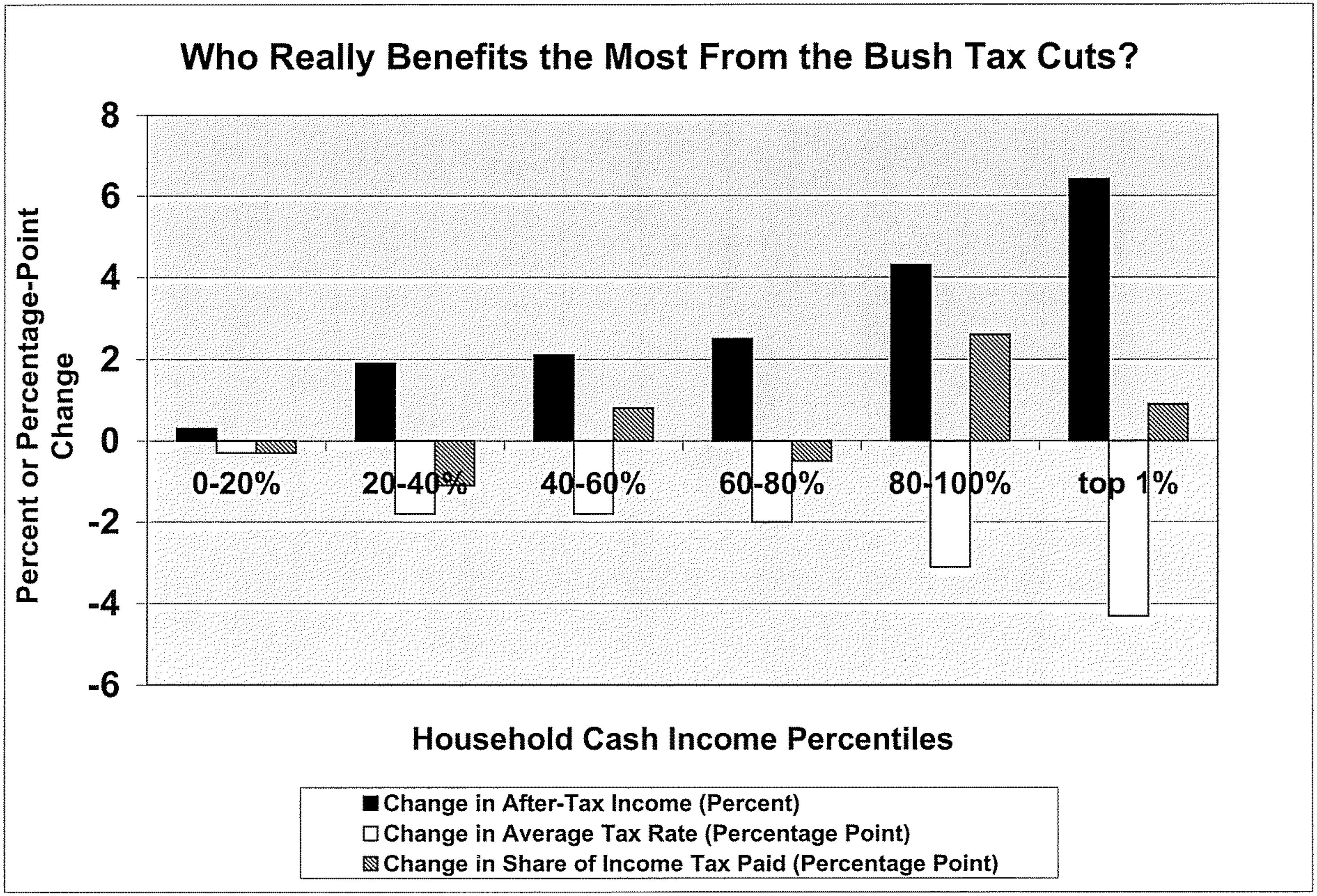
Appendix A



Source: Urban-Brookings Tax Policy Center, calculations published in, "Tax Notes" (September 27, 2004).

Appendix B

Public Law & Title 26 Tax Changes Enacted Since 1994

Public Law	Popular Title	Title 26 Changes
104-7	Self Employment Health Insurance Act	12
104-117	Armed Forces in Bosnia	3
104-134	Omnibus Consolidated Rescissions & Appropriations Act of 1996	12
104-168	Taxpayer Bill of Rights 2	111
104-188	Small Business Job Protection	657
104-191	Health Insurance Portability	107
104-193	Personal Responsibility and Work Opportunity	37
105-33	Balanced Budget Act of 1997	24
105-34	Taxpayer Relief Act of 1997	801
105-35	Taxpayer Browsing Protection Act of 1997	6
105-61	Treasury, Postal Service & General Government Appropriations of FY 1998	1
105-130	Surface Transportation Extension Act of 1997	7
105-178	Transportation Equity Act for the 21st Century	60
105-206	IRS Restructuring & Reform Act of 1998	436
105-277	Tax & Trade Relief Extension Act of 1998 and Vaccine Injury Compensation Program Modification Act	78

Public Law & Title 26 Tax Changes Enacted Since 1994

Public Law	Popular Title	Title 26 Changes
106-36	Miscellaneous Trade & Technical Corrections Act of 1999	15
106-78	Agriculture Appropriations	1
106-170	Tax Relief Extension Act of 1999	106
106-200	Trade and Development Act of 2000	3
106-230	To require 527 Organizations to Disclose	28
106-519	Repeal Provisions relating to FSCs	16
106-554	Consolidated Appropriations FY2001 (includes Treasury and Community Renewal Tax Relief)	219
106-573	Repeal modification of installment method (HR3594)	4
107-16	Economic Growth & Tax Relief Reconciliation Act of 2001	378
107-22	Rename education IRAs to Coverdell education savings accounts	19
107-71	Aviation and Transportation Security	1
107-134	Victims of Terrorism Tax Relief Act of 2001	32
107-147	Job Creation & Worker Assistance Act of 2002	161
107-210	Trade Act of 2002	9
107-276	Section 527 Amendments related to State & Local Party Committees	19
107-296	Homeland Security Act of 2002	2

Public Law & Title 26 Tax Changes Enacted Since 1994

Public Law	Popular Title	Title 26 Changes
108-27	Jobs and Growth Tax Relief Reconciliation Act of 2003	51
108-88	Surface Transportation Extension Act of 2003	7
108-121	Military Family Tax Relief Act of 2003	26
108-173	Medicare Prescription Drug Act	29
108-202	Surface Transportation Act	6
108-203	Social Security Protection Act	7
108-218	Pension Funding Equity Act of 2004	23
108-224	Surface Transportation Act part 2	6
108-311	Working Families Tax Relief Act	175
108-357	American Jobs Creation Act	561
42 laws	**Total Enacted Since 1994**	**4268**

Compiled from statistical information provided by the Commerce Clearing House, Inc. (CCH)

Appendix C

H.R. Rpt. 108-755, American Jobs Creation Act of 2004, at 802-804 (October 7, 2004).

XII. TAX COMPLEXITY ANALYSIS

1. The following tax complexity analysis is provided pursuant to section 4022(b) of the Internal Revenue Service Reform and Restructuring Act of 1998, which requires the staff of the Joint Committee on Taxation (in consultation with the Internal Revenue Service ('IRS') and the Treasury Department) to provide a complexity analysis of tax legislation reported by the House Committee on Ways and Means, the Senate Committee on Finance, or a Conference Report containing tax provisions. The complexity analysis is required to report on the complexity and administrative issues raised by provisions that directly or indirectly amend the Internal Revenue Code and that have widespread applicability to individuals or small businesses. For each such provision identified by the staff of the Joint Committee on Taxation, a summary description of the provision is provided along with an estimate of the number and type of affected taxpayers, and a discussion regarding the relevant complexity and administrative issues.

Following the analysis of the staff of the Joint Committee on Taxation are the comments of the IRS and the Treasury Department regarding each of the provisions included in the complexity analysis, including a discussion of the likely effect on IRS forms and any expected impact on the IRS.

1. Deduction relating to income attributable to United States production activities (sec. 102 of the House bill, secs. 102 and 103 of the Senate amendment, and sec. 11 of the Code)

Summary description of provision

The conference agreement provides a deduction attributable to certain qualified production activities in the United States of a C corporation, S corporation, partnership, or sole proprietorship. Such activities generally include: (1) manufacturing, production, growth or extraction of certain tangible personal property, computer software, property described in section 168(f)(3) or (4) of the Code, and electricity, natural gas, or potable water produced by the taxpayer; (2) construction; and (3) engineering or architectural services.

The amount of the deduction in taxable years beginning in 2005, 2006, 2007, 2008, 2009, and 2010 and thereafter generally is three, three, six, six, six, and nine percent, respectively. The deduction is limited for a taxable year to 50 percent of the wages paid by the taxpayer during such taxable year. In addition, the deduction cannot exceed the lesser of the taxpayer's taxable income (computed without regard to the deduction) or the taxpayer's qualified production activities income.

The bill is effective for taxable years beginning after 2004.

Number of affected taxpayers

It is estimated that the provision will affect more than 10 percent of small businesses.

Discussion

It is anticipated that small businesses engaged in qualified production activities will need to keep additional records due to this provision, and that extensive additional regulatory guidance will be necessary to effectively implement the provision. It is anticipated that the provision will result in an increase in disputes between small businesses and the IRS. Reasons for such disputes include the complexity of the provision and the inherent incentive for small businesses and other taxpayers to characterize their activities as qualified production activities to claim the deduction under the provision.

The provision likely will increase the tax preparation costs for most small businesses that are, or may be, engaged in qualified production activities. Small businesses will have to perform additional analysis and make subjective determinations concerning whether their activities constitute qualified production activities and, thus, whether income attributable to such activities qualifies for the deduction allowed under the provision. In this regard, the provision does not provide detailed definitions of the activities that produce income eligible for the deduction, and it will be difficult for the Treasury Secretary to define qualified production activities administratively. It should be noted that a similar provision in the Canadian tax laws was found to be highly complex and difficult to administer, which led to numerous disputes and litigation between affected taxpayers and the Canadian tax authorities. Canada recently repealed the provision and provided a general reduction in corporate tax rates.

For income that is determined to be eligible for the deduction under the provision, small businesses will be required to perform additional and complex calculations to determine the amount of the deduction under the provision. Because the deduction is based upon modified taxable income rather than gross income, small businesses will be required to undertake complicated calculations to determine the amount of costs that are allocable to gross income from qualified production activities. In many cases, small businesses would not have been required otherwise to perform these calculations but for the provision.

The wage limitation on the deduction is likely to impact small businesses disproportionately. After undertaking the calculations and analyses to determine the amount of their potential deduction, many small business will find that such amount is significantly reduced, or eliminated together, by the wage limitation.

Under the provision, it may be necessary for small businesses to make certain allocations of income that are not required under present law, particularly with respect to businesses that have both income that is directly attributable to qualified production activities and income that is attributable to processes associated with qualified production activities (e.g., vertically integrated manufacturers that also engage in the selling, storage, and installation of manufactured goods). To the extent the reduction under the provision is not based upon income from processes associated with qualified production activities, taxpayers that engage in such processes will be required to allocate their aggregate income between qualified production activities and processes associated with qualified production activities. In general, it is expected that the multiple calculations and analyses required by this provision will lead to intentional or inadvertent noncompliance among small businesses, as well as other taxpayers.

Due to the detailed calculations required by the pvosion, it is anticipated that the Secretary of the Treasury will have to make appropriate revisions to several types of income tax forms, schedules, spreadsheets and instructions.

Appendix D

Report from the Commissioner of the Internal Revenue Service on TAX LAW COMPLEXITY

Office of Research, Analysis, and the Statistics Internal Revenue Service
September 20, 2002

The Impact of Recent Legislation on Complexity

The implementation of new tax laws, or even the modification of current tax laws, that impact issues related to a taxpayer's filing status or affect procedures for calculating estimated and alternative minimum taxes has a direct bearing on complexity. To assess the impact of recent congressional initiatives on complexity each piece of legislation must be assessed independently. While Congress has enacted tax law legislation recently that has added to complexity, they have also enacted other legislation that had minimal (if any) impact on complexity.

The Taxpayer Relief Act of 1997 (1997 Act) is an example of tax legislation that resulted in many new tax complexities. The 1997 Act contained many new tax credits that are beneficial to certain categories of taxpayers. These new tax credits required significant tax changes to the tax forms, schedules, and instructions for individuals. Because the credits were targeted to certain types of taxpayers or to certain types of activities, specific qualifications had to be met in order to qualify for the credits. In many cases taxpayers had to decipher complex rules in order to determine whether they qualified for the credits. Several of the credits phased in their maximum benefit over two years. In addition all of the new credits phased out at certain levels of adjusted gross income. These phase-ins and phase-outs lead to increased complexity in the tax law. In some cases taxpayers were given choices (for example, with respect to which of various educational tax incentives to claim), which created the complexity and the possibility of increased errors.

One of the most complex provisions of the 1997 Act was the reduction in the maximum capital gains rates. This provision presents many difficulties for tax payers largely because of the different maximum rates (10, 20, 25, or 28 percent) that apply depending on the nature of the capital asset sold and the taxpayer's marginal tax rate bracket. Part IV of 1999 Schedule D, which provides the tax computation reflecting these reduced rates, contains thirty-five line entries. New complexities are introduced after the year 2000 when the 10 and 20 percent rates dropped to 8 and 18 percent, respectively, for gain from property held for more than five years.

Examples of legislation that did not impact complexity include three new tax laws enacted in 1998: The Surface Revenue Transportation Act of 1998, The Internal Revenue Service Restructuring and Reform Act of 1998, and the Tax and Trade Relief Extension Act of 1998. None of these Acts imposed significant new complexities on taxpayers as these pieces of legislation focused on changes within IRS.

March 6, 2001

The Honorable George W. Bush
The President
The White House
Washington, DC

Dear Mr. President:

You have stated often your desire to work toward bipartisanship. I agree and write to you in that spirit.

I, along with the other Democratic Members of the Committee on Ways and Means, oppose the tax bill that was reported by the Committee last Thursday because of its size and because it comes before a realistic budget framework is in place. While I recognize that you and I may disagree on these issues, there are other aspects to the bill that was reported that I believe will trouble you, provisions that will have an adverse impact on ordinary American families across the country.

In your address before the Joint Session of Congress last week, you stated that all individual income taxpayers would receive a tax reduction under your plan. I am confident that you were not aware that neither your proposal nor the bill that will be considered by the House of Representatives this week meets that standard.

Because of the alternative minimum tax, millions of Americans will not receive benefits from the bill reported last week. Based on numbers provided by the staff of the Joint Committee on Taxation, I believe that the number of income tax-paying individuals receiving no benefit from the Committee bill will start at approximately 3 million individuals next year, and will grow to over 20 million in the year 2011. Millions of other families will receive substantially less relief than promised.

Mr. President, some in your Administration have suggested that the alternative minimum tax affects only wealthy taxpayers with tax preferences. That suggestion is not correct. Any tax proposal that fails to address the minimum tax issue will discriminate against families with children and against families residing in states with income tax systems, like my state of New York.

According to a Treasury Department study, by the year 2010, the minimum tax will affect one-sixth of all married couples with incomes between $50,000 and $75,000 who have children (two-thirds for couples with incomes between $75,000 and $100,000). Substantially all of those families would receive no benefit from the bill that will be before the House this week. The more children in the family, the less likely it is that the family will receive a tax reduction.

I also am concerned that the Committee bill and your tax proposal will discriminate against residents of states with high local tax burdens, such as New York and California, even if they do not have children. For millions of Americans, your proposal and the Committee bill effectively would repeal the deduction for State and local income and property taxes. The Reagan/Bush Administration proposed repeal of that deduction as part of its 1985 tax reform proposal. That proposed repeal met with overwhelming opposition in the Congress. Unless changes are made in the proposal to address this problem, I believe it is quite likely you will be faced with the same reaction.

Mr. President, you should be aware that addressing these issues in the context of the Committee bill could cost an additional $300 billion over 10 years. I am concerned that, given competing priorities such as the marriage penalty and estate tax relief, there is no assurance that such a sum will be available even in the context of a tax bill as large as $1.6 trillion.

Therefore, Mr. President, I believe that we should step back and try to work together on new proposals that do not have the discriminatory aspects that I have outlined in this letter. I firmly believe that it is wrong to discriminate against taxpayers based on the size of their families or the state of their residence.

While we Democrats were not consulted by the House majority in drawing up this first tax bill, I believe it is not too late for you to create a new era of bipartisanship. As President, you have the ability to bring all sides to the table to work together in a bipartisan way to address the AMT and other problems encountered by tax cut proposals. If there is any way to enact truly bipartisan tax relief legislation, we owe it to the nation to try.

Sincerely,

Charles B. Rangel
Ranking Democrat