

I agree that the IRC is overly complex, unfair, and as a result makes compliance impossible, audits difficult, and reduces faith in the system. Let us first go to a simple premise; the purpose of taxation is the generation of revenues for which the government needs to operate.

If you follow the above guiding premise, then the IRC should be neutral as to actions and only to raise the needed funds. You know where this is leading, and politically, I do not believe that all of you elected representatives can or will do what is fair and unbiased.

1. Income. Revenue should be simple; keep accrual or cash method. For public companies, same revenues as reported for financial statement purposes.
2. Simplify cost of sales. Get rid of LIFO (allow a 3 year transition). Must report the same as for financial statement purposes. Get rid of the 263 capitalization rules as they are cumbersome and add little to value.
3. Depreciation should be straight line, with certain guidelines (i.e. 3-5-7-10 year of FF&E, 30 yr on bldg and components). Address leases so that improvements are depreciated over life of the lease. Get rid of bonus depreciation, Sec 179, ITC, etc. Depreciation for public companies to be the same as for tax reporting.
4. Simplify auto depreciation rules and lease value.
5. Rules on employee benefits and the associated expenses are too cumbersome with discrimination testing and such. Eliminate the sec 125 cafeteria plans, and other pre-tax items. (except for 401K plans).
6. Get rid of the AMT, ACE etc.
7. Get rid of WOTC and other jobs credits. They have ZERO affect on hiring and are only free money to a business.
8. Eliminate special industry items such as depletion on commodities.
9. Get rid of all credits, energy, jobs, gas tax credits, tip credits (form 8846). Eliminate form 8027 as its usefulness has been outlived.
10. Waters edge election on revenues and expenses, not worldwide income.
11. Eliminate installment sales and 1031 exchanges.
12. Make dividends deductible to eliminate double taxation. Now, having said that, I would be more than agreeable to NO deduction for interest incurred (debt other than working capital loans) for ANY stock buybacks.
13. Make any stock compensation awards immediately taxable to the employee at some value (i.e. 50% of grant price). This would apply to all taxes such as FICA and medicare. This affects both the company and individual. Eliminate sec 83..all immediately taxable.
14. Capitalization of assets must be the same as reported for financial reporting purposes. This eliminates some of the book/tax differences and deferred taxes.
15. Allow companies to fund retirement and benefit plans at higher amounts without limitation as present. This would help encourage full funding of pensions.
16. NO SPECIFIC INDUSTRY OR GENERAL CREDITS such as biofuels, fuels, movie, entertainment, arts, etc.
17. Because of complexity, get rid of the R&D credits. A Business should make such investments for its own purposes, not to achieve a credit.
18. A lower tax rate that would apply to all business forms (corp. s-corp, LLC, partnerships, JV) of say 18%. This would solve the which form a business chooses today for tax planning purposes.
19. Make it easy, all business are calendar year.

Compliance would go up, overall I think revenues would rise, and all would be encouraged to find ways to increase income, not how to avoid taxes. It is my estimation that further savings to the government would be achieved because the Treasury/IRS would be significantly reduced in size.

I know this looks very simple, and I think taking away partisan and liberal/progressive/conservative politics, the overall population would be happy. H&R Block and many accountants not so (btw, I am a CPA).

Should you want to talk about this in greater detail, I would be most happy to make myself available.

Louis W. Sanford, CPA, CGMA

