An Overview of Recent Tax Reform Proposals

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Summary

Many agree that the U.S. tax system is in need of reform. Congress continues to explore ways to make the U.S. tax system simpler, fairer, and more efficient. In doing so, lawmakers confront challenges in identifying and enacting policies, including consideration of competing proposals and differing priorities. To assist Congress as it continues to debate the intricacies of tax reform, this report provides a review of legislative tax reform proposals introduced since the 113th Congress.

Although no comprehensive tax reforms have been introduced into legislation yet in the 115th Congress, two 2016 reform proposals appear to be at the forefront of current congressional debates—the House GOP's "A Better Way" tax reform proposal, released in June 2016, and President Trump's campaign reform proposal, released in September 2016. As with most recent tax reform proposals, both of these plans call for lower tax rates coupled with a broader tax base. In either case, numerous technical details would need to be addressed before either plan could be formulated into legislation.

Several proposals have already been introduced in the 115th Congress to replace the current income tax system. The Fair Tax Act of 2017 (H.R. 25/S. 18) would repeal the individual income tax, the corporate income tax, all payroll taxes, the self-employment tax, and the estate and gift taxes. These taxes would be effectively replaced with a 23% (tax-inclusive, meaning that the rate is a proportion of the after-tax rather than the pre-tax value) national retail sales tax. The Tax Code Termination Act (H.R. 29) would terminate the Internal Revenue Code (IRC) and declares that its replacement meet several criteria regarding simplicity, fairness, and efficiency. Both of these proposals have been introduced in previous Congresses.

In the 114th Congress, no comprehensive proposals to reform the individual and corporate income tax systems were introduced. There were, however, reform proposals to replace the income tax with an alternative system or abolish the current system altogether.

In the 113th Congress, then-chairman of the House Committee on Ways and Means Dave Camp introduced the Tax Reform Act of 2014 (H.R. 1). This legislative proposal was preceded by several tax reform discussion drafts, the first of which was introduced during the 112th Congress. The Tax Reform Act of 2014 would have made substantial changes to the current federal tax system, modifying individual, corporate, and business income taxes, as well as the tax treatment of multinational corporations. The proposal would also have made a number of changes related to the treatment of tax-exempt entities, tax administration and compliance, and excise taxes.

This report will be updated as warranted by legislative changes.

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Introduction

Tax reform has been a subject of debate in the past several Congress and many policymakers agree that the U.S. tax system is in need of reform. Recent tax reform proposals seek to lower tax rates, broaden the tax base, and provide a simpler and fairer tax system overall. The difficulty with tax reform, however, is agreeing on the crucial details needed to refresh the tax system. How far should rates be lowered? Which tax provisions should be modified or eliminated? Should the reformed tax system be income-based or consumption-based? What are the objectives regarding federal deficits and the debt? To assist Congress as it continues to debate tax reform options, this report provides a review of recent legislative proposals introduced since the 113th Congress.

Policymakers often speak of the goal to achieve comprehensive reform of the entire tax code. If comprehensive tax reform is not deemed feasible, Congress could choose to consider reforms to certain parts of the code as an alternative. For example, the corporate tax system could be reformed first and the individual tax system, and perhaps payroll tax system, at a later date. Similarly, Congress could choose to reform only portions of the corporate system, such as just the international aspects of the corporate system. Alternatively, Congress could choose to evaluate business-only options, which would involve changes to the corporate system and portions of the individual system under which "pass-through" business income generated by sole proprietors, partnerships, limited liability companies, and S corporations is taxed.[1]

Before reviewing recent reform proposals, it may be helpful to review the three criteria by which economists often evaluate tax policy—equity, efficiency, and simplicity. *Equity* concerns the fairness of a particular tax system. Economists rely on two concepts of equity—horizontal equity and vertical equity. Horizontal equity holds that taxpayers with similar incomes should face similar tax burdens. Vertical equity examines the distribution of tax burdens across different income groups. Under an ability-to-pay standard, vertical equity suggests that taxpayers in higher income groups should pay more. *Efficiency* relates to the degree to which the tax system distorts economic decision making. Low marginal tax rates applied to a broad tax base, with few exclusions or exemptions, tend be more economically efficient. *Simplicity* considers the amount of resources that must be committed to administering, enforcing, and complying with the tax system. Tradeoffs may exist between these three objectives.

Tax Reform in the 115th Congress

Tax reform continues to be actively debated in the 115th Congress. Although no comprehensive tax reforms have been introduced into legislation yet in the 115th Congress, two 2016 reform proposals appear to be at the forefront of current congressional debates—the House GOP's "A Better Way" tax reform proposal, released in June, 2016, and President Trump's campaign reform proposal, released in September 2016.[2]

[1] For more information on tax reform issue related to businesses, see CRS Report R44220, *Issues in a Tax Reform Limited to Corporations and Businesses*, by (name redacted) .

[2] "A Better Way: Our Vision for a Confident America - Tax," June 24, 2016, http://abetterway.speaker.gov/_assets/pdf/ABetterWay-Tax-PolicyPaper.pdf; Donald J. Trump, "Fact Sheet: Donald J. Trump's Pro-Growth Economic Policy Will Create 25 Million Jobs," press release, September 15, 2016, https://www.donaldjtrump.com/press-releases/fact-sheet-donald-j.-trumps-pro-growth-economic-policy-will-create-25-milli.

The House GOP's tax reform proposal is intended to be revenue neutral.[3] On the individual side, the proposal, also referred to as the tax reform "blueprint," calls for consolidating the current seven tax rates on individual labor income into three: 10%, 20%, and 25%. The proposal also would reduce taxes on active pass-through business income, dividends, and capital gains; increase the standard deduction; repeal the Affordable Care Act (ACA)-related tax provisions; and repeal the alternative minimum tax (AMT). To offset the revenue loss associated with these proposals, the blueprint calls for the repeal of all itemized deductions, except the deduction for charitable contributions and mortgage interest; the repeal of personal exemptions; and the repeal of various and to-be-determined tax expenditures.

On the corporate side of the tax code, the House blueprint proposes reducing the corporate tax rate to 20% and repealing the corporate AMT. Investment would be eligible for expensing, although the interest on new debt would not be deductible. Other fundamental changes include implementing a territorial tax system and a border adjustment (exports would not be subject to tax; imports would be subject to tax). Currently held untaxed overseas earnings would be subject to a deemed repatriation tax of 8.75% on cash and cash-equivalents, and 3.5% on earnings held in all other forms. Most current corporate tax provisions would be repealed with the exception of net operating loss (NOL) carryforwards, last-in-first-out (LIFO) accounting, and the research and design (R&D) tax credit.

President Trump's campaign proposal is also intended to be revenue neutral.[4] Similar to the House plan, the President's campaign proposal calls for consolidating the seven tax rates on individual income into three: 12%, 25%, and 33%. The proposal also would increase the standard deduction, limit deductions, and repeal the 3.8% unearned Medicare tax, as well as the AMT. All businesses (corporate and pass-through) would be subject to a 15% income tax. The income of corporations with overseas operations would no longer be eligible for deferral, and previously earned foreign-source income would be subject to a 10% deemed repatriation tax, payable over 10 years. Most corporate tax expenditures would be eliminated except for the R&D tax credit.

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[3] The Joint Committee on Taxation (JCT) is the official tax revenue estimator for Congress. Although the JCT occasionally will provide preliminary estimates on tax proposals, official estimates are not released until legislation has been introduced. The JCT has not released a score of the House GOP tax reform blueprint so it is not possible to know whether the plan will be revenue neutral according to the JCT's methods. Additionally, the House blueprint appears to rely on assumptions not typically used by the JCT to argue for revenue neutrality. Specifically, it calls for using a current policy instead of a current law baseline, as well as dynamic scoring, and assumes ACA-related tax revenues are not part of the baseline. Still, two outside groups have attempted to score the proposal. The Tax Policy Center (TPC) estimates a "static" revenue loss from the proposal of $3.1 trillion over 10 years. The TPC also conducted a "dynamic" analysis that placed the revenue loss at between $2.5 trillion and $3 trillion, depending on the model used. In contrast, the Tax Foundation's static estimate puts the 10-year revenue loss at $2.4 trillion, and the dynamic revenue loss at $191 billion. See, Jim Nunns, et al., *An Analysis of the House GOP Tax Plan*, Tax Policy Center, September 16, 2016, http://www.taxpolicycenter.org/publications/analysis-house-gop-tax-plan/full; and Kyle Pomerleau, *Details and Analysis of 2016 House Republican Tax Reform Plan*, Tax Foundation, July 5, 2016, https://taxfoundation.org/details-and-analysis-2016-house-republican-tax-reform-plan.

[4] The TPC estimates a static revenue loss from the proposal of $9.5 trillion over 10 years. The TPC did not conduct a dynamic analysis of the President's campaign proposal. The Tax Foundation's static estimate puts the 10-year revenue loss at between $4.4 trillion and $5.9 trillion, and the dynamic revenue loss at between $2.6 trillion and $3.9 trillion. The Tax Foundation's ranges reflect uncertainty over the specifics of the proposal's tax policy provisions. See, Jim Nunns, et al., *An Analysis of Donald Trump's Revised Tax Plan*, Tax Policy Center, October 18, 2016, http://www.taxpolicycenter.org/publications/analysis-donald-trumps-revised-tax-plan; and Alan Cole, *Details and Analysis of Donald Trump's Tax Plan, September 2016*, September 19, 2016, https://taxfoundation.org/details-analysis-donald-trump-tax-plan-2016/.

Legislative Proposals

Reform the Income Tax System

As of the date of this report, no legislation has been introduced that would provide a comprehensive reform of the individual and corporate income tax systems.

Replace the Income Tax System

Two bills have been introduced in the 115th Congress thus far that would repeal and replace the income tax system. The Fair Tax Act of 2017 (H.R. 25 and S. 18)[5] proposes to repeal the individual income tax, the corporate income tax, all payroll taxes, the self-employment tax, and the estate and gift taxes. These taxes would be effectively replaced with a 23% (tax-inclusive, meaning that the rate is a proportion of the after-tax rather than the pre-tax value) national retail sales tax. The tax-inclusive retail sales tax would equal 23% of the sum of the sales price of an item and the amount of the retail sales tax. Every family would receive a rebate of the sales tax on spending amounts up to the federal poverty level (plus an extra amount to prevent any marriage penalty). The Social Security Administration would provide a monthly sales tax rebate to registered qualified families. The 23% national retail sales tax would not be levied on exports. The sales tax would be separately stated and charged. Social Security and Medicare benefits would remain the same with payroll tax revenue replaced by some of the revenue from the retail sales tax. States could elect to collect the national retail sales tax on behalf of the federal government in exchange for a fee. Taxpayer rights' provisions are incorporated into both acts. The sales tax would sunset at the end of a seven-year period beginning on the enactment of this act if the Sixteenth Amendment is not repealed. The amendment provided Congress with the "power to lay and collect taxes on incomes."

Other Tax Reform Proposals

The Tax Code Termination Act (H.R. 29) would terminate the Internal Revenue Code (IRC), and declares that any new tax system be a simple and fair system that (1) applies a low rate to all Americans; (2) provides tax relief for working Americans; (3) protects the rights of taxpayers and reduces tax collection abuses; (4) eliminates the bias against savings and investment; (5) promotes economic growth and job creation; and (6) does not penalize marriage or families.

Tax Reform in the 114th Congress

The 114th Congress did not enact comprehensive tax reform or legislation to replace the income tax system.

Legislative Proposals

Reform the Income Tax System

No legislative proposals were introduced in the 114th Congress to comprehensively reform the individual and corporate income tax systems. As previously discussed, the House majority released a tax reform proposal blueprint as part of their "A Better Way" policy agenda in June

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[5] The Fair Tax Act was introduced in the 114th Congress as H.R. 25/S. 155 and the 113th Congress as H.R. 25/S. 122.

2016and President Trump released a campaign tax reform proposal in September 2016. Please see "Tax Reform in the 115th Congress" for more details on these proposals.

Replace the Income Tax System

Several proposals to replace the income tax system were introduced in the 114th Congress: the Fair Tax Act of 2015 (H.R. 25/S. 155), the Flat Tax Act (H.R. 1040), and the Simplified, Manageable, and Responsible Tax (SMART) Act (H.R. 1824/S. 929). The Fair Tax Act of 2015 would have replaced the current income tax system with a national retail sales tax. Both the Flat Tax Act and the SMART Act would have imposed a flat tax system that is structurally similar to the Hall-Rabushka flat tax proposal, taxing wages and business taxable income.

The Fair Tax Act of 2015 (H.R. 25/S. 155)

Please see "Replace the Income Tax System's" Fair Tax Act of 2017 (H.R. 25/S. 18) for a summary of The Fair Tax Act of 2015.

The Flat Tax Act (H.R. 1040)[6]

This proposal would have authorized an individual or a person engaged in business activity to make an irrevocable election to be subject to a flat tax (in lieu of the existing tax provisions). It also would have repealed estate and gift taxes.

For individuals not engaged in business activity who selected the flat tax, their initial tax rate would have been 19%, but after two years this rate would have declined to 17%. The individual flat tax would have been levied on all wages, retirement distributions, and unemployment compensation. An individual's taxable income also would have included taxable income of each dependent child who has not attained age 14 as of the close of such taxable year.

The flat tax would have had "standard deductions" equal to the sum of the "basic standard deduction" and the "additional standard deduction."

The basic standard deduction would have depended on filing status:

- $32,496 for a married couple filing jointly or a surviving spouse,
- $20,739 for a single head of household, or
- $16,248 for a single person or a married person filing a separate return.

The additional standard deduction would have been an amount equal to $6,998 for each dependent of the taxpayer. All deductions would have been indexed for inflation using the consumer price index (CPI).

For individuals engaged in business activity who selected the flat tax, their initial tax rate would have been 19% (declining to 17% when the tax was fully phased in two years after enactment) on the difference between the gross revenue of the business and the sum of its purchases from other firms, wage payments, and pension contributions.

For those employees who elected the flat tax, government employers and employers of nonprofit organizations would have paid a flat tax on their employees' fringe benefits, except retirement

[6] Similar legislation was introduced in the 113th Congress as the Flat Tax Act (H.R. 1040) and the 112th Congress as the Freedom Flat Tax Act (H.R. 1040).

contributions, because activities of government entities and tax-exempt organizations would have been exempt from the business tax.

Any congressional action that would have raised the flat tax rate or reduced the amount of the standard deduction would have required a three-fifths (supermajority) vote in both the Senate and the House of Representatives.

The Simplified, Manageable, And Responsible Tax (SMART) Act (H.R. 1824/S. 929) [7]

The SMART Act (H.R. 1824/S. 929) would have replaced the current individual and corporate income taxes and estate and gift taxes with a flat tax. This flat tax proposal had two components: a wage tax and a cash-flow tax on businesses.

The individual wage tax would have been levied at a 17% rate on all wages, salaries, pension distributions, and unemployment compensation. An individual's taxable income would have included taxable income of each dependent child who has not attained age 14 as of the close of the taxable year. The individual wage tax would not have been levied on Social Security income. Thus, the current partial taxation of Social Security payments on high-income households would have been repealed. Social Security contributions would have continued to be taxed; that is, they would not have been deductible and would be made from after-tax income. Firms would have had to pay the business tax on their Social Security contributions. Individuals would have had to pay the wage tax on their Social Security contributions. The individual wage tax would have had standard deductions that would equal the sum of the basic standard deduction and the additional standard deduction.

The basic standard deduction would have depended on filing status:

- $28,960 for a married couple filing jointly or a surviving spouse,
- $18,490 for a single head of household, or
- $14,480 for a single person or a married person filing a separate return.

The additional standard deduction would have been an amount equal to $6,240 for each dependent of the taxpayer. All deductions would have been indexed for inflation using the CPI.

Businesses would have paid a tax of 17% on the difference (if positive) between gross revenue and the sum of purchases from other firms, wage payments, and pension contributions. This business tax would have covered corporations, partnerships, and sole proprietorships. Pension contributions would have been deductible but there would have been no deductions for fringe benefits. State and local taxes (including income taxes) and payroll taxes (e.g., Social Security, Medicare) would have not been deductible.

If the business's aggregate deductions had exceed gross revenue, then the excess of aggregate deductions could have been carried forward to the next year and increased by a percentage equal to the three-month Treasury rate for the last month of the taxable year.

Government and nonprofit organizations employers would have paid a 17% tax on their employees' fringe benefits, except retirement contributions, because activities of government entities and tax-exempt organizations would have been exempt from the business tax.

[7] The Simplified, Manageable, And Responsible Tax (SMART) Act was introduced in the 112th Congress as S. 820 and the 113th Congress as S. 173.

A supermajority vote in the House and Senate would have been required to (1) increase any federal income tax rate; (2) create any additional federal income tax rate; (3) reduce the standard deduction; or (4) provide any exclusion, deduction, credit, or other benefit that reduces federal revenues.

The American Business Competitiveness Act (H.R. 4377)

The American Business Competitiveness Act (H.R. 4377) proposed a top rate of 25% on net business income, whether that income was earned by a corporation or a business in a noncorporate form. Most business tax credits and deductions would have been repealed. The current system of depreciation also would have been repealed (with provisions allowing for depreciation deductions accrued before enactment to be claimed as scheduled), and businesses would expense capital purchases. Interest would have no longer been deductible as a business expense, and interest income for individuals would be taxed at the same rate as capital gains and dividends. Net operating losses could have been carried back five years, and carried forward indefinitely. All businesses would have been required to use the cash method of accounting. The AMT would have been repealed for business income. The proposal also would have converted to a territorial system for taxing overseas income. A cash flow tax, similar to what was proposed in H.R. 4377, is essentially the business component of a flat tax.

Other Tax Reform Proposals

Other legislation introduced in the 114th Congress would have eliminated the current tax code, leaving it to Congress to design a new tax code. The Tax Code Termination Act (H.R. 27) would have terminated the IRC and declared any new tax system be a simple and fair system that (1) applies a low rate to all Americans; (2) provides tax relief for working Americans; (3) protects the rights of taxpayers and reduces tax collection abuses; (4) eliminates the bias against savings and investment; (5) promotes economic growth and job creation; and (6) does not penalize marriage or families. (This is the same bill, H.R. 29, introduced in the 115th Congress.)

Tax Reform in the 113th Congress

Several major tax reform proposals were put forward by Members in the 113th Congress, but not enacted. Some of these may inform the current debate in the 115th Congress.

Legislative Proposals

Reform the Income Tax System

The Tax Reform Act of 2014 (H.R. 1)

The Tax Reform Act of 2014 (H.R. 1) was introduced late in the 113th Congress. This formal legislative proposal was preceded by several tax reform discussion drafts, the first of which was introduced during the 112th Congress. The Tax Reform Act of 2014 would have made substantial changes to the current federal tax system, modifying individual, corporate, and business income taxes, as well as the tax treatment of multinational corporations. The proposal also would have made a number of changes related to the treatment of tax-exempt entities, tax administration and compliance, and excise taxes.

Under the proposal, there would have been two regular income tax brackets, with rates of 10% and 25%. A third bracket would have applied to an alternative definition of income, making for a top statutory rate of 35%. The 35% bracket results from a 10% tax on modified adjusted gross income (MAGI) above certain income thresholds ($400,000 for single filers and $450,000 for joint filers, adjusted for inflation). The 10% bracket would have phased out for certain higher-income taxpayers. Brackets would have been adjusted for inflation using chained-CPI. Dividends and capital gains would have been taxed as ordinary income, but 40% of net capital gains and qualified dividends would have been excluded from taxable income. The proposal also would have repealed AMT.

Other substantial changes to the individual income tax system's structure included eliminating personal exemptions and increasing the standard deduction. The standard deduction would have been set at $22,000 for joint filers and $11,000 for other individual filers. An additional standard deduction of $5,500 would have been available for single filers with at least one child. The standard deduction would have been phased out for certain higher-income taxpayers.

The proposal also would have modified or eliminated a number of individual income tax credits, deductions, and other provisions. Major changes included eliminating the deduction for state and local tax payments; scaling back the mortgage interest deduction and earned income tax credit (EITC); modifying the charitable deduction and education incentives; and changing 401(k) and Roth IRA retirement savings vehicles.

Under the proposal, all C corporations would have been taxed at a top statutory rate of 25%, with the statutory rate reduction phased in through 2019. Other business income, including income earned by S corporations, partnerships, and sole proprietorships, would have been taxed through the individual income tax system. Similar to the individual system, the proposal would have modified or eliminated a number of corporate and business income tax credits, deductions, and other provisions. The proposed changes included eliminating the modified accelerated cost recovery system (MACRS); requiring amortization of research and experimental expenditures and advertising expenses; modifying the net operating loss (NOL) deduction; repealing by phasing out the Section 199 domestic production activities deduction; and repealing the last-in, first-out (LIFO) method of inventory accounting. The corporate also AMT would have been repealed.

The proposal would have made significant changes to the tax treatment of foreign source income earned by U.S. multinational corporations. Specifically, it proposed adopting a 95% exemption for dividends received by U.S. corporations from foreign subsidiaries. Subpart F rules would have been modified, providing broad taxation of intangible income of foreign subsidiaries when earned, with foreign intangible income subject to a 15% rate (once fully phased in). The proposal also included "thin capitalization" rules that would have restricted domestic interest deductions and a one-time tax on previously untaxed earnings and profits (E&P) of U.S. corporations' foreign subsidiaries. E&P retained as cash would have been taxed at 8.75% and any remaining E&P would have been taxed at 3.5%.

Numerous changes also were proposed with respect to tax-exempt entities, administration and compliance, and excise taxes, including an excise tax on systemically important financial institutions.

The Family Fairness and Opportunity Tax Reform Act (S. 1616)

The Family Fairness and Opportunity Tax Reform Act (S. 1616) proposed substantive changes to the current income tax. Specifically, S. 1616 would have consolidated the tax brackets, repealed the AMT, provided an additional child tax credit and personal credit, eliminated the standard

deduction and most itemized deductions (retaining, with modifications, the deduction for mortgage interest and charitable contributions), in addition to making other changes to the tax code.

Flat Tax Rate Act (H.R. 5882)

The Flat Tax Rate Act (H.R. 5882) would have imposed a single income tax rate of 15%.

Replace the Income Tax System

Several proposals were introduced in the 113th Congress that would have replaced the income tax system with some alternative form of taxation at the federal level. The Fair Tax Act of 2013 (H.R. 25/S. 122) would have repealed the individual income tax, the corporate income tax, all payroll taxes, the self-employment tax, and the estate and gift taxes. These taxes would have effectively been replaced with a national retail sales tax. Thus, under H.R. 25/S. 122, the current federal tax system, based on taxing income, would have been replaced with a system that taxes consumption. The Fair Tax Act was reintroduced in the 114th Congress (discussed above).

The Flat Tax Act (H.R. 1040) proposed to allow taxpayers to elect to be subject to a flat tax, as an alternative to the current tax system. Individuals and businesses electing a flat tax would pay a flat rate of 19% for the first two years, and a rate of 17% thereafter. The SMART Act (S. 173) also proposed a 17% flat tax on individuals' wages and businesses' taxable incomes. The flat tax systems proposed in H.R. 1040 and S. 173 were structurally similar to the Hall-Rabushka flat tax proposal.[8] Both of these proposals were reintroduced in the 114th Congress (discussed above).

The American Growth & Tax Reform Act of 2013 (H.R. 2393) would have required the Secretary of the Treasury to submit to Congress a legislative proposal for a progressive consumption tax. H.R. 2393 would have been designed to eliminate the public debt outstanding. Specifically, the Treasury would have been directed to provide rates and details on a progressive consumption tax to eliminate the public debt under scenarios in which (1) the consumption tax would be in addition to all other federal taxes in effect on the date of enactment; (2) the consumption tax would replace the individual income tax; and (3) the consumption tax would replace the corporate income tax.

The Progressive Consumption Tax Act of 2014 (S. 3005) proposed a 10% consumption tax on most goods and services (structured as a value-added tax [VAT])).[9] Although the legislation would not fully replace the income tax system, it would have reduced individual and corporate income tax rates to a maximum rate of 28% and 17%, respectively. The legislation also would have broadened the income tax base, eliminating a number of individual tax expenditures. Further, the legislation would have provided an allowance of $50,000 for single filers ($100,000 for married filing jointly), that would have effectively exempted most taxpayers from the individual income tax. Refundable tax credits for families would effectively be replaced with rebates to offset consumption tax liability for lower-income families.

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[8] For background information on the Hall-Rabushka flat tax proposal, see CRS Report 98-529, Flat Tax: An Overview of the Hall-Rabushka Proposal.

[9] Further discussion of S. 3005 can be found in William R. Davis, "Cardin's VAT Bill: Driving Debate Or Another Back-Seat Attempt," *Tax Notes*, January 19, 2015, pp. 329-334.

Other Tax Reform Proposals

Legislation introduced in the 113th Congress would have eliminated the existing tax code, leaving it to Congress to design a new tax code. The Tax Code Termination Act (H.R. 352) would have terminated the IRC and declared that any new tax system be a simple and fair system that met a set of criteria, as noted above.

The End Wasteful Tax Loopholes Act (S. 8) proposed to express the sense of the Senate that Congress should pass legislation to (1) eliminate wasteful tax loopholes; (2) eliminate corporate tax loopholes and wasteful tax breaks for special interests; (3) enhance tax fairness by reforming or eliminating tax breaks that provide excessive benefits to millionaires and billionaires; (4) crack down on tax cheaters and close the tax gap; (5) use the revenue saved by curtailing tax loopholes to reduce the deficit and reform the federal tax code; (6) address provisions in the tax code that make it more profitable for companies to create jobs overseas than in the United States; and (7) reform the tax code in a manner that promotes job creation, competitiveness, and economic growth.

Although no legislation was ever proposed, former Committee on Finance Chairman Max Baucus released several discussion drafts related to tax reform in the 113th Congress. The former chairman released discussion drafts related to international tax reform, tax administration, cost recovery and accounting, and energy tax policy. The discussion drafts were released in addition to a series of tax reform options papers put forward by the committee earlier in 2013.[10]

Under Senator Baucus's international tax reform proposal, passive and highly mobile forms of foreign-earned income would have been taxed at the full U.S. rate, as would have income earned from goods ultimately consumed in the United States. Two alternatives were put forth for taxing income earned from products and services sold abroad. "Option Y" would have subjected all foreign-earned income to a minimum tax, which the draft set at 80% of the U.S. statutory rate. "Option Z" would have taxed 60% of foreign active business income at the U.S. rate. Similar to Chairman Camp's international tax proposals contained in Tax Reform Act of 2014 (H.R. 1), undistributed foreign earnings would have been subjected to a one-time tax. The Baucus discussion draft set this rate at 20%.

Reforms to cost recovery and accounting rules were also put forward by former Chairman Baucus as a discussion draft. Proposed reforms would have eliminated the MACRS, enacting instead a system that uses asset pools and longer lives that more closely approximate economic depreciation. Certain intangibles, including research and experimentation as well as advertising expenditures, would have been capitalized and amortized. LIFO inventory accounting rules would have been repealed. Small-business expensing allowances would have been increased such that more businesses would have been allowed to use cash accounting. A number of similar proposals appeared in the Tax Reform Act of 2014, discussed above.

Former Chairman Baucus had also released a discussion draft related to tax administration and energy tax reform. This tax administration draft contained several proposals designed to reduce the tax gap, enacting additional data reporting requirements and anti-fraud provisions. The energy tax reform discussion draft proposed clean energy production and investment tax credits designed to replace existing incentives for renewables and other clean electricity resources (e.g., nuclear, carbon capture, and sequestration). These credits would have been available for the long term, but were designed to begin phasing out once the annual average greenhouse gas emissions rate fell

[10] The Senate Finance Committee's tax reform options papers are available at http://www.finance.senate.gov/issue/?id=6c61b1e9-7203-4af0-b356-357388612063.

below a specified threshold. The proposal also contained a new tax credit for clean transportation fuels.

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