Hearing Statement of Senator Max Baucus
Regarding Tax Administration Practices from around the Globe
As prepared for delivery

Recently, Neal Mishler, a veteran from Great Falls, Montana wrote me to lament how difficult tax compliance can be. He said:

"The tax laws are now so complex and complicated that businesses and individuals pay billions of dollars to lawyers and accountants to determine ways to minimize their tax burden and to calculate the tax amount they owe the government."

Neal runs a couple of small businesses in Great Falls. One of them has operations outside of our state.

Neal said his tax situation has become so complicated that he has to pay lawyers and accountants thousands of dollars each year just to learn how much his tax liability will be.

And even then, he said, no two accountants ever come up with exactly the same tax liability.

Unfortunately, Neal is exactly right. Today's federal income tax laws are far too complicated. They are often uncertain, unclear and difficult to meet.

Our tax forms and instructions are often lengthy and confusing. The Form 1040 alone has 14 schedules and instructions totaling hundreds of pages. The tax code, together with the tax regulations, equals the length of 12 bibles.

In 1981, nearly 40 million taxpayers used paid tax preparers. Today, that number has more than doubled.

Tax compliance is an increasing burden on U.S. businesses, and surveys have found that the U.S. lags far behind other countries in terms of effective tax administration.

Our hearing today will examine tax administration practices around the world. We will look at lessons learned and best practices that could work here in the U.S.

No single system stands out as an ideal model for the rest of the world, but examples of successful techniques from other countries provide insight into how we can improve.

Providing taxpayers with returns personalized with their own tax data already filled out could improve the filing process.

Countries like Finland, Denmark, Sweden, Spain and the UK all use this system, or one like it.

In these countries, many taxpayers just have to review a tax return that the government prepares for them, rather than having to fill out the return from scratch.

In Ireland, it takes businesses about 9.5 work days per year to do their taxes. For an average Canadian business, it takes about 15 work days.

But in the U.S., the estimated time it takes a business to do its taxes is significantly longer. The average business spends about 23 work days on their taxes.

In another recent survey, the United States ranked 62nd overall in ease of paying taxes for businesses.

By comparison, the United Kingdom ranked 16th worldwide. And Hong Kong ranked 3rd.

We can do better – and we must. Good tax administration is essential for good government. It is critical to making our tax code work as we intended.

We can develop the best tax policy, but the administration of that policy is critical to ensuring those laws are successfully executed.

We should simplify the tax code, and that's a topic the Committee has already started to review as a part of tax reform.

Tax reform will be an opportunity to reduce the compliance burden on taxpayers and make it easier for people to meet their obligations.

It will give us the chance to ensure forms and instructions are kept as simple and easy to use as possible and the opportunity to make recordkeeping requirements more clear and easy to meet.

So let us work to improve tax administration before, during and after people file their taxes, and let us make it easier for folks like Neal Mishler to easily meet their tax obligations so they can devote more time to building their businesses and contributing to the growth our economy needs.

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