TAX FOUNDATION

TAX FEATURES©

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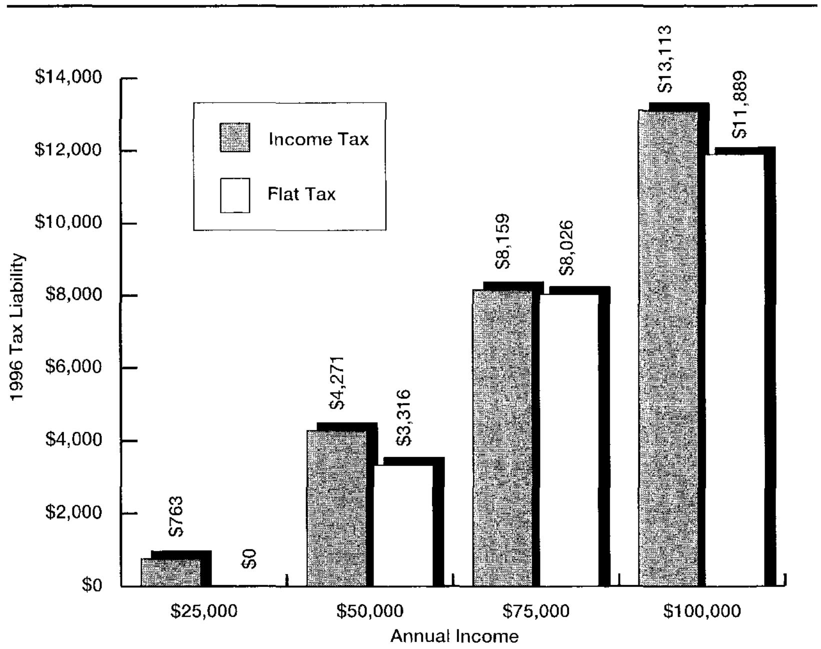
Foundation Analysis Contrasts Income Tax to Flat Tax for Four Middle-Class Families

Representative Dick Armey (R-Texas) and his Senate co-sponsor Richard Shelby (R-Ala.) have formally introduced legislation that proposes to replace the current federal income tax system with a "flat tax." As proposed the plan would set the tax rate at 20 percent for two years and then reduce the rate to 17 percent in the third year of enactment. Tax Foundation Senior Economist Arthur P. Hall's research shows that the Armey-Shelby proposal would decrease the personal tax liability of taxpayers in all income groups, even at the proposed 20 percent rate.

Income Tax vs. Flat Tax (20% Rate) for Four Annual Incomes, 1996 Projection



Source: Tax Foundation.

The accompanying table (page 2) compares the tax liability of the current personal income tax with the individual portion of the Armey-Shelby flat tax. Using Internal Revenue Service Statistics of Income data, Dr. Hall created four statistically-typical families to represent a wide range of middle class families. For comparison purposes, the tables include an income-tax-liability calculation for taxpayers that choose either the standard deduction or itemized deductions under the present system. The flat tax calculations include both the 20 percent and 17 percent rates.

The flat tax plan substantially changes the definition of taxable income for both individuals and businesses. In particular, individuals, after an allowance, would pay tax only on their wage and salary income and any retirement income they receive from pension plans and individual retirement accounts. The schedule of proposed 1996 allowances, if the plan were enacted this year, is: $21,400 for married taxpayers;

Flat Tax *continued on page 2*

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Reps. Jan Meyers (R-Kan.) and David Minge (D-Minn.)

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Income v. Flat Tax

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$10,700 for singles; $14,000 for head of household filers; and $5,000 for each dependent. These levels would be adjusted for inflation annually.

To eliminate the double taxation of investment income, the Armey-Shelby flat tax does not tax individuals' interest, dividend, or capital gains income. These forms of income would continue to be taxed on the business side of the flat tax. Businesses would pay tax on the difference between the gross revenue they recieve from sales of goods and services and the cost (including wages and contributions to qualified retirment plans) of producing such goods and services. (The indirect effects of business taxation on individuals are not included in the accompanying table. The flat tax shifts a significant share of the total tax burden to businesses, which — like the current income taxation of corporations, partnerships, and sole proprietorships — is ultimately passed on to individuals in the form of lower wages and lower investment returns.) •

1996 Income Tax v. Flat Tax, Four Families (Married, 2 Kids) and Their Respective Tax Burdens

Jones Family: $25,000/Year

Current Income Tax	
Wage/Salary	$24,417
Interest	444
Capital Gains	47
Dividends	92
Gross Income	25,000
Less:	
Standard Deduction	6,750
Itemized Deductions*	9,675
Exemptions	10,300
Equals:	
Taxable Income-Standard	7,950
Taxable Income-Itemized*	754
Tax Liability-Standard†	$763
Tax Liability-Itemized*†	$32
Armey-Shelby Flat Tax	
Wage/Salary	24,417
Less:	
Personal Allowances	21,400
Dependent Exemption	10,000
Equals:	
Taxable Income	0
Tax Liability @ 20% rate	$0
(Tax Liability @ 17% rate	$0)

*About 23 percent of taxpayers in this income range itemize.
†Includes $430 Earned Income Tax Credit.

Smith Family: $50,000/Year

Current Income Tax	
Wage/Salary	$47,980
Interest	1,425
Capital Gains	139
Dividends	456
Gross Income	50,000
Less:	
Standard Deduction	6,750
Itemized Deductions*	11,228
Exemptions	10,300
Equals:	
Taxable Income-Standard	32,950
Taxable Income-Itemized*	28,472
Tax Liability-Standard	$4,943
Tax Liability-Itemized*	$4,271
Armey-Shelby Flat Tax	
Wage/Salary	47,980
Less:	
Personal Allowances	21,400
Dependent Exemption	10,000
Equals:	
Taxable Income	16,580
Tax Liability @ 20% rate	$3,316
(Tax Liability @ 17% rate	$2,819)

*About 66 percent of taxpayers in this income range itemize.

Williams Family: $75,000/Year

Current Income Tax	
Wage/Salary	$71,531
Interest	2,073
Capital Gains	368
Dividends	1,028
Gross Income	75,000
Less:	
Standard Deduction	6,750
Itemized Deductions*	16,911
Exemptions	10,300
Equals:	
Taxable Income-Standard	57,950
Taxable Income-Itemized*	47,789
Tax Liability-Standard	$11,004
Tax Liability-Itemized*	$8,159
Armey-Shelby Flat Tax	
Wage/Salary	71,531
Less:	
Personal Allowances	21,400
Dependent Exemption	10,000
Equals:	
Taxable Income	40,131
Tax Liability @ 20% rate	$8,026
(Tax Liability @ 17% rate	$6,822)

*About 84 percent of taxpayers in this income range itemize.

Johnson Family: $100,000/Year

Current Income Tax	
Wage/Salary	$90,847
Interest	4,618
Capital Gains	1,165
Dividends	3,370
Gross Income	100,000
Less:	
Standard Deduction	6,750
Itemized Deductions*	24,219
Exemptions	10,300
Equals:	
Taxable Income-Standard	82,950
Taxable Income-Itemized*	65,481
Tax Liability-Standard	$18,004
Tax Liability-Itemized*	$13,113
Armey-Shelby Flat Tax	
Wage/Salary	90,847
Less:	
Personal Allowances	21,400
Dependent Exemption	10,000
Equals:	
Taxable Income	59,447
Tax Liability @ 20% rate	$11,889
(Tax Liability @ 17% rate	$10,106)

*About 93 percent of taxpayers in this income range itemize.

Exploring How Tax Reform Plans Would Affect the Jones Family

Any of the three major congressional tax reform proposals — the Armey-Shelby Flat Tax, the Gephardt "10% Tax," and the Nunn-Domenici USA Tax System — would lower a typical middle-class family's tax burden, according to the latest Tax Foundation analysis. (See table on reverse side.)

Earlier this year, Senior Economist Arthur P. Hall calculated a specially selected Tennessee family's tax burden under the flat tax, the USA Tax System, and a national sales tax, comparing these burdens with those under the current income tax system. The Joneses, Bob and Susan and their two dependent children, were selected as a typical middle-class family by CNN for a story on tax reform. Since Dr. Hall's original study, Rep. Dick Armey (R-Texas) and Sen. Richard Shelby (R-Ala.) have formally introduced legislation for their plan, with some modifications from their initial proposal, and Rep. Richard Gephardt (D-Mo.) has introduced his own tax overhaul legislation.

The latest Foundation analysis shows that in tax year 1997 Bob and Susan Jones would have a tax liability of $3,967 under the current federal income tax system. (The indirect effects of business taxation on individuals are not included in the accompanying table.) However, under the USA Tax System — formally introduced by Sens. Sam Nunn (D-Ga.) and Pete Domenici (R-N.M.) this spring — that liability would fall to $1,792.

Under the Armey-Shelby Flat Tax, at a 20 percent rate, the Jones's tax liability would be $3,518. (The 20 percent rate would be implemented the first two years, and then would drop to 17 percent the third year if accompanied by the requisite spending cuts. At the 17 percent rate, the Joneses would owe $2,990.)

Under the Gephardt tax reform plan, the Jones's tax liability would be $3,188, even though they would be in the 10 percent tax bracket. The reason: As shown in the table on the reverse side, the family's gross income under Rep. Gephardt's plan would be higher since fringe benefits would be considered taxable income.

Only a national sales tax would result in a higher tax liability for the Jones's than the current tax system. While no legislation has been drafted for this form of tax overhaul, several key policymakers — including Senator Richard Lugar (R-Ind.), a presidential candidate — have come out in favor of such a system. With a national sales tax of 17 percent (which would result in revenue neutrality), the Joneses would owe $6,383 unless a rebate scheme accompanies the plan. One such scheme — a family rebate for the first $2,000 of consumption for each family member — would result in a return of $1,360 to the Jones's, leaving a tax liability of $5,023. •

A Comparison of Tax Reforms Plans

Current Income Tax

Income:	
Wage/Salary	$ 49,890
Interest	67
Capital Gains	139
Dividends	303
Gross Income	50,399
Less:	
Standard Deduction	6,950
Exemptions	10,600
Taxable Income:	32,849
Tax (15% Bracket)	4,927
Child Care Credit	960
Tax Liability	$ 3,967

Armey-Shelby Flat Tax (20% rate)

Income:	
Wage/Salary	$ 49,890
Personal Allowances	22,000
Dependent Exemption*	10,300
Taxable Income:	17,590
Tax Liability (20%)	$ 3,518

Armey-Shelby Flat Tax (17% rate)

Income:	
Wage/Salary	$ 49,890
Personal Allowances	22,000
Dependent Exemption*	10,300
Taxable Income:	17,590
Tax Liability (17%)	$ 2,990

*Two children at $5,150.

USA Tax System

Income:	
Wage/Salary	$ 49,890
Interest	67
Capital Gains	139
Dividends	303
Gross Income	50,399
Less:	
Family Allowance	7,600
Exemptions	10,400
Previously Taxed Savings*	1,667
Mortgage Interest	4,250
Charity	240
Savings Allowance	3,600
Taxable Income:	22,642
Tax (19% on first $5,600, 27% on Difference)	5,665
Refundable Credit for Payroll Tax**	3,873
Tax Liability	$ 1,792

*Under the USA Tax transition rules, most taxpayers will be able to amortize over a three-year period previously taxed savings assets acquired prior to enactment of the USA Tax. The $1,667(one-third of $5,000) amortization deduction assumes that the Jones family had previously taxed savings of $5,000

**Both the Social Security and Medicare portion of the payroll tax are included in the tax credit for wages up to the Social Security wage cap. No credit is available on the payroll taxes levied on wages above this cap.

Gephardt Tax

Income:	
Wage/Salary	$ 49,890
Interest	67
Capital Gains	139
Dividends	303
Fringe Benefits	4,989
Gross Income	55,388
Less:	
Standard Deduction	8,350
Exemptions	11,000
Taxable Income:	36,038
Tax Liability (10% Bracket)	$ 3,188

National Sales Tax

Income:	
Wage/Salary	$ 49,890
Interest	67
Capital Gains	139
Dividends	303
Gross Income	50,399
Less:	
Payroll Taxes	3,873
Property Tax	740
Mortgage Interest	4,250
Charity	240
Savings	3,600
Other Gov't. Fees	150
Taxable Expenditures	37,546
Tax Liability* (17% rate)	$ 6,383

*Some proponents of a national sales tax are calling for a family rebate for the first $2,000 of consumption for each family member. This would mean a rebate of $1,360 ($8,000 multiplied by 17%) for the Jones family, leaving a tax liability of $5,023.

A Convenient Way to Contribute to Federal Debt Reduction

Reps. Jan Meyers (R-Kan.) and David Minge (D-Minn.)

While congressional plans to reduce federal spending may be our economic saving grace tomorrow, many Americans are taking a more tangible tack today.

In Kansas City, Mo., members of the St. Luke Presbyterian Church fast one meal a week and donate the money saved to reduce the national debt. The tradition was started in 1993 by Pastor Joseph Palikkathayil.

"I kept asking the Lord, 'What can I do?' Finally it came to me — maybe a seven-year fast and prayer, and I could inspire the congregation," the pastor told the *Kansas City Star*.

During fiscal year 1994, $20.7 million was contributed to the U.S. Treasury to reduce the debt. Certainly, this amount is hardly a major reduction in the $4.8 trillion national debt. But we can use all the help we can find to reduce the debt.

In Alexandria, Minn., Dan Lindquist, Wayne Wormsbecker, and Jeff Schmidt held an auction and raised $3,350 to reduce the debt.

In Bellevue, Neb., two high school students, Bryan Scott and Ryan Janisch, placed canisters for contributions from the community at area businesses. They also held a coloring contest and plan to sponsor a Casual Day for Bellevue West teachers. Teachers can pay $2 to dress casually for one school day with the money going to debt reduction.

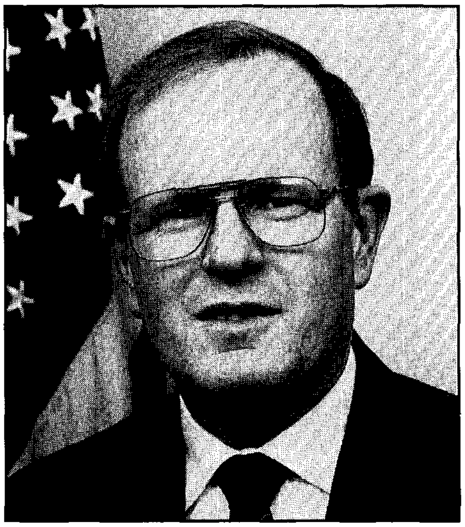
These extraordinary examples of direct democracy should be encouraged. That's why we joined with Reps. Peter DeFazio and Tillie Fowler to introduce the Check-Off for Our Children Act. We must make every effort, including largely symbolic ones such as this check-off, to attack our staggering national debt.

The Act would give taxpayers a convenient way to contribute money to reduce the debt. All they would have to do is write on their tax form the amount of their tax refund they wish to contribute toward deficit reduction. The legislation would build upon current law, which allows individuals to send checks to the U.S. Treasury to reduce the national debt. The check-off would make this process more convenient.

While the check-off may be largely symbolic, cynics should not sneer. During fiscal year 1994, $20.7 million was contributed to the U.S. Treasury to reduce the debt. Certainly, this amount is hardly a major reduction in the $4.8 trillion national debt. But we can use all the help we can find to reduce the debt. This check-off also would be an annual reminder on our tax forms that we must renew our resolve to eliminate the nightmare that is our national debt. With the public pressuring for action each year, Members of Congress would find it harder to discard plans to attack our deficit and debt.

The benefits of a concerted effort to eliminate our debt are bountiful.

Our children would inherit a country capable of investing in its people and its infrastructure, instead of struggling to make the ever-increasing interest payments on its debt and struggling to pay for its entitlement programs.



The impact would be felt more immediately as well. A smaller federal debt would require smaller interest payments, which would reduce our federal budget needs. A smaller deficit and debt also would stabilize interest rates, and the risk of inflation would decrease as excess cash is applied to debt retirement.

Janisch and Scott, the Bellevue West High School students, should be role models for all of us. "If everybody joins together, we could do a lot," Janisch told the Bellevue Leader. "Just the two of us, high school kids, we've made an impact on our community. If we got everybody involved, we could probably really go somewhere with it." •

Thought for the Month

On October 5, 1993, in defending his proposed cuts in Medicare and Medicaid spending, President Clinton told the American Association of Retired Persons:

> "Today, Medicaid and Medicare are going up at three times the rate of inflation. That is not a Medicare or a Medicaid cut. So when you hear all this business about cuts, let me caution you that is not what is going on. We are going to have increases in Medicare and Medicaid and a reduction in the rate of growth."

When he's right, he's right.

$4,964,465,905,749

National Debt: Several Perspectives

Every day on the floor of the United States Senate, Senator Jesse Helms (R-N.C.) announces the latest daily tally for the national debt. As of mid-September, that number hovered around $4.9 trillion — a number so high, it would take the bank accounts of 4,900 billionaires to liquidate it.

That figure represents the *federal gross debt.* This measurement combines the federal debt held by the public and the federal debt held by federal government accounts. Federal debt held by the public, more commonly called the *public debt*, includes principal owed by the government to the private sector. The public debt, which presently sits at around $3.7 trillion, is the measurement most commonly cited in the media. Federal debt held by federal government accounts (currently around $1.2 trillion) includes such government accounts holding federal debt securities as civil service and military retirement, Social Security, and Medicare trust funds.

There are other forms of debt, too, money owed by state and local governments and money owed by the private sector — including household debt, corporate business debt, and non-corporate business debt. But the federal gross debt is the largest.

Americans in recent years have grown accustomed to public policy debates over both the *federal debt* and the *federal deficit.* Unfortunately, there appears to be a degree of public misunderstanding as to the difference between the two terms. (Indeed, the terms are often mistakenly used interchanbeably.)

Simply put, the deficit refers to a shortfall in the annual federal budget. The government must borrow money to make up the difference. The debt is an accumulation of all the money the government owes from deficit-financing over the years. •

Tax Foundation Introduces Concept of Profit Ability to Congressional Staff

During the last week of August, the Tax Foundation promoted a dozen congressional staff to the position of chief executive officer of major multinational corporations. Unfortunately for the staff (or perhaps fortunately) the promotions only lasted a few days — just long enough for them to participate in a three-day business simulation called "Profit Ability." The exercise, co-sponsored by the Tax Foundation and George Mason University's (GMU) Center for Market Processes, was held August 21-23 at GMU School of Law in Arlington, Va.

The simulation, developed by North Carolina-based Andromeda Training, Inc., provides participants an opportunity to run an international business and to gain a better understanding and appreciation for the financial operations of for-profit companies. Much of "Profit Ability's" usefulness lies in helping participants understand not only how market forces affect price, supply, and profit, but how public policies, including tax policy, affect the nature of running a business.

The three-day program — which starting in January 1996 will be a requirement for all new MBA students at Harvard University — was the first in what the Tax Foundation expects to be an on-going series of similar programs for congressional staff over the next few years. •

1995 Tax Foundation
58th National Conference and Annual Dinner
Tax Reform at a Crossroads

Thursday, November 16, 1995
The Waldorf=Astoria
301 Park Avenue, New York, NY 10022

• Registration/Lunch/Keynote	12 noon	Empire Room
Tax Policy Service Award—Robert J. Bartley, Editor, Wall Street Journal		
• Keynote Address		
Kenneth J. Kies, Chief of Staff, Joint Committee on Taxation		
• Conference Sessions	2 p.m.	Empire Room
• Dinner Reception	6 p.m.	Hilton Room
• Annual Dinner	7 p.m.	Empire Room
Distinguished Service Award—U.S. Senator Sam Nunn (D-Georgia)		
Distinguished Service Award—Alfred C. DeCrane, Jr., Chairman & CEO, Texaco Inc.		
• Post Dinner Reception	9:30 p.m.	Hilton Room

- Reservation deadline for the block of rooms reserved by the Tax Foundation is November 1, 1995. Call the Waldorf directly at (212) 872-4534.
- Conference and Dinner reservations should be received by November 6, 1995. (Written cancellation for refunds accepted through this date only.)
- Questions about the Conference and Dinner should be directed to Renée Nowland, tel.: (202) 942-7653; fax: (202) 942-7675.

Conference Program

12:30 p.m.	*Keynote Address*	Kenneth J. Kies, Chief of Staff, Joint Committee on Taxation
1:30	*Intermission*	
2:00	*Session One:*	"Paths of Fundamental Tax Restructuring" *Moderator:* Rachelle Bernstein, Partner, Arthur Andersen & Company • "The Flat Tax," Andy Laperriere, Economic Policy Adviser, Office of Rep. Dick Armey • "A National Sales Tax," Walt Lukken, Legislative Assistant, Office of Senator Richard Lugar • "The USA Tax System," Denise Ramonas, Legislative Assistant, Office of Senator Pete Domenici
3:15	*Intermission*	
3:30	*Session Two:*	"The Effects of the Tax Reform Proposals on Specific Industries," Peter Merrill, Partner, Price Waterhouse
4:15	*Session Three:*	"The Kemp Commission on Tax Reform," Alan Reynolds, Research Director, National Commission on Economic Growth and Tax Reform
5:00	*Closing Remarks*	J.D. Foster, Executive Director and Chief Economist, Tax Foundation

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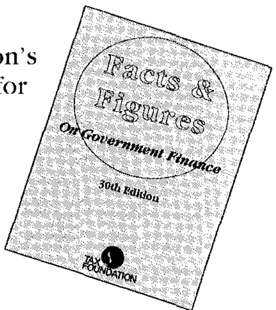
Reception/Dinner Fee:
$400/Person, $4,000/Table

30th Edition of *Facts & Figures* Available in October



Looking to compare the nation's effective tax rate for the past half-century? Need to see a table of federal outlays by selected function for the past century? Or state and local per capita tax collections by state, from the '50s to the '90s?

It could take hours to track down all that information, piece by piece. But it only takes minutes with the Tax Foundation's soon-to-be-released 30th edition of *Facts & Figures on Government Finance*, a one-stop-guide to government taxation and spending at the federal, state and local levels.

The price of the limited-edition book is $60, including postage and handling. Book distributors and wholesalers can purchase the book for $40, a 33 percent discount.

Facts and Figures has been published regularly by the Tax Foundation since 1941. The latest edition of the book contains over 225 tables, and is divided into seven sections: Federal, State, and Local Governments; Selected Economic Series; Federal Government; State and Local Governments; State Governments; Local Governments; and International Comparisons. The book combines materials from hundreds of sources, including official government documents and private sources, many of which are inaccessible or out of print. Virtually everything the Tax Foundation publishes on annual basis—such as Tax Freedom Day and the federal tax burden by state—can be found in the book.

Individuals and companies interested in ordering the latest edition of *Facts & Figures* can write the Tax Foundation, and include either a check or a money order made payable to the Tax Foundation, or include a Visa or Mastercard number with expiration date, and a daytime telephone number. •

FOUNDATION MESSAGE

Changing of the Guard

Little did we know . . . when the Tax Foundation gave its 1994 Public Sector Distinguished Service Award to Senator Roth (R-Del.) at its annual New York Dinner that within a year he would rise to chair the powerful Senate Finance Committee. As he takes the reins of the committee from Senator Packwood, much of the tax policy community is speculating on what this change means to a long list of absolutely critical policy issues, including welfare reform, the Contract with America, expiring tax provisions, estate tax relief, Social Security reform, and, of course, tax reform.

Senator Roth is generally thought more fiscally conservative than his predecessor. As the co-author of the original Kemp-Roth tax plan in the late 1980s, Senator Roth's vision for tax policy was subsequently converted into new tax law as part of the Economic Recovery and Tax Act of 1981. Further demonstrating that his long history of sensitivity towards tax incentives is undiminished, at the beginning of this Congress he reintroduced his Super IRA bill with lead co-sponsor, Senator John Breaux (D-La.). In fact, to take a line from Loretta Lynn, Senator Roth was pro-IRA when the IRA wasn't cool.

J.D. Foster
Executive Director and Chief Economist

On other issues:

• Chairman Roth has spoken out on the Senate floor about the need to enact the tax cuts promised in the budget resolution.

• Chairman Roth is an original co-sponsor of the estate tax relief bill introduced by Senators Bob Dole (R-Kan.) and David Pryor (D-Ark.), which is moving faster than even its advocates had expected.

• He is a leader in the fight to reform the Earned Income Tax Credit program, having introduced an important bill with Senator Don Nickles (R-Okla.). As Chairman of the Government Affairs Committee, he commissioned a study by the General Accounting Office that indicated taxpayers would lose as much as $37 billion over the next five years if changes weren't made.

• He is firmly behind efforts to cut the capital gains tax, having introduced a bill to cut the capital gains tax rate for individuals in half and to cap the corporate rate at 25 percent.

• He has called for restructuring Medicare to control spending and to provide better service.

On tax reform, Senator Roth has not yet committed to a particular reform plan. But he clearly recognizes the need for some kind of reform that will offer incentives for saving and investment, stimulate economic growth, and simplify the tax system. At the least, tax reform guided by the principles espoused by the advocates of the leading reform plans has not suffered a setback.

For today, however, Senator Roth has done more than take the chair of the Finance Committee; he has taken on one of the true hot seats in Congress. Nearly all of the upcoming debates on tax cuts, tax loopholes, spending cuts, deficit reduction, and the debt limit, not to mention welfare reform, must pass through the Finance Committee. The coming budget "train wreck" now seems almost certain as both the Congress and the administration lay their contingency plans, and the Finance Committee will be at the center of the wreck. In many ways, the upcoming few weeks will be a real test for the 24-year veteran of the committee. Part of the measure of his success will be how well he is able to work with and yet remain independent of the Senate's presidential aspirants. But the approach he's likely to take is revealed in his statement upon taking the Chair:

"Government must contain spending and provide an environment for growth in the private sector. This is done by keeping taxes low and limiting government intervention. History has proven that when taxes are low, the economy grows. It's that simple."

Foundation Report Points to State Corporate Income Tax Crisis

TAX FEATURES

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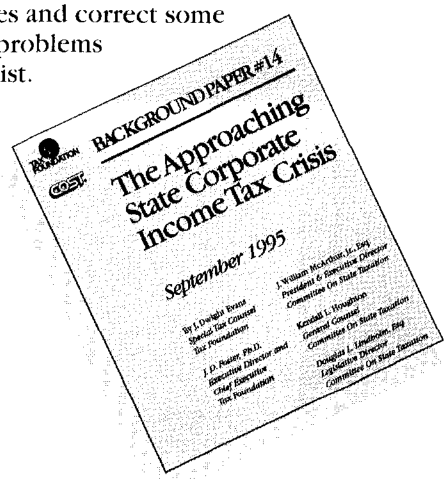
The state corporate income tax system as a whole is seriously out of date and needs to be redesigned to reflect the economic realities of a competitive worldwide economy, states a new *Background Paper* published jointly by the Tax Foundation and the Committee On State Taxation (COST). The authors of the paper conclude that the increasing likelihood of federal tax reform provides an excellent opportunity to reexamine state corporate income tax schemes and correct some of the problems that exist.



The paper, titled "The Approaching State Corporate Tax Crisis," was jointly produced by the Tax Foundation's J. Dwight Evans, Special Tax Counsel, and J.D. Foster, Executive Director and Chief Economist; and by COST's J. William McArthur, Jr., President and Executive Director, Kendall L. Houghton, General Counsel, and Douglas L. Lindholm, Legislative Director.

The authors point to several major deficiencies in the state corporate tax structure:

- State tax systems lack uniformity, including different tax reporting methods; wide deviations in state income apportionment formulas that categorize business income earned in more than one state; and varying definitions of business and nonbusiness income.
- Numerous inconsistencies exist between state and federal corporate tax codes.
- State tax "nexus" rules lack uniformity and certainty. ("Nexus" refers to the minimum level of contacts necessary for a state to have jurisdiction to tax income of a taxpayer.)
- State corporate tax codes lack neutrality. Taxes on income differ depending on the type or source, and taxes on businesses differ depending on the organization as a particular type of entity.

The authors observe that, as a result of these difficiencies in the state corporate tax structure, corporate income taxes at the state level are difficult and costly to comply with and to administer. A federal consumption tax or reform of the federal income tax base, however, could pave the way for resolution of these problems. Such change at the federal level would force states to reexamine and adjust their business tax systems accordingly. In turn, this widespread review of federal and state tax systems would create a unique opportunity to correct many of the deficiencies in the state business tax system and to work towards greater interstate and federal-state conformity in the taxation of business.

To this end, the authors of the paper suggest Congress establish a special bipartisan joint commission or working group composed of federal and state government and business representatives to study and report on both the federal and state tax implications of proposed federal business tax reform. •

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