



President's Advisory Panel on  
**Federal Tax Reform**  
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**Statement of Connie Mack**  
**Chairman, President's Advisory Panel on Tax Reform**  
**October 11, 2005**

I would like to welcome everyone to the 11<sup>th</sup> meeting of the President's Advisory Panel on Federal Tax Reform. We are nearing the end of our work, as the deadline for our report is a little over three weeks away. We will have another meeting a week from today – on October 18th. We plan to present our recommendations by November 1<sup>st</sup>.

Before discussing today's agenda, I want to make a personal comment – and, for all of us on the Panel, express our sympathies to those who have been affected by Hurricanes Katrina and Rita – as well as those who have been affected by the recent earthquake in South Asia. Hurricane Katrina was the reason for our latest delay – as the government and many private citizens focused on coping with that disaster. As many of you know, we held one of our Panel meetings in New Orleans – which is one of the country's finest cities. My colleague, John Breaux is a former Senator from Louisiana – and I know that he has been personally affected by the events. I will turn to John in a moment.

Today's meeting will build on our last meeting which took place in July. At that time, we conducted what we referred to as a policy experiment. We had Treasury craft a comprehensive income tax as well as a comprehensive consumption tax modeled on the Flat Tax. For both of these tax systems, we started with a tax base free of almost every deduction, credit, and exemption that litters our current code. We saw what the rates and distribution would be with these clean tax bases, and then we saw what the rates would be after adding back the top tax expenditures. We also discussed a number of the issues associated with a clean tax base – such as the lack of a work credit like the earned income tax credit, and the lack of savings incentives in a comprehensive income tax. We also covered a number of issues on the business side.

There were a few issues that we did not discuss at that meeting – and the Panel would like to cover them today. Specifically, we are going to talk about three major tax expenditures in our current code. They are housing, charity, and health care. Housing and charity are specifically mentioned in our Executive Order, which directed the Panel to recognize “the importance of homeownership and charitable giving in American society.” And provisions relating to health care are the single largest set of tax preferences in the code, affecting almost all Americans. We are going to have different Panel members introduce each topic, and then we will have an open discussion. Tim Muris will start off on health care, followed by Charles Rossotti on charity, and then Jim Poterba will finish with housing.

For reasons of Panel member availability, we will book-end the discussion of the tax preferences with reports from a couple of our working groups. We will begin with Bill Frenzel. Bill is part of the working group that has been studying a partial replacement value added tax. On behalf of that group, Bill will identify a number of important issues that arise with proposals to adopt a VAT to replace a portion of the revenues from the income tax.

After discussing the tax preferences, we will turn to Ed Lazear. Ed is part of the group that has been looking at a full replacement national retail sales tax or value added tax, and, on behalf of that group, he will present issues for the full Panel to discuss.

This should be an extremely interesting meeting, and we are all looking forward to it.

Thank you.

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