

The Bipartisan Tax Fairness and Simplification Act of 2011

Sponsored by U.S. Senators Ron Wyden (D-Ore.) and Dan Coats (R-Ind.)

“The Bipartisan Tax Fairness and Simplification Act of 2011” reforms the tangled web of thousands of exemptions, deductions, credits and other preferences that currently clutter the U.S. tax code into a simpler and fairer system that American workers and businesses can more easily navigate. By eliminating many of the current tax expenditures for special interests, Wyden-Coats can offer fiscally responsible tax-relief to the middle class, growth opportunities for American businesses to create jobs and compete globally, and incentives for retirement savings and investment.

MAKING THE TAX CODE WORK FOR INDIVIDUALS AND FAMILIES

- **Simplifies the Tax System** – Wyden-Coats reduces the number of tax brackets for individuals from six to three – namely, 15 percent, 25 percent and 35 percent – and eliminates the Alternative Minimum Tax, which forces millions of taxpayers to calculate their taxes twice and pay the higher amount. This simplification will save taxpayers the considerable time and money they currently spend on tax compliance. (The IRS estimates that Americans spend 6.1 billion hours each year filling out tax forms and roughly \$163 billion each year on tax compliance.) Under Wyden-Coats, most taxpayers will be able to use a straightforward and shortened one-page 1040 IRS form to file their federal income taxes and, in an effort to make paying taxes even simpler, individuals and families will be able to request that the IRS prepare a tax return for them to review, modify and sign.
- **Holds Down Rates for Individuals and Families** – While Congress continues to patch a makeshift tax system, much of which is set to expire by the end of 2012, Wyden and Coats’s comprehensive approach to tax reform ensures no taxpayer pays a rate higher than 35 percent – nearly five percentage points below where the top rate will be absent any change in law in 2012.
- **Provides Tax Relief to the Middle Class** – Middle-class and low-income taxpayers will benefit from a near tripling of the standard tax deduction. On average, individuals and couples with incomes up to \$200,000 will do as well or better under Wyden-Coats as they do under current tax law. For example, a married couple with one child and an annual income of up to \$181,100 will pay a tax rate no higher than 25 percent. In fact, many taxpayers who currently itemize will find it more advantageous to switch to the standard deduction, which will both reduce their tax bills and eliminate the burden of maintaining records and receipts needed to document itemized deductions.
- **Protects and Extends Important Tax Deductions for Families** – Wyden-Coats retains many of the most commonly claimed individual tax credits and deductions, including deductions for mortgage interest and charitable contributions, credits for children and earned income. Preferences for the armed forces, veterans, the elderly and the disabled will be retained, as will those that help Americans pay for health care and higher education and save for retirement. Wyden-Coats also permanently extends the enhancements of the Child Tax Credit, the Earned Income Tax Credit, and the Dependent Care Credit. Moreover, the bill eliminates the current law phase-out of itemized deductions and personal exemptions, allowing all taxpayers to benefit fully from their deductions and exemptions.
- **Promotes Personal Savings And Investment** – Wyden-Coats promotes responsible retirement savings and investments by expanding tax-free savings opportunities. The bill consolidates the three existing types of IRAs into a new Retirement Savings Account and a new American Dream Account so that a married couple will be able to contribute up to \$14,000 per year to tax-favored retirement and savings accounts.

MAKING THE TAX CODE WORK FOR AMERICAN BUSINESSES OF ALL SIZES

- **Positions American Companies to Compete in the Global Economy** – Currently, the United States' corporate income tax rate is the second highest in the industrialized world, putting American corporations at a competitive disadvantage in the international marketplace. Wyden-Coats works to correct this, by reducing the top corporate tax rate and replacing the existing six corporate rates and eight brackets with a single flat rate of 24 percent. This adjustment will ensure American corporations pay a more competitive tax rate than their counterparts in many of the countries the U.S. trades with, including Canada, Germany and France. Wyden-Coats will allow U.S. businesses a one-time, low-tax repatriation of foreign earnings to help them transition to the reforms of Wyden-Coats and to bring money home to help grow the economy.
- **Promotes Small Business Growth** – In order to make capital investments more cost-effective for small business owners, Wyden-Coats will make it possible for 95 percent of small businesses – those with gross receipts of up to \$1 million – to expense all equipment and inventory costs in a single tax year.
- **Encourages Investment and Innovation** – Retains preferential treatment for capital gains in order to encourage investment, by creating a new 35 percent exclusion and a progressive rate structure for dividend and long-term capital gains income. Wyden-Coats also cuts the holding period to six months for the first \$500,000 of a taxpayer's capital gains income.

MAKING THE TAX CODE MORE FISCALLY RESPONSIBLE

- **Reduces Incentives for Businesses to Take on Debt** – Wyden-Coats creates a more even playing field between corporate debt and equity by cutting the value of inflation from a corporation's interest deduction on debt. Cutting the value of this tax deduction will reduce a company's financial incentive to take on debt.
- **Increases Tax Compliance** – In an effort to make the tax code fairer and reduce opportunities for individuals and businesses to avoid paying their fair share of taxes, Wyden-Coats ends a number of specialized tax breaks that favor one business sector or special interest group over another. The legislation eliminates incentives for companies to export jobs and keep their foreign earnings overseas by repealing the rule that allows U.S. companies to defer taxes on their foreign income. The bill also requires banks to identify all individuals who benefit from foreign accounts and to withhold 30 percent of all withholdable income -- such as interest -- sent to beneficiaries who disguise their identities.
- **Targets Corporate Welfare** – It is estimated that the federal government spends between \$50 billion and \$90 billion on direct payments and indirect subsidies to businesses each year. Wyden-Coats directs the Congressional Budget Office to identify the least productive of this spending for possible cuts and report those findings to the House and Senate Budget Committees for consideration.