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## **HATCH STATEMENT AT FINANCE COMMITTEE HEARING EXAMINING GLOBAL TAX ADMINISTRATION PRACTICES**

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today delivered the following opening statement at a committee hearing examining tax administration around the globe:

According to some sources, just at this time of year, several decades ago, when attempting to fill out his US tax return, Albert Einstein threw up his hands in frustration and said, “The hardest thing to understand is the United States income tax system.”

And keep in mind – the Father of the Theory of Relativity made his complaint about the complexity of the US tax law:

- prior to the AMT (the Alternative Minimum Tax),
- prior to PEP (i.e., the Personal Exemption Phaseout),
- prior to Pease (that is, the limitation on itemized deductions),
- prior to Subpart F,
- prior to the Making Work Pay Credit,
- prior to extenders, and
- prior to worldwide interest apportionment for purposes of calculating foreign source income for Foreign Tax Credit limitation purposes.

I wonder what that Nobel Prize Winner of Physics would say *now* about the tax system's complexity? My guess is it wouldn't be fit for polite conversation.

So we are here today to hear about how other countries are improving tax administration and tax compliance. Surely one way to improve tax administration and compliance is by reducing complexity – or at least, by *not increasing* complexity.

There are other ways to improve tax administration. One way to improve tax administration is through better computer software and greater interaction via the internet between the revenue authority and taxpayers. However, it is worth considering to what extent greater reliance on technology actually enables greater complexity in the tax code.

That is, it is certainly the case that computers can always be improved and programmed to handle ever greater complexity in the tax code. But this may come at the cost of leaving human understanding of the Code behind.

And as human beings become ever more mystified as to the workings of the Code, they become less responsive to tax incentives, and less understanding of how their government is funded.

Another way to improve tax administration and compliance could be through government-prepared (or “pre-populated”) tax returns. While this certainly would reduce the time that many individuals would have to spend on tax return preparation, it also makes them less aware of what the tax law is.

We see this trade-off between making administration and compliance easier while decreasing the citizenry’s awareness of government financing in another area: Withholding. The system of income tax withholding on wages has been in place since 1943. While it has assured the government a steady stream of revenue, and reduces the chance that some individuals won’t have enough money to pay their taxes come April 15, withholding also makes taxpayers less aware of the substantial amount of money they are paying to the government.

Whatever the case, I very much appreciate our three witnesses being here today. I really look forward to their insights about how other countries around the globe grapple with tax administration and compliance. I’m sure there must be some lessons for America in this.

Thank you.

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