MEMO# 13807

August 6, 2001

INSTITUTE SUBMITS TESTIMONY TO THE HOUSE COMMITTEE ON WAYS AND MEANS ON SIMPLIFICATION OF THE INTERNAL REVENUE CODE

[13807] August 6, 2001 TO: PENSION COMMITTEE No. 53-01 RE: INSTITUTE SUBMITS TESTIMONY TO THE HOUSE COMMITTEE ON WAYS AND MEANS ON SIMPLIFICATION OF THE INTERNAL REVENUE CODE The Institute recently submitted a written statement to the House Committee on Ways and Means Subcommittee Oversight and the Subcommittee on Select Revenue Measures for their hearing on the need for the simplification of the Internal Revenue Code and review of the Joint Committee on Taxation’s (“Joint Committee”) study of the overall state of the Federal Tax system.1 The Institute previously submitted a written statement to the Senate Finance Committee for its hearing on the Joint Committee’s study.2 The Institute’s testimony generally supports the Joint Committee’s efforts in recommending simplification of various retirement and education savings vehicles. Although the Joint Committee made numerous recommendations regarding retirement and education savings vehicles, the Institute focused its testimony on three basic areas: (1) IRA eligibility rules; (2) individual account plan rules; and (3) education savings vehicles. We note in our testimony that for savings incentives to work, the rules need to be simple. Frequent changes in law create uncertainty. Since the passage of the Employee Retirement Income Security Act in 1974, there have been over a dozen major amendments to pension laws and the related tax code sections. Since 1994 alone, Congress has passed five substantial pieces of pension-related tax legislation. While a number of these legislative changes have provided new opportunities for saving and were supported by the Institute, many amendments to pension laws have, unfortunately, added unnecessary complexity and administrative burdens that serve as a disincentive to long-term savings. The Institute’s testimony strongly supports the Joint Committee’s recommendation to repeal the IRA’s complex eligibility rules, which primarily serve to deter lower and moderate income individuals from participating in the program. We state that a return to the “universal” IRA will result in increased savings by middle and lower-income Americans. We emphasize, however, that the nondeductible IRA, which the Joint Committee report recommended eliminating, should be eliminated only if the other recommended changes are made. 1 See Institute Memorandum to Pension Committee No. 25-01, dated April 27, 2001. 2 See Institute Memorandum to Pension Committee No. 30-01, dated May 7, 2001. 2The Institute’s statement supports recommendations contained in the Joint Committee’s report regarding reducing the complexity associated with retirement plans – especially for workers who struggle to understand the differences between 401(k), 403(b) and 457 plans. Many of the Joint Committee’s recommendations were included in the recently enacted tax

legislation – the Economic Growth and Tax Relief Reconciliation Act of 2001. We indicated our continued support of Congress's efforts to simplify and conform the rules that apply to different plan types in order to assist workers in understanding their retirement plans. Finally, we indicated our support for the various simplifications related to education savings vehicles, including eliminating the income-based eligibility phase-out ranges for the HOPE and Lifetime Learning credits, providing a uniform definition of qualifying higher education expenses, combining the HOPE and Lifetime Learning credits into a single credit and eliminating the restrictions on the use of education tax incentives based on the use of other education tax incentives. We note in our testimony that by reducing the complexity surrounding these various tax incentives and education savings vehicles, Congress will enable more Americans to take advantage of opportunities to save for their children's education. A copy of the Institute's testimony is attached. Kathryn A. Ricard Associate Counsel Attachment Attachment (in .pdf format)