

Members and Staff
Senate Finance Committee
United States Senate
Washington, DC

Dear Sirs and or Madams

This is intended to be a response to the request for public input on the subject of tax reform. My background is as a CPA in public practice for over 40 years. I am now semi-retired but still consult on tax matters.

True tax reform could only be accomplished by a complete demolition of the Internal Revenue Code and all its regulations. However realizing that is only a fantasy, I would offer comments on a limited number of issues, most of which I encountered in my practice.

While I have not represented any hedge fund billionaires, I would still state with conviction that the Carried Interest provision is the most egregious provision in the IRC. I see no valid reason why the income subject to this provision is not treated as earned income. Elimination of this inequity would not result in the elimination of jobs unless one assumes the fallout would affect the vacation home or private aircraft industries.

One area I have encountered that affects low to middle income taxpayers is "Social Security Tax Rate Creep". Because the taxation of Social Security is phased in at such a low level of income, many taxpayers are faced with a double tax when a small gain or increase in a retirement plan distribution, increases their taxable Social Security. I would suggest the phase-in rules be reviewed and adjusted.

The AMT was introduced when I first started to practice, however it did not really become a factor until several years later with additions to AMT adjustments and rate increases. I gather the AMT is a significant revenue generator which probably negates an elimination of the tax in its entirety, but some serious look at simplification in this area is called for. If in the big picture the AMT revenue loss could be offset by other deduction eliminations or rate increases, I believe it would be for the good. In its current state the AMT is a convoluted and rather disingenuous method of disallowing deductions that are part of the Code; or as some view it, a sneaky flat tax. This is particularly true when looking at the impact on tax credits. I have just reviewed an R & D tax credit that is in the 18th year of a 20 year carryover period and has not been available because of AMT. If tax credits are truly meant to be incentives for certain economic activities, they should not then be taken away by the AMT.

The last area I want to address involves both individuals and business. As a matter of equity and ease of administration there needs to be a reconciliation of the treatment of income from Sub Chapter S Corporations and Limited Liability Companies. I am specifically referring to entities with active operating income rather than passive income. Currently entity selection for these businesses often involves selecting Sub Chapter S to mitigate the payroll tax burden. This has led to IRS litigation and an inequitable result when compared to the same activity in an LLC. A possible solution might be in

the form of a fixed percentage allocation between earned income and return of capital to be applied to both types of entities.

As a final comment, I would like to see politicians quit citing the myth that minor tax rate increases destroy jobs or that decreases create jobs. I have dealt with and planned for business owners and entrepreneurs for over forty years and have never seen either result. Jobs are created when demand for goods and services increase and lost when that demand declines. Tax rates just do not enter into that equation. About the only chance for tax policy to enhance job creation would be to drastically simplify the IRC and avoid the waste of resources absorbed in trying to comply with the current system.

Thank you for the opportunity for input

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