

Tax Reform Casts an Uncertain Shadow

By Michael J. Novogradac, CPA

President George W. Bush announced last year his desire to reform the nation's tax system in an effort to make it simpler and fairer. The result was a Bush-appointed tax reform panel that will provide reform recommendations to the Treasury secretary no later than July 31, 2005. Treasury then will make recommendations to the president.

Beyond the vague goals of simplicity and fairness, no clear objectives have been set for the commission, leaving the door open to any number of proposals, results and consequences. As in recent years when the affordable housing industry united to prevent negative consequences from Bush's dividend exclusion proposal, the housing community must again unite and lobby to protect the low-income housing tax credit (LIHTC) and related programs.

Bush named two retired senators as chairs of his tax reform commission: Connie Mack, R-Fla.-Ret., and John Breaux, D-La.Ret. Both were active members of the Senate Finance Committee during their Senate tenure. Neither has expressed a preference for or belief in any particular tax model and neither served on tax writing committees during the Tax Reform Act of 1986. However, both were serving in the House of Representatives at the time. The other members of the nine-member, bipartisan panel were also named and, as yet, none have publicly identified with any particular plan, though it has been reported that several members have a strong investment orientation.

Upon naming Mack and Breaux, Bush stressed his goals for the commission. "I believe this is an essential task for our country. It's a task that will treat our taxpayers more fairly," Bush said. "A simple code will make it easier on the taxpayers. But it's an important task in order to make sure the economic growth we are seeing in the United States continues forward. It seems like to me the tax code today discourages economic vitality and growth when you spend billions of hours filling out the forms."

The new panel will hold public hearings and gather information from members of Congress. Among the questions to be examined, according to a White

House release, are whether the existing tax system should be modified or replaced and how to reduce the existing administrative burden on taxpayers.

There is broad belief in Washington that the Internal Revenue Service (IRS) is entering a crucial era. "I believe this is a particularly important moment for our nation's tax administration system and for the IRS," Commissioner Mark Everson said in remarks to an international tax conference in Washington in December, sponsored by The George Washington University and the IRS. "The IRS, frankly speaking, needs to bring in more money to the Treasury. At the same time, we're embarking on a national discussion about significant potential changes to the tax code."

Treasury Secretary John Snow hailed the effort as momentous. "The President's bipartisan panel on tax reform, announced today, brings together some of our nation's brightest minds," Snow said Jan. 7, 2005. "Reforming our tax code to give Americans a tax system that fosters economic growth and is fairer and simpler will be a historic effort."

Some speculation has circulated that tax reform could take a back seat to Social Security as that controversial debate heats up, but Acting Treasury Assistant Secretary for Tax Policy Greg Jenner, prior to unexpectedly resigning his post, reiterated Bush's commitment to tax reform. "I can assure you his enthusiasm level for this project is very high," he said.

Meanwhile, the administration's criticism of the tax code as too complex and burdensome was bolstered in January when National Taxpayer Advocate Nina E. Olson released a report to Congress that identifies the complexity of the 1.4 million-plus word Internal Revenue Code as the most serious problem facing taxpayers and the IRS. "Without a doubt, the largest source of compliance burdens for taxpayers and the IRS alike is the overwhelming complexity of the tax code, and without a doubt, the only meaningful way to reduce these compliance burdens is to simplify the tax code enormously," Olson writes.

The Taxpayer Advocate Service is an independ-

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ent organization within the IRS that ensures tax problems that have not been resolved through normal channels are handled promptly and fairly. Because Taxpayer Advocate Service is part of the IRS, advocates know the tax system and how to navigate it. Because they are independent within the IRS, advocates are considered impartial.

Industry Groups Poised to Take Action

The Affordable Housing Tax Credit Coalition (AHTCC), along with other members of the affordable housing industry, expressed concern last month regarding the numerous tax reform proposals being discussed on Capitol Hill and at the White House. Several of the proposals, including a value added tax (VAT) and national sales tax (in place of an income tax) could have a negative impact on the value of tax preferences, including the LIHTC.

If the LIHTC is devalued, a significant gap in funding for affordable housing could go unmet. Throughout the coming months, members of the AHTCC will be meeting with members of Congress to discuss the importance of the LIHTC program and the potential impact of various tax proposals on this important program.

Similarly, the National Association of Home Builders (NAHB) reported in December that it is already working closely with the White House and

Capitol Hill leaders to ensure that the interests of the entire housing community will be well-served as tax reforms move forward. NAHB's stated policy is not only to protect the LIHTC, but to enhance it, as well as protecting other current tax incentives that benefit rental and for-sale housing.

Track Record of Success

If previous challenges are any indication, the housing industry clearly has the strength and support to protect the LIHTC and related programs from any potential negative consequences of tax reform. Conditioned by recurring challenges, and bolstered by its track record of results, affordable housing practitioners convinced lawmakers to introduce legislation to reverse the IRS Technical Advice Memoranda (TAMs) on what is includable in eligible basis, brought pressure to bear on a cap increase, and raised remarkable opposition in the face of recent attempts to dismantle and diminish the Section 8 voucher program. With a shared goal, the housing industry's combined influence has already been proved.

The AHTCC encourages others to seek meetings with their congressional representatives and is happy to provide contact and other information as necessary. For more information, contact Francine Friedman at ffriedman@hunton.com or visit the AHTCC web site: www.taxcreditcoalition.org. ❖