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Tax Code Termination Act: A Fact Sheet

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Summary

The Tax Code Termination Act, introduced by Senator Hutchinson (S. 1673) and Congressman Largent (H.R. 3097), was passed by the House in June. This act would “sunset” (repeal) the Internal Revenue Code of 1986 on December 31, 2002 and would require that any new federal tax system that is adopted be approved not later than July 4, 2002. The measure failed in the Senate as an amendment to an appropriations bill by a 49 to 49 vote.

Contents of the Act

The proposed legislation would terminate the tax code except for Social Security taxes and Railroad Retirement taxes on December 31, 2002. (The initial version of the proposal set December 31, 2001, as the termination date.) The bill does not itself provide a new tax system, but states that “any new federal tax system should be simple and fair” with the following features:

- a low rate for all Americans,
- tax relief for working Americans,
- protection of the rights of taxpayers and the reduction in tax collection abuses,
- no bias against savings and investment,
- promotion of economic growth and job creation, and
- no penalty for marriage or families.

The fourth feature, eliminating the bias against savings and investment, suggests that the new tax system would be some type of consumption tax. The Act states that “..any new federal tax system should be approved by Congress in its final form not later than July 4, 2002.”

Pro/Con Arguments

Numerous Republican Members of Congress support the Tax Code Termination Act, but the Administration and many Democratic Members oppose it. A public opinion poll conducted by the Republican National Committee reportedly found that most voters oppose the Act. Business groups appear divided.

Arguments for the Proposal. Proponents argue that the current tax code is vastly too complex and has placed a heavy burden on individuals and the economy. Hence they believe a drastic change to a new tax system is needed, and that sunsetting the Internal Revenue Code in the year 2002 will create a deadline compelling policymakers to adopt a new tax system based on the principles specified in the legislation. Among leading options that have been discussed are a national retail sales tax and a flat rate consumption tax.¹

Arguments Against the Proposal. Opponents argue that sunsetting the tax code without a carefully planned replacement tax system could seriously disrupt operation of the government.² They argue that economic uncertainty resulting from the enactment of this legislation would discourage many firms from investing and households from saving.

Opinion Surveys, Interest Groups, and Votes by Congress

According to news reports, a public opinion poll conducted by the Republican National Committee "...showed that by significant majorities, voters are inclined to believe criticisms of the legislation--mainly that it poses dangerous economic risks."³

The Tax Executives Institute, a professional association representing tax directors from the 2,000 largest American corporation, has publicly opposed the Tax Code Termination Act. A letter issued by this organization stated that "individuals and businesses--the U.S. economy as a whole--cannot convert to [a] new system with the ease of flicking a light switch."⁴ The National Federation of Independent Business has endorsed the Tax Code Termination Act. The organization has collected over 750,000 signatures on petitions supporting the Act.⁵

On June 17, 1998, the House passed the Tax Code Termination Act by a recorded vote of 219 to 209. On July 28, 1998, the Senate rejected the Tax Code Termination Act as an amendment (no. 3249) to the Treasury and General Government appropriations bill (S. 2312). This amendment failed by a 49 to 49 vote (a 3/5th vote was needed for approval).

¹ For a description of current consumption tax proposals, see: U.S. Library of Congress. Congressional Research Service. *Flat Tax Proposals: An Overview*. CRS Issue Brief 95060, by James M. Bickley. Washington. (Updated regularly)

² Bennett, Alison. Lubick Attacks Sunsetting Bills, Concedes Possibility for House, Senate Majority Votes. *Daily Tax Report*, no. 111, June 10, 1998. p. G3.

³ Edsall, Thomas B. GOP's Tax Code Termination Act Hits Snag. *The Washington Post*, March 15, 1998. p. A4.

⁴ Schlesinger, Jacob M. Business Group Opposes a GOP Plan for Scrapping the Federal Tax Code. *The Wall Street Journal*, vol. 231, no. 56, March 23, 1998. p. A6.

⁵ Stevenson, Richard W. House Votes to Dump Tax Code by 2003. *The New York Times*, no. 147, no. 51,192, June 18, 1998. p. A32.