department could come up jointly with a useful list if given the marching orders.

Congress and the president may be reluctant to move down that path. At a minimum, however, they should try to avoid letting 1999 be a year in which tax complexity is increased yet again. Recall the process in 1997. Then, too, both parties put a number of items on the table. But because simplification got little attention, the compromises reached by the time of enactment generally added to tax complexity. In 1998, by contrast, the chairman of the Ways and Means Committee tried to craft a tax bill that gave some deference to tax simplification.

Certainly compared to national issues of retirement, saving, and investment, tax simplification pales in significance. It is not glamorous nor does it occupy much media attention, except around April 15. But it is important to tens of millions of taxpayers, and much of the existing complexity involves pure losses of resources to society. Tax simplification, therefore, deserves some weight in the upcoming budget process—whether it turns almost solely to social security reform, involves some minor tax changes, or incorporates more significant tax relief. The key is that simplification be given attention early on rather than when it is too late.

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