

April 25, 2001

Tax Report

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RETIREMENT-SAVINGS incentives attract growing support .

Senate Finance Committee Chairman Chuck Grassley (R., Iowa) and Sen. Max Baucus (D., Mont.) recently introduced a bill to increase contribution limits for individual retirement accounts, 401(k) plans and other similar plans. The bill gradually would raise the current \$2,000 IRA limit, which has remained unchanged since the early 1980s, to \$5,000 by 2004, with indexing after that.

The bill also includes provisions that would make more people eligible to qualify for deductible contributions, allow tax-free withdrawals from IRAs for charitable purposes, and make it easier for workers to move retirement-plan savings from one employer to another. Similar legislation has been introduced in the House by Reps. Rob Portman (R., Ohio) and Ben Cardin, (D., Md.).

But the outlook for new legislation remains murky because of uncertainty about how big the government's overall tax-cut package will be.

SENATORS WILL HEAR renewed complaints about tax-law complexity.

At a Senate Finance Committee hearing Thursday, Richard Lipton, head of the American Bar Association tax section, will say the nation's tax laws are "in desperate need" of simplification. For starters, he suggests repealing the alternative minimum tax for all individual taxpayers. This tax is "like a car engine with an oil leak," he says. "You fix the problem today, you may be forced to postpone another expenditure. But to fail to fix it today will surely result in a far larger expenditure later after the car's engine explodes."

Next, he suggests, repeal limits on itemized deductions and phaseouts of personal exemptions for those with incomes above certain levels. These are "stealth bombers" because "they impose a tax completely without warning," says Mr. Lipton, a lawyer at McDermott Will & Emery in Chicago. Third, simplify the earned-income credit, which is designed to help low-income workers. "In effect, Congress has given the poor a tax break with one hand and then taken it away with the other by making it too complex to understand," Mr. Lipton says.

STATES STRUGGLE with taxing issues involving telecommuters.

New technology allowing more people to work from home has created "difficult tax issues for employers as well as employees," says Peter Faber, a lawyer at McDermott Will & Emery's office in New York. State tax officials also are wrestling with these issues. "Practices may vary widely from state to state," Mr. Faber says.

Suppose, for example, someone lives in one state and works at home there four days a week and spends the other day in the state of his employer. How does the taxpayer figure out how much to pay each state? How does his employer figure out how much to withhold? A recent survey of 41 states by BNA Tax Management, a tax publisher in Washington, D.C., underscores the lack of uniformity from state to state on business-tax issues.

"New York has been particularly aggressive in taxing all of a nonresident's income, even that earned outside the state," Mr. Faber says.

REVENUES RISE from corporate income taxes. For the six months ended March 31, corporate income-tax revenues rose to \$81.4 billion from \$80.2 billion a year earlier, the Treasury says.

BUT REVENUES FALL from estate and gift taxes. In the latest six months, revenues declined to \$13.37 billion from \$13.86 billion a year earlier.

A HANDY NEW GUIDE to tax legislation is published by Congress's Joint Committee on Taxation. The committee's latest "Blue Book" summarizes legislation last year and in 1999.

SALES-TAX RATES level off after nearly two decades of steady growth.

This conclusion emerges from a survey to be released Wednesday by Vertex Inc., a Berwyn, Pa., tax-software and research company. About 7,500 state, county and city jurisdictions charge sales taxes, Vertex says. The average state sales-tax rate was 5.128% last year, down slightly from 5.135% in 1999. Average city and county rates also were little changed: 1.551% for counties and 1.556% for cities.

"It appears the combined average sales-tax rate has finally peaked," says Bruce Pierce of Vertex (www.vertexinc.com¹). The main reasons, he says, are the economy's strength and "healthy" state and local finances. The overall number of sales-tax rate changes fell last year to a 10-year low of 530, the study says.

The average annual number of sales-tax rate changes from 1990-1999 was 645.

BRIEFS: If you are amending your tax return to fix mistakes, you have plenty of company: The Internal Revenue Service expects 3.4 million amended returns this year, up slightly from an estimated 3.3 million last year ... Notable and Quotable: Washington lawyer Martin Ginsburg, quoted in a calendar published by Tax Analysts, an Arlington, Va., publisher, says: "There is an ancient belief that the gods love the obscure and hate

the obvious. Without benefit of divinity, modern men of similar persuasion draft provisions of the Internal Revenue Code."

-- Tom Herman

Resources

For more information about some of the items mentioned in this column:

- **For further information** about proposals to encourage more people to save, visit the Web sites of:

Rep. Rob Portman: www.house.gov/portman²

Rep. Ben Cardin: www.house.gov/cardin³

Or, phone the Senate Finance Committee: 202-224-4515.

- **For further information** about the Treasury's receipts and expenditures visit www.fms.treas.gov/mts⁴
- **For further information** about Congress's Joint Committee on Taxation and its "Blue Book" visit www.house.gov/jct⁵

Look for: "General Explanation Of Tax Legislation Enacted In The 106th Congress" (JCS-2-01).

- **For further information** about sales-tax rates, visit the Web site of Vertex Inc.: www.vertexinc.com⁶
- **For further information** on Tax Analysts and its calendar, call 800-955-3344. Address: Tax Analysts, 6830 North Fairfax Drive, Arlington, Virginia 22213. Web site: www.tax.org⁷
- **For information about** the Internal Revenue Service visit www.irs.gov⁸

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