

## The 1998 Tax Bill: Setting A Higher Standard?

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It is now all but assured that the larger tax bill passed by the House is dead. The principal objection is that the revenues really aren't there, that the long-run deficits in social security, Medicare, and other programs remain to be eliminated. While this argument has merit and will probably rule the day, this is a case where I do not want to miss the trees for the forest. As tax bills go, this was one of the first in a long time to adhere to a number of tax policy principles. If the procedure followed in drafting this bill would set a standard for the future tax legislation, there is some hope that we will soon see the end to the legislative tendency to add ever increasing levels of complexity to the tax system.

In the grand scheme of things, the tax bill passed by the House is not of any great magnitude. It would have reduced revenues by perhaps 1 or 2 percent depending on the year being examined. Therefore, at best it would have been a footnote in the fiscal history of the country. Some of this loss, moreover, was due to the steps taken against a growing alternative minimum tax (AMT) that everyone on all sides agrees must be brought under control. If not adopted this year, a cutback in the AMT is inevitable in the near future.

That a bill is small, of course, is no reason to pass or not pass it. It does warn us that much of the fight is over symbol and direction rather than substance. Tax cuts hint at the possibility of smaller government, which some favor and some oppose. Moreover, as explained by the Center for a Responsible Federal Budget it is highly likely that Congress and the president will agree to some increase in spending whether they pass a tax bill or not.

Of course, the major economic issue facing the country now is the dramatic fall, in the future, in the number of workers and taxpayers relative to beneficiaries of old age and other programs. This is a direction in which we are already headed and one for which we are doing little preparation. I think most legislators and citizens would be willing to turn their energy to that problem if they thought that headway could be made, but increasing cynicism is rising that anything major can now be done for the next couple of years.

Once one moves beyond these large macro issues and looks more narrowly at the tax bill itself, it took several important steps forward. More important than any, I think, was the effort of House Ways and Means Chair Bill Archer to have the bill meet a new and higher standard for simplification. Although not required, this bill was drafted with the recognition that it could undergo the type of simplification assessment required under the IRS restructuring legislation for tax changes after this year. That requirement, which I strongly recommended to the Congress and the staff of the Restructuring Commission, may be a real sleeper -- potentially one of the most important of all long-run influences on future IRS administration. Now there is at least some accountability for complexities introduced into tax legislation. No mechanical legal requirement for procedural reform, however, can be effective unless backed up by nonlegal precedents and enforced by those with the gavel -- in this case, the chairmen of the taxwriting committees.

The bill would have achieved simplification in a number of ways -- often simply making fewer individuals subject to the complexities of some provisions. For instance, it would have reduced the number of individuals subject to the AMT and would have reduced the number of itemizers. Although no item is ever backed unanimously, it is hard to find many members of Congress who believe that the minimum tax should apply to larger and larger percentages of the middle class simply because they receive some personal credits, pay state income tax, or take personal exemptions. The bill took the small step of not allowing these personal credits to increase the likelihood of paying the AMT.

The increase in the standard deduction, as part of some minor attempts to reduce the size of marriage penalties, is more controversial. Some simply don't care about the penalty. Others object to the weak targeting of these particular changes. Much of the money would not relieve marriage penalties at all, and the proposal did little at lower-income levels where the penalty is largest relative to income. Despite these

objections, it did help make both tax law and tax enforcement simpler. In the past, these objectives would always take a back seat in tax legislation as it moved toward some convoluted compromise that -- whatever it did for one or another group of taxpayers -- helped make the tax code an even greater mess than it was before.

Many interest group advocates will not like as much a world in which simplification gains this type of weight. Simplification standards reduce the probability that they can go back to their members and argue they had helped negotiate a compromise among A, B, and C in such a way that we get just a little of each of them, phased out by income through some set of devices, and without regard to tax policy principles or consistency in their application.

Am I making too much of the simplification gains in a bill that is not going to pass? Very possibly. Other parts of the bill would have added to complexity, such as some of the provisions that would have applied to renewal communities, which are an extension of the enterprise zone concept. Moreover, it is clear that simplification competes with other worthy goals of tax legislation. Nor do I deny that dealing with our scheduled decline in workers relative to beneficiaries in social security and other programs is a much higher priority than a tax cut. Nonetheless, it's nice to see tax legislation adhere a little better to tax policy standards. If the precedent is followed, it could be powerful in its effect on the development of tax law. And in Washington today, it's nice to find something about which to be hopeful.

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