Statement of Connie Mack
Chairman, President's Advisory Panel on Tax Reform
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Good morning and welcome. Today, we will explore the impact that the current tax code has on important taxpayer decisions and how the tax system treats investment alternatives. At our first three meetings, we heard how the needless complexity of our tax code creeps into our everyday lives. Much of the tax code's complexity is the result of the myriad of special provisions that treat certain taxpayers or activities differently. As we will hear today, these provisions have a huge impact on how we make decisions about our jobs, savings and investment, education and healthcare.

The tax code's education and retirement provisions are two vivid examples of the mind-numbing complexity of our tax laws. There are at least nine different provisions to encourage education and more than a dozen separate tax-advantaged retirement savings plans. Within the nine separate education provisions there are three separate definitions of qualifying higher education expenses, four different measures of income and six different income thresholds. It takes 83 pages of instructions, flowcharts and worksheets for the IRS to explain these rules. Similarly, each of the dozen or more retirement vehicles has its own set of complicated rules for eligibility, contribution limits, withdrawals, and rollovers. Although these incentives were created with the worthy goal of encouraging taxpayers to pursue higher education and save for retirement, the proliferation of special tax provisions and rules has created confusion and ultimately results in decreased participation by taxpayers.

We will take a closer look at these and other special provisions today. We are delighted that Mayor Richard Daley is here to welcome us to Chicago. Mayor Daley has recognized the impact of complexity on low-income taxpayers and has taken important steps to increase the number of Chicagoans who receive the Earned Income Tax Credit by increasing education and awareness. We will also hear from Professor James Heckman, one of several scholars from the Chicago area who has been awarded the Nobel Prize in Economics. Professor Heckman has conducted extensive research on the impact of taxes on the labor supply and will explain how taxes influence taxpayers' decisions to work.

Our next topic of discussion will explore individual investment decisions. Brian Wesbury, the chief investment strategist at a local financial services firm, will share his insights with us on the importance of the taxes on investment decisions, and on the economy. Professor Kathryn Kennedy, who established the employee benefits program at the John Marshall Law School, will provide an overview of employer-provided health and retirement benefits and share her thoughts on the need for reform in this area. Professor Susan Dynarski of Harvard's Kennedy School has comprehensively studied the tax code's education incentives, and will discuss the effectiveness of these overlapping and duplicative provisions. Finally, Armond Dinverno, a leader of a financial management firm here in Chicago, will explain how the tax code's varying treatment of investment alternatives complicates financial planning and leads to mistakes by individual investors.

Our last two speakers, Professor David Weisbach of the University of Chicago Law School and Professor Robert McDonald of Northwestern University's Kellogg School of Management will help us understand how the tax system's treatment of financial instruments has failed to keep up with the rapid pace of change in the global economy. We will hear how the taxation of financial transactions, like rest of the tax code, is in serious need of reform.

By understanding the problems in the existing code – including the impact and influence the tax code has on important taxpayer decisions – we are better prepared to evaluate potential reform options. Simplifying and reforming the tax code will make it easier for taxpayers to plan for the future, save for retirement, educate themselves and their children, and manage their affairs. Next week, we will continue our examination of our outdated and overly complex current tax code in New Orleans, where we will shift our focus to the tax code's treatment of families and taxpayer perceptions of fairness. The following week, we will travel to San Francisco, where we will examine economic growth and the tax code's effect on our country's international competitiveness.

We look forward to completing this important task and submitting our recommendations for ways to transform our cumbersome tax code into something that is simpler, fairer, and designed to encourage economic growth.