Tax Reform

What Is Tax Reform?

"Tax reform" sounds simple enough. It is the process of changing the way taxes are collected or managed by the government, and is usually undertaken to improve tax administration or to provide economic or social benefits. Comprehensive tax reform has usually entailed broad, sweeping changes to the tax system to lower the rate and broaden the base. The concept is to match tax cuts (which cost revenue) with base expansion (which gain revenue), and ideally offset the two so the overall bill is roughly revenue neutral. Tax cuts are politically easy because there are no losers, only winners. They lower everybody's tax burden. That's not tax reform. Tax reform is traditionally about clearing out the legislative clutter that builds up in the tax code over time to create a system that is fairer, more efficient, and simpler.

Why Is It So Important in 2017?

With Republicans in control of both chambers of Congress and the White House, Washington is alive with talk of tax reform. Could 2017 be the year for it? It's quite possible.

Before the elections, pollsters were confident that the United States faced another four years of divided government. They were all wrong. Republicans emerged victorious on November 8, with Donald Trump winning the White House while Republicans maintained control of the House and Senate. This opens the door to the possibility of tax reform.

Republicans have an agenda on tax and fiscal policy that they have been working on for years. Former House Ways and Means Committee Chair Dave Camp laid the groundwork with an ambitious draft in 2014. House Speaker Paul Ryan and current Ways and Means Chair Kevin Brady put out a new GOP blueprint early in 2016. But the lingering question is, why hasn't the United States had comprehensive tax reform in 30 years? Because it's not that easy.

The last comprehensive reform to the U.S. tax system took place in 1986, when the Tax Reform Act lowered income tax rates and broadened the tax base. There are similarities, but also some key differences between where we are today compared with 1986. Today, there is more talk about a radical overhaul of how the United States collects taxes than there was in 1986. While 1986 was the epitome of traditional tax reform -- overhauling the existing income taxes to make them fairer and more efficient -- tax reform talk in 2017 is more focused on dramatic changes. The House blueprint would move the United States away from a corporate income tax to more of a tax on consumption (the destination-based cash flow tax), while the Senate has focused on changing rules to tax corporations and passthroughs the same (corporate integration).

History of Modern Tax Reform

1981 - ERTA (Economy Recovery Tax Act) tax cut

1982 - TEFRA (Tax Equity and Fiscal Responsibility Act of 1982) tax increase

1984 - Treasury I: Three-volume study on the need for tax reform, ordered by President Reagan in his State of the Union address in January and delivered 10 months later

1984 - Deficit Reduction Act

1986 – TRA (Tax Reform Act of 1986) – true tax reform passed October 22, 1986

1988 - TAMRA (Technical and Miscellaneous Revenue Act of 1988)

1991 - Deficit Reduction Act (George H.W. Bush – tax increase)

1993 - OBRA (Omnibus Budget Reconciliation Act) (Bill Clinton tax increase)

2001 – EGTRRA (Economic Growth and Tax Relief Reconciliation Act)

2003 – JGTRRA (Jobs and Growth Tax Relief Reconciliation Act)

2005 – President's Advisory Panel on Federal Tax Reform

2012 – ATRA (American Taxpayer Relief Act)

2016 - House blueprint ("A Better Way for Tax Reform")