

Recommendations for Income Tax Changes

Subject: Dependency

Problem: There are too many different and confusing definitions for what is a dependent. Different rules apply whether you are testing for an exemption, head of household status, or credits such as dependent care, child tax credit, or earned income. Furthermore, the language is confusing because, for example, a “qualifying relative” need not be related.

Recommendation: Have a single, simple definition for a dependent which applies everywhere. For example, “A dependent is a person who receives more than half their total support from the tax payer.” If age is relevant for a specific credit, the credit can be allowed only if the dependent is less than, say, 24.

Subject: Refundable Credits

Problem: The IRS is not well suited to handing out welfare payments; it is there to get revenue. (It is not coincidental that “revenue” is its middle name.) The need for welfare payments depends not only on the income of the proposed recipient, but on their assets. Also, refundable credits provide a strong incentive to cheat.

Recommendation: Eliminate all refundable credits. Tax credits should only act to reduce or eliminate taxes. If that causes undo hardship on some, have an agency more suited to handing out welfare pick up the slack. They are presumably already geared up to assess the needs and fill them.

Education Credits/Income Adjustments

Problem: There are three different ways to reduce personal tax with education expenses. Each has different rules and has different benefits. The taxpayer has to calculate the benefits of each and then make a decision. While encouraging education is a worthwhile thing for the tax code to do, it need not be so complicated.

Recommendation: Eliminate two of the three. My specific preference is to keep the lifetime learning credit and delete the other two because the lifetime learning credit is the simplest to understand and apply.