

**TAX REFORM FOR FAIRNESS,
SIMPLICITY, AND ECONOMIC
GROWTH: THE TREASURY
DEPARTMENT REPORT TO THE
PRESIDENT. VOLUME 1, OVERVIEW**

Published @ 2017 Trieste Publishing Pty Ltd

ISBN 9780649718344

Tax Reform for Fairness, Simplicity, and Economic Growth: The Treasury Department Report to the President. Volume 1, Overview by Donald T. Regan

Except for use in any review, the reproduction or utilisation of this work in whole or in part in any form by any electronic, mechanical or other means, now known or hereafter invented, including xerography, photocopying and recording, or in any information storage or retrieval system, is forbidden without the permission of the publisher, Trieste Publishing Pty Ltd, PO Box 1576 Collingwood, Victoria 3066 Australia.

All rights reserved.

Edited by Trieste Publishing Pty Ltd.
Cover @ 2017

This book is sold subject to the condition that it shall not, by way of trade or otherwise, be lent, re-sold, hired out, or otherwise circulated without the publisher's prior consent in any form or binding or cover other than that in which it is published and without a similar condition including this condition being imposed on the subsequent purchaser.

www.triestepublishing.com

DONALD T. REGAN

**TAX REFORM FOR FAIRNESS,
SIMPLICITY, AND ECONOMIC
GROWTH: THE TREASURY
DEPARTMENT REPORT TO THE
PRESIDENT. VOLUME 1, OVERVIEW**

43
7-11
77
1984
03

TAX REFORM FOR FAIRNESS, SIMPLICITY, AND ECONOMIC GROWTH

The Treasury Department Report
to the President

Volume 1 Overview



Office of the Secretary
Department of the Treasury

LIBRARY
ROOM 5030
DEC 5 1985
TREASURY DEPARTMENT

November 1984



THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

November 27, 1984

Dear Mr. President:

I am pleased to submit the Treasury Department's Report on Fundamental Tax Simplification and Reform that you requested in your State of the Union address in January. It contains proposals for a broad-based income tax that would allow us to lower marginal tax rates for individuals by an average of 20 percent and the corporate rate from 46 percent to 33 percent. The proposals would make the tax system simpler, fairer, and more economically efficient.

The present U.S. income tax is complex, it is inequitable, and it interferes with economic choices of households and businesses. It is also widely perceived to be unfair. Because this perception undermines taxpayer morale, it may be as important as the actual defects of the system.

In your State of the Union address, you said:

"To talk of meeting the present situation by increasing taxes is a Band-Aid solution which does nothing to cure an illness that has been coming on for half a century, to say nothing of the fact that it poses a real threat to economic recovery....

There is a better way: Let us go forward with an historic reform for fairness, simplicity and incentives for growth. I am asking Secretary Don Regan for a plan for action to simplify the entire tax code so all taxpayers, big and small, are treated more fairly.... I have asked that specific recommendations, consistent with those objectives, be presented to me by December 1984."

Further we believe we have followed your mandate of May 1984 to design a sweeping and comprehensive reform of the entire tax code. The Treasury Department study focused on four options: a pure flat tax, a modified flat tax, a tax on income that is consumed, and a general sales tax, including a value-added tax and retail sales taxes.

The objectives of our study included: lower marginal tax rates; reduced interference with private economic decisions; simplicity; revenues equal to those of the existing tax system; fairness for families; equal treatment of all sources and uses of income; an unchanged distribution of tax burdens across income classes; and encouragement to economic growth.

We believe that our proposals for a modified flat tax best reconcile these competing objectives. They include some features that are similar to those in flat tax proposals that have been offered by members of Congress, but our proposals are much more comprehensive.

The adoption of these reforms should have far reaching and positive effects on the U.S. economy. Rate reductions of the magnitude we propose will open wide the doors of opportunity to those who are willing to work, to save and invest, and to innovate. With investment decisions being determined by economic consequences, rather than by the tax system, capital will be allocated more efficiently across industries, and growth will accelerate.

If tax reform is not adopted, the complexities, inequities, and distortions of the present system will increase and continue to hinder our nation's progress. Moreover, taxpayer morale will continue to deteriorate, and the so-called tax gap will grow.

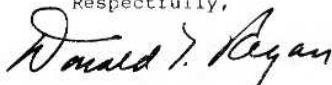
The proposals presented in this Report form an integrated package. In some cases neutrality between competing industries can be achieved only if the special preferences benefitting each industry are eliminated. In other cases, changes are mutually dependent and must occur together to avoid inequities, distortions, and extraordinarily complex administrative rules and increased compliance costs to taxpayers. Most importantly, any change in the package inevitably means that the proposed rate structure must be redesigned in order to keep tax burdens constant -- in total and across income classes. Each credit, deduction or deferral of tax that is retained in current law means that tax rates higher than those proposed in the Report will be necessary to attain the same level of revenues. Moreover, if any special tax benefits are left intact, it will be more difficult to resist appeals by others for special treatment.

These proposals are bold, and they will be controversial. Those who benefit from the current tax preferences that distort the use of our nation's resources, that complicate paying taxes for all of us, and that create inequities

and undermine taxpayer morale will complain loudly and seek support from every quarter. But a far greater number of Americans will benefit from the suggested rate reduction and simplification. The achievement of fundamental tax reform -- and the manifest benefits it would entail -- will require extraordinary leadership.

I am fully convinced that these proposals constitute the substance of tax simplification and reform that this nation so badly needs. I look forward to working with you and others to secure their enactment.

Respectfully,

A handwritten signature in black ink that reads "Donald T. Regan". The signature is written in a cursive, flowing style.

Donald T. Regan

The President
The White House
Washington, D.C. 20500

Summary of Proposals

Introduction

The present U.S. tax system desperately needs simplification and reform. It is too complicated, it is unfair, and it retards savings, investment, and economic growth.

Under the current progressive tax system, all taxpayers face higher marginal tax rates in order to make up for the revenue lost by numerous special preferences, exceptions, and tax shelters used by a relatively small number of taxpayers.

As a result, the tax system is complex and inequitable. It reduces economic incentives, hampers economic growth, and is perceived to be so unfair that taxpayer morale and voluntary compliance have been seriously undermined.

As requested by President Reagan in his 1984 State of the Union Address, the Treasury Department has completed a thorough review of the U.S. tax system. This summary outlines the Department's proposals for a fundamental reform and simplification of the income tax system which would raise approximately the same amount of revenues as current law with lower tax rates imposed on a broader tax base.

The Treasury Department is proposing a new income tax system which is broad-based, simple, and fair. It reflects the enormous public input generated by a series of public hearings held throughout the country.

The Treasury Department's recommendation reflects the broad political consensus of the American people that the present system is too complicated and favors special interests at the expense of the general public. While much more comprehensive and far-reaching than other proposals, it resembles several plans for tax reform advanced by members of Congress, especially the Kemp-Kasten and Bradley-Gephardt plans. This bipartisan congressional consensus augurs well for quick action by the Congress.

Tax Simplification and Reform for Individuals

The Treasury Department proposals combine lower tax rates, increased personal exemptions, and zero bracket amounts with the repeal or modification of a number of existing deductions, exclusions and credits. The proposal does not generally change the distribution of individual tax burden across income classes, though it does reduce tax burdens more than proportionally for taxpayers with the lowest incomes.