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CONTACT: [Aaron Fobes](#) , [Julia Lawless](#)

(202) 224-4515

Hatch Statement at Finance Hearing on Simplifying the Tax Code

WASHINGTON – Senate Finance Committee Chairman Orrin Hatch (R-Utah) today delivered the following opening statement at a committee hearing on simplifying the tax code:

The committee will come to order.

I want to welcome everyone to today's hearing to discuss simplification of the tax code. I also want to thank our witnesses for appearing before the committee today and for the written testimony they have submitted.

This is the third hearing the committee has held to explore the principles of tax reform embraced by President Reagan nearly three decades ago. Those principles were efficiency, fairness, and simplicity. We have held hearings on the importance of growth and efficiency, and of fairness, in tax reform. Today, we will discuss the problem of complexity in the tax code and the merits of simplification.

There are many sources of complexity in our tax system, including a lack of clarity and readability, the use of the federal tax system to advance social and economic policies, increased complexity in the economy, and the interaction of federal tax laws with state laws, other federal laws and standards, the laws of foreign countries and tax treaties. The proliferation of credits, deductions, exclusions, exemptions, fees, and excise taxes, all of which were presumably intended by their proponents for good, also add to the overall complexity of our tax system.

Over the years our tax code has grown to almost four million words. Today, approximately 59 percent of American households use paid preparers to do their individual income taxes and another 30 percent use tax software to assist them. Taxpayers and businesses spend over six billion hours a year complying with tax-filing requirements with compliance costs totaling over \$168 billion annually.

That is larger than the entire economy of New Zealand.

That amount would employ more than three million workers full time at a wage of \$25 an hour.

Wouldn't that money be better off in the hands of hardworking taxpayers, instead of devoted to complying with our overly complicated tax code?

Imagine: A simpler tax code that greatly reduces compliance costs, resulting in a tax code that is efficient, effective, and accountable to taxpayers. In other words, a tax code that Americans can actually understand.

As was noted in the comprehensive report on tax reform the Republican staff of the Finance Committee released in December, simplification often gets overlooked or relegated to secondary status in the tax reform discussion. That should not happen. Complex tax provisions – such as the personal exemption phase-out, or PEP, the overall limitation on itemized deduction, or Pease, or the AMT – effectively force taxpayers to seek costly help from professional preparers.

Complexity should be a matter of concern for tax policymakers because it makes it more difficult, time-consuming, and expensive for taxpayers to comply with the law and for the IRS to enforce it. Complexity also reduces perceptions of fairness in the tax system and can decrease voluntary compliance with the tax laws.

But, of course, simplification is not without its trade-offs. For example, there is often a tension between fairness and simplicity. Simple statutes may not be fair because they lump together taxpayers who, in fairness, should be treated differently. And statutes that comprehensively address relevant distinctions between taxpayers, leading to fairness, tend to be more complex.

But, no one said tax reform would be easy. These tensions and tradeoffs come with the territory and should not deter our efforts.

Today we will hear from four witnesses on the front lines of the tax reform debate and we look forward to discussing with them the pros and cons of simplification of the tax code.

I will now turn to Ranking Member Wyden for his opening remarks.

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