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Making progress in tax simplification: a comparison of the United States, Australia, New Zealand and the United Kingdom

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20 MAKING PROGRESS IN TAX SIMPLIFICATION: A COMPARISON OF THE UNITED STATES, AUSTRALIA, NEW ZEALAND AND THE UNITED KINGDOM

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ABSTRACT

Using a model of the key dimensions and requirements for tax simplification, the paper compares and contrasts the approaches taken and the achievements made in this regard in the United States, Australia, New Zealand and the United Kingdom. Based on this analysis, it is concluded that without a clear understanding of the process of tax simplification and its requirements, and in particular, the fundamental necessity to begin by developing appropriate tax policy in the broader context of economic reform, little (if any) progress can be made towards tax simplification even where there appears to be real commitment by policymakers.

I INTRODUCTION

The call for tax simplification is neither new nor diminishing. It is more than 400 years since Edward VI, King of England, ordered that the statutes be brought together and made more plain and short so that men might better understand them.[1] In the context of the New World, in the late 1700s, Alexander Hamilton, the very able but inept duelling first Secretary of the Treasury, pointed out that 'tax laws have in vain been multiplied; new methods to enforce the collection have in vain been tried; the public expectation has been uniformly disappointed'.[2] Over 150 years later, Judge Learned Hand, in his usual mellifluous manner, captured the feeling on tax complexity when he said:

> The words of such an act as the Income Tax, merely dance before my eyes in a meaningless procession: cross-reference to cross-reference, exception upon exception—couched in abstract terms that offer no handle to seize hold of—leave in my mind only a confused sense of some vitally important, but successfully concealed purport, which it is my duty to extract, …. only after the most inordinate expenditure of time.[3]

President Reagan echoed these same sentiments in 1985 when he denounced the income tax laws as too complicated and asked for a tax law 'that people can understand'.[4]

In the last decade in particular, tax policymakers in many countries, including the United States, Australia, New Zealand and the United Kingdom, have acknowledged the need for tax simplification and embarked on its pursuit. Is tax simplification possible or is it simply a holy grail or a smoke-screen for other objectives? If it is possible, are there approaches that are more likely to be successful than others? Are some approaches completely misguided? Further, how do we know where we are in terms of reaching it?

The paper sets out to address these questions, drawing on both the literature and an analysis of the tax simplification programs of the self-assessment regimes of the United States, Australia, New Zealand and the United Kingdom. In doing so the paper develops a model of how tax simplification

[1] M Cohen, H Stikeman and R Brown, 'Tax Simplification' (paper presented at 27th Tax Conference. of the Canadian Tax Foundation, Quebec City, November 1975) 39.
[2] Henry Aaron and Joel Slemrod, *Crisis in Tax Administration* (2004) 348.
[3] 'Eulogy of Thomas Walter Swan' (1947) 57 *Yale Law Journal*, 169.
[4] Quoted in Bobbie Cook Martindale, Bruce Koch and Stewart Karlinsky, 'Tax law complexity: the impact of style' (1989) 29 *The Journal of Business Communication* 383, 383.

may best be addressed and progress on its various dimensions measured. Adopting a more analytical approach to the process of tax simplification may improve its transparency and accountability, and engender greater commitment from policymakers to cut the rhetoric and deliver real results. It also has implications for taxpayers who ultimately have to determine the type of tax system under which they exist and just how important tax simplification is to them.

The balance of the paper is presented in three sections. The following section examines the literature on tax simplification. It begins by emphasising the importance of simplicity in a tax system and considers the features of simplicity from a tax law perspective and then from the wider perspective of the tax system as a whole. A tax simplification theory is proposed, and a model or template developed as an assessment tool. The third section presents an overview of the approach to tax simplification adopted in each of the countries under consideration and compares and contrasts their approaches and progress to date using the model presented in the second section. Concluding comments follow in the final section in addition to discussion on the strengths and weaknesses of the proposed model and identification of areas for further research.

II LITERATURE REVIEW

The principles of a good tax system have evolved from the writings of Adam Smith in 1776 and are widely accepted today as being fairness, certainty, efficiency and simplicity.[5] As fundamental as they appear, these principles give rise to a number of serious dilemmas for policymakers and taxpayers.

Firstly, in shaping a tax system, the relative importance of each of the four principles must be determined and the necessary trade-offs considered. For example, a simple, efficient system with a high degree of certainty is unlikely to be entirely equitable. A simple system should facilitate high levels of voluntary compliance and be more efficient as a result.

This leads to the second dilemma with which tax policymakers still appear to be grappling (and which underpins this paper), what is a simple tax system and how is it best achieved? The third dilemma is the extent to which the decisions are made for the longer term good of society rather than perhaps for self-interest or political expediency. However, these decisions about shaping the tax system are not made in a vacuum nor are they simply about raising revenue. The influence of the tax system on the social, economic and welfare systems can be profound and it is the strength of commitment felt ultimately by voters to which policymakers ultimately respond – and tax simplification is clearly on the political agenda of many countries today.

Surrey and Brannon[6] wrote that it must appear to an observer of the tax scene that simplification is the most widely quoted but the least widely observed of the goals of tax policy. This sentiment is echoed by Fred Goldberg, former IRS Commissioner, who has stated: "Tax simplification is everyone's favorite orphan. All of us involved in the tax system- Congress, the executive branch, practitioners and taxpayers- proclaim our affection for this child of our dreams, but few are willing to adopt her as our own."[7] Nonetheless, the National Taxpayer Advocate, Nina Olsen, in her 2005 annual report to Congress, identified tax law complexity as the greatest single problem facing taxpayers and tax administrators. However, simplification is only one of several competing goals of tax policy, with its main rival being equity.

Sandford[8] discussed the conflict between the principles or goals of a good tax system and, without identifying any one as being the most important, the need for a practical compromise to be reached. In terms of simplicity, Sandford focused on the content and terminology of the system and their

[5] Adam Smith quoted in R Heilbronger, *The Essential Adam Smith* (1986).
[6] S Surrey and G Brannon, ' Simplification and equity as goals of tax policy' (1968) 9 *William and Mary Law Review* 915-921.
[7] Fred Goldberg quoted in *Wall Street Journal* (USA) August 5 2004, p 2.
[8] Cedric Sandford, *Economics of Public Finance* (1992).

impact on the costs of collection – including administrative costs and compliance costs (which included time, monetary and psychic costs).

Slemrod[9] argued that it was entirely appropriate that simplicity be placed next to equity and efficiency as important criteria by which to judge a tax system, but at the same time, also recognized that there was generally a trade-off. In Slemrod's opinion, complexity usually had deleterious impacts on horizontal equity. Complexity had several aspects including compliance cost, administrative cost and the cost borne by third parties in the tax collection process (like employers operating the withholding system). Frequent changes in the tax structure add to all of these costs as taxpayers and tax collectors must learn about and adjust to the new system, underlining the importance of stability as an element of simplicity. Further, Slemrod then divided compliance cost into the cost required to comply with the law and the cost incurred by the taxpayer in an effort to reduce taxable income. Complexity (in terms of administration costs) also related to the encouragement that some tax provisions provide for the use of complicated schemes to avoid payments. That is, complexity not only gave rise to administration costs, but could also give rise to loss of revenue by creating opportunities for tax avoidance.

The universal study and measurement of compliance costs has emerged almost as a discipline in its own right based principally on Sandford's work.[10] While the empirical work on measuring monetary costs and time costs as components of compliance costs is extensive and well developed, the conceptual and methodological variations apparent in these studies is marked; meaning that their results are likely to be imprecise and less than reliable.[11] Furthermore, such studies generally have not included the psychic or psychological cost of compliance (as identified by Sandford[12]), the measurement of which has proved to be particularly challenging.[13]

That is, while compliance costs have emerged as a measure (or the deadweight costs) of tax complexity and are often quoted by various parties, they are not without their shortcomings. Further, the extent to which complexity is the opposite of simplicity and could be measured in the same way does not appear to have been explored.

Cooper[14] extended the discussion on tax simplification beyond compliance costs by directing attention to the concept of simplicity itself. Though acknowledging that complexity and simplicity were relative terms, Cooper argued that there were basic guiding principles that could guide policymakers in the pursuit of tax simplification as part of the overall objectives of a good tax system.

Cooper identified three sources of complexity (the expression of the rules, the choice of the tax system itself, and its administration) and argued that how best to simplify the system depended ultimately on what the cause of complexity was believed to be. In terms of expression, a simple

[9] Joel Slemrod, 'Did the Tax Reform Act of 1986 simplify tax matters?' 6 *Journal of Economic Perspectives* 45-57.
[10] For example, see J Pope, R Fayle and M Duncanson, *The Compliance Cost of Personal Income Taxation in Australia 1986/87* (1990); Cedric Sandford and John Hasseldine, *The Compliance Costs of Business Taxes in New Zealand* (1992); Chris Evans *et al*, *A Report into Taxpayer Costs of Compliance* (1997); Katherine Ritchie, 'The tax compliance costs of small business in New Zealand' in Chris Evans, Jeff Pope and John Hasseldine (eds), *Tax Compliance Costs: A Festschrift for Cedric Sandford* (2001) 297-316; Marsha Blumenthal 'Leaping tall buildings – pursuing greater compliance and reduced burden' ibid 15-34.
[11] S Rimmer and S Wilson, 'Compliance costs of taxation in Australia' Office of Regulation Review, Industry Commission (July 1996), 7. It is noted that The Office of Chief Counsel for Advocacy within the US Small Business Administration did the first study of its kind in the US in 1995, when it issued a report to Congress entitled "The Changing Burden of Regulation, Paperwork and Tax Compliance on Small Business". A more recent US study by W Mark Crain and Thomas D Hopkins in August 2001 "The Impact of Regulatory Costs on Small Firms" took the 1995 study a few steps further by probing overall regulatory costs including tax regulations elements.
[12] Sandford, above n 8.
[13] For example, see Robin Woellner *et al*, 'Identifying the psychological costs of compliance' (paper presented at the ATAX 6th International Conference on Tax Administration, Sydney, 15-16 April 2004).
[14] Graeme Cooper, 'Themes and issues in tax simplification' (1993) 10 *Australian Tax Forum* 417-460.

rule was one that was predictable, clearly expressed, well meshed with other tax rules, and consistent. A simple rule should be inexpensive to comply with and easy to administer. In respect to choosing a tax system, Cooper asserted that a tax system that included a wide range of taxes and imposts would neither be simple to comply with nor administer.

On administering a tax system, Cooper wrote that complexity results where the rules that are chosen are unnecessarily complex. Complex rules arise because of complex policy or where the rules have been written with the intention of increasing certainty by attempting to cover all possibilities. The emphasis on certainty was largely in response to the need to eliminate erosion of government revenue. However, by increasing the volume and complexity of rules, certainty may not necessarily result. Instead, new opportunities may inadvertently be provided for taxpayers to organize their affairs in such a way as to avoid or evade tax (concurring with the earlier discussion of Slemrod's extension of administration costs). This outcome could also result should the rewriting of the rules into simple language lead to changes in their interpretation.

Tran Nam[15] described tax simplicity and tax complexity as mirror images, noting that despite its widespread use, 'tax simplicity' was not a concept that could be easily defined, measured or agreed upon. Tran Nam then identified two areas of broad agreement – firstly that tax simplicity was basically a comparative concept, and secondly that the comparison must involve all taxes contained in the two alternatives. In understanding tax simplicity, Tran Nam distinguished between 'legal' simplicity and 'effective' simplicity – both related concepts but not necessarily consistent.

Legal simplicity (complexity) referred to the ease (difficulty) with which a particular tax law could be read and understood. This gives rise to concerns about 'simple in what sense?' and 'simple to whom?' in terms of measuring comprehensibility and the shortcomings of the various readability measures (cardinal measures such as Flesch; ordinal measures such as ranking) are considered. Legal complexity depends on the language and on the content of the law itself. However, there exists no numerical measure of legal simplicity in the content sense.

Effective simplicity was proposed as an alternative, whereby simplicity (complexity) would be defined as the ease (difficulty) with which the correct liability could be determined. Tran Nam proposed that effective simplicity could be measured in terms of the effort (i.e. value of resources) expended by society in raising some amount of revenue. (However, measuring effort could still be expected to be fraught with all the shortcomings of measuring compliance costs as discussed earlier.) Tran Nam equated the modern criterion of tax simplicity as seeking to minimise the operating costs incurred in raising a given level of revenue – but again, is this too narrow or even capable of being measured?

A number of authors, including Long and Swingen[16]; Martindale, Koch and Karlinsky[17]; and Tan and Tower[18], have addressed tax law complexity – the factors that influence it and how it can be measured.

Long and Swingen noted that the term complexity was often discussed but seldom formally defined and almost never empirically measured. Where empirical measures were developed there have been shortcomings in deriving a standard unit or a scale of complexity that can be used across provisions and over time and that has discriminant validity. Long and Swingen developed a measurement of complexity based on expert judgments using ranking or ordinal values across six factors (that might contribute to complexity). These included frequent changes, excessive detail;

[15] Binh Tran-Nam, 'Tax reform, tax simplification: some conceptual issues and a preliminary assessment' (1999) 21 *Sydney Law Review* 500-522.
[16] S Long and J Swingen, 'An approach to the measurement of tax law complexity' (1987) Spring *Journal of the American Taxation Association* 22-36.
[17] Martindale *et al*, above n 4.
[18] L M Tan and G Tower, 'The readability of tax laws: an empirical study in New Zealand' (1992) 9 *Australian Tax Forum* 355-372.

ambiguity or uncertainty; burdensome record keeping; numerous calculations; and confusing forms. However, there were inconsistencies in the findings that were difficult to explain. One possible explanation was that the perception of complexity by tax professionals could be influenced by other factors - including their attitude to tax law and their experience with tax law enforcement. Further, individual circumstances (taxpayer cues) in relation to the level and source of income could influence the complexity rating. Long and Swingen highlighted the difficulty of objectively and independently measuring the influence of the factors affecting complexity. Detail could be measured by various means including the number of words, rules, exceptions to rules and so on. Calculational complexity could be measured by looking at the number and types of mathematical operations necessary to compute a line item (though this has arguably become less important over time with the increasing use of computer software).

In particular, the readability of the tax laws has received considerable attention from both researchers and administrators. The US Internal Revenue Service[19] and the UK Inland Revenue[20] were both examining the readability of their tax forms and instruction booklets back in the 1980s. In the early 1990s tax policymakers in Australia and New Zealand embraced a 'plain English' drafting style to produce more readable legislation (by adopting short sections, short sentences and active voice) as part of their reform packages.

Readability scores such as the Flesch Reading Ease, Gunning Fog and the Flesch-Kincaid Grade Level are widely used to estimate the difficulty of written prose as a guide to the education level required of the audience, but as Tan and Tower[21] point out, these scales do not take into consideration other important factors such as conceptual difficulty, semantics, reader characteristics such as interest level, motivation, experience and maturity; and presentation of the material such as size, type of print and general format. However, even if legislation or instructions to taxpayers were more readable (on the basis of readability scales) it doesn't necessarily follow that they would be easier to apply or comprehend.[22] Further, there is evidence to support the notion that even where reading complexity is low, high content complexity negatively affects the comprehension of the law.[23]

The merits of adopting a plain English drafting style have subsequently been questioned.[24] Not only does such an approach fail to address content complexity, the desire by taxpayers to have certainty can result in voluminous legislation and ongoing change – which have been found to be contributory causes of complexity for taxpayers and tax practitioners.[25]

Similar to the tradeoff between the various goals of a tax system, there appear to be tradeoffs in addressing complexity. Perhaps even more fundamental is Cooper's argument that the lack of plausible theories about the causes of complexity meant that one could have little confidence that proposed remedies would prove to be appropriate and sufficient in the long term.[26] There are plausible theories, but perhaps insufficient attention given to the consequences (both short and long term) of various remedies and an assessment of their impact against their goals.

However, this view does highlight the need for a more holistic and assertive approach to tax simplification and perhaps a clearer vision of exactly what it is that simplification is expected to

[19] See Stewart Karlinsky and Bruce Koch, 'Readability is in the mind of the reader' (1983) 20 *The Journal of Business Communication* 57-67.
[20] Simon James, Alan Lewis and Frances Allison, *The Comprehensibility of Taxation: A Study of Taxation and Communication* (1987).
[21] Tan and Tower, above n 18, 361.
[22] Woellner *et al*, above n 13.
[23] Martindale *et al*, above n 4.
[24] For example, see Harry Gibbs, 'The need for taxation reform' (1993) 10 *Australian Tax Forum* 1-16.
[25] Margaret McKerchar, 'The impact of income tax complexity on practitioners in Australia' (2005) 20 *Australian Tax Forum* 529-554; Margaret McKerchar, *The Impact of Complexity upon Tax Compliance: A Study of Australian Personal Taxpayers* (2003).
[26] Cooper, above n 14, 420.

achieve. This is not a new argument. Indeed, James and Wallschutzky[27] argued that the failure to develop an overall strategy for simplification may mean that no long-run improvement is achieved. It was complacent to accept that at least by simplifying the language that some progress was being achieved. Further, James and Wallschutzky argued that that was needed was a more fundamental strategy for simplification that was incorporated into the tax policy process itself.

Arnold[28] based on his experience in consulting the governments of Canada, Australia and New Zealand, described the integrated policy of the formulation of tax policy as having three major components – policy development, technical analysis and statutory drafting, and argued that the three functions are so closely interrelated that the entire process would suffer if performed by different parts of the government bureaucracy. However, the tax policy function should be separated from the tax administration and enforcement function (but there needs to be effective communication). Separation of policymakers and tax collectors results in a system of checks and balances which protects the interests of taxpayers and the government. Policymakers are often taken with the theoretical purity of their proposals and pay insufficient attention to the compliance and administrative aspects of the proposals. Further, Krever[29] argued that the very approach to statutory drafting (either literal or purposive) has consequences for judicial interpretation and that the nexus between literalist interpretation and complex legislation is without doubt. However, both may merely be symptoms of a deeper and more pervasive complexity in the tax system.

Based on the literature, the message appears relatively simple. While there may not be a single cause of complexity, there is sufficient evidence about the various causes and their impacts from which to construct a theory. That is, the less complex the policy the greater the likelihood of being able to develop law that can be readily applied. Policy is the fundamental starting point or first stage. Simple policy (or at least as simple as possible) will have clearly articulated objectives and be integrated with other aspects of the tax system. In developing policy, the application of the policy must be considered and this will require consultation with its intended users and drafters. Policymakers need to consider the volume of legislation and the rate of change as complicating factors and seek to minimise them (for example, by moving away from black letter law). Simple policy then must then be translated into legislation (second stage), the purpose of which must be transparent and clearly communicated to the drafters. The drafters must then produce legislation that users (including taxpayers, tax administrators and the judiciary) can apply (third stage) efficiently, consistently and with certainty. In doing so, both compliance and administrative costs should be minimized.

A model encapsulating this theory is presented at Table 1. The model forms the basis of the analysis of tax simplification in the United States, Australia, New Zealand and the United Kingdom which follows in the next section of the paper.

[27] Simon James and Ian Wallschutzky, 'Tax law improvement in Australia and the UK: the need for a strategy for simplification' (1997) 18 *Fiscal Studies* 445-460.

[28] B Arnold, 'The process of tax policy formulation in Australia, Canada and New Zealand' (1990) 7 *Australian Tax Forum* 379-394.

[29] Rick Krever, 'Taming complexity in Australian income tax' (2003) 25 *The Sydney Law Review* 467-505.

Table 1: Tax simplification model

Stage	Dimensions	Requirements	Indicators
1. Formulating policy	Need for change	- Change should be justifiable according to the goals of the tax system	- Number of new bills or amendments introduced over time - Commitment by policymakers to implementing change
	Articulation of objectives	- Full consultation with stakeholders with clarity of responsibilities - Alignment between objectives and expected outcomes	- Stakeholder level of satisfaction with consultation process - Stakeholder level of shared understanding and support of objectives - An effective review process to monitor outcomes
	Integration	- Comprehensive model of tax system showing relationships between components - Rationalization of the number and types of taxes in the base	- Ability to accurately predict the effect of policy changes on all aspects of the tax system - Collection efficiencies of various taxes
	Legislative style	- Agreement on a consistent legislative drafting style	- Number of rules; number of exceptions to rules - Principles based drafting approach rather than literal
2. Drafting legislation	Transparency	- Accurate reflection of policy	- Provision of draft legislation to stakeholders (including policymakers) for feedback - Corrective legislation should not be necessary
	Presentation	- Readable	- Readability measures; feedback from users
		- Comprehensible	- Various including usage of tax agents; number of enquiries; number of disputed or amended assessments; number of rulings issued; feedback from stakeholders
		- Consistent	- Judicial interpretations
		- Minimal volume	- Quantity of legislation

Stage	Dimensions	Requirements	Indicators
3. Applying the law	Taxpayers	- Consistent outcomes	- Able to accurately calculate taxable income
		- Minimal compliance costs	- Length of return; number of items; length of instructional materials; number of returns lodged; agent usage
		- Commitment to compliance	- Level of voluntary compliance
	Tax administrators	- Able to apply effectively	- Minimal rulings and interpretative statements
		- Able to apply efficiently	- Administrative costs compared to revenue collected
		- Able to enforce	- Enforcement costs compared to total administrative costs; level of voluntary compliance
	Judiciary	- Able to apply effectively	- Number of appeals; length of hearings; costs of dispute resolutions

III SIMPLIFICATION IN PRACTICE

Tax reform has been gathering pace throughout the world particularly since the mid 1980s. Arnold[30] likened tax reform to the crumbling of the Berlin Wall, once one or two countries started to reduce tax rates and broaden their tax bases others followed rapidly. Indeed, it has been suggested that the Canadian Carter Commission of 1966 was the catalyst for triggering tax reform in many countries of similar economic, social and political systems. However, the nature of reform has differed – from the elimination of special incentives and the reduction of personal and corporate tax rates with few structural changes (as in the United States and the United Kingdom) to a series of major structural reforms to address structural deficiencies (as in Australia and New Zealand).

A common reason given for embarking of tax reform has been the need to simplify taxation yet different countries have adopted different approaches. [31] In this section the approaches taken by tax administrators in the United States, Australia, New Zealand and the United Kingdom, are compared and contrasted with each other and with the model proposed at Table 1.

A *United States*

The United States has had a system of self-assessment since 1913 and 'a long history of failure in achieving tax reform'.[32] While earlier reforms had tended to be incremental, by the early 1980s such was the public concern about the level of government spending, the size of government, and the scale of tax avoidance, that the then President, Reagan, announced in 1984 that a plan would be devised to simplify the entire tax code so that all taxpayers would be treated more fairly. The tax reform debate then began in earnest and highlighted the tradeoffs between simplicity and other objectives of the tax system.

[30] Arnold, above n 28.
[31] Cedric Sandford, *Lessons From An Analysis Of Tax Reform In Six Countries* (1993).
[32] Steuerle (1991) quoted in Sandford, above n 31, 121.

A proposal by Treasury entitled "Tax Reform for Fairness, Simplicity, and Economic Growth" proposed a tax system simple enough that two-thirds of all taxpayers could switch to 'return-free" filing in which the IRS could calculate tax liability based on information reports from third parties. Yet the bill that was eventually became law in 1986, the Tax Reform Act of 1986, was not the radical simplification that many had hoped for. In fact it was argued that the original goal of simplicity had been abandoned in the rush to achieve a politically acceptable (revenue neutral) compromise.[33] However, it was the agreement on the principles of revenue neutrality and distributional neutrality that helped keep tax reform on course by retaining bipartisan support.[34] It also appeared that lowering tax rates was more important to Reagan than achieving tax simplification per se, and that perhaps the agenda was merely a political ploy rather than a serious policy commitment to tax reform.

The 1986 reforms included a reduction in itemizers, the flattening of marginal rates, the abandonment of the exclusion of 60 per cent long-term capital gains and a cut in tax rates. Further, complex restrictions on passive losses were introduced, the deductibility of consumer interest was curtailed (requiring complex rules for tracing borrowing), and the highly complex alternative minimum tax (AMT) was expanded.

In 1992 Slemrod[35] described simplicity as the poor stepchild of equity, efficiency and political deal-making as a tax policy goal. Slemrod argued that the reform on 1986 did not turn the tide of growing complexity of the tax system. Graetz[36] concluded that the 1986 tax reform failed as a tax simplification measure overall. By 2001 the House Committee on Ways and Means was taking testimonies on tax simplification and by 2002 President Bush's administration had requested Treasury's Office of Tax Policy to issue white papers on tax simplification.[37] Gale[38] explained how the various sunsets and phases outs, the creep of AMT towards the middle class, and the expansion of targeted subsidies (mainly in respect of education and retirement saving) created uncertainty and how this gave rise to "choice complexity" and increased compliance costs. Gale cited the increased use of tax practitioners by taxpayers up from 41.4% of all returns in 1981 to 55.6% in 2002 as evidence of the increasing complexity of the US tax system.[39]

In January 2005 the President's Advisory Panel on Federal Tax Reform was established. The bipartisan panel's 272 page proposal, on options to reform the tax code to make it simpler, fairer, and more pro-growth, was submitted to the Secretary of the Treasury on November 1, 2005. Greenspan, as the (now former) Chairman of the Board of Governors of the Federal Reserve System stated that in terms of simplifying the tax code, some form of a consumption tax was worth consideration[40]. While several of the recommendations by the Advisory Panel would simplify certain aspects of the income tax law[41], there is significant doubt about the overall package, and as yet, the President has reserved judgment.

What is apparent to date in that the US approach to addressing tax simplification is that long term benefits have not been forthcoming. Changes to policy have been in the context of revenue neutrality (which may be a reform constraint rather than a goal of the tax system) and the

[33] Slemrod, above n 9, 45.
[34] Sandford, above n 31.
[35] Slemrod, above n 9, 55-56.
[36] M Graetz, 'The truth about tax reform' (1988) 40 *University of Florida Law Review* 617-639.
[37] Margaret McKerchar, Laura Ingraham and Stewart Karlinksy, 'Tax complexity and small business: a comparison of the perceptions of tax agents in the United States and Australia' (2005) 8 *Journal of Australian Taxation* 289-327.
[38] W Gale, 'Tax simplification: issues and options', House Committee on Ways and Means (Washington) July 17 2001 <http://www.brook.edu/views/testimony/gale/20010717.htm>.
[39] W Gale, 'Tax preparer usage rises significantly since 1981' (2004) 20 *Tax Notes* 1439.
[40] It should be noted that the US is the only one of the OECD countries to have only an income tax. The other member countries also have a consumption tax.
[41] For example, combining a multitude of tax provisions into one or two credits would simplify the law. This was proposed in the context of saving, retirement and education provisions.

immediacy of political pressure (particularly in respect of tax rate cuts and sunset provisions). The introduction of a consumption tax per se will not reduce the complexity of the tax system, even if fully integrated. While the Bush administration has acknowledged the need for change, the jury is still out on whether or not it has the commitment to achieving tax simplification. Without clear policy, drafters may well be able to produce legislation that is readable and comprehensible, but the outcomes (in terms of applying the law) are unlikely to be satisfactory and progress in tax simplification will not progress.

B *Australia*

Tax law complexity appeared on the reform agenda in 1972 when the Asprey Committee was formed to undertake the first major review of the entire income tax system. At this time the courts were struggling to apply the tax laws consistently, tax avoidance was increasing and the tax base was being eroded. The Asprey Committee believed that the Australian income tax system was becoming too complex and noted the number of amending Acts, the size of practitioner textbooks, the number of cases transmitted to Boards of Review, the number of appeals, and the size of the publication of sales tax rulings as all being indicators of increasing complexity.[42] Yet further legislation was introduced in the 1980s and additional taxes were promulgated. Some of these taxes (such as fringe benefits tax) were to address tax avoidance and others (such as the training guarantee levy) had social and/or welfare objectives. Not surprisingly, the volume of legislation grew exponentially from some 600 pages in 1970 to 1,200 pages in 1990.[43] By 1993 the tax system of the 1970s was being described as short, containing simple provisions and relatively easy to understand.[44]

The *Income Tax Assessment Act 1936* was described as a monster – a system out of control and becoming progressively worse.[45] This was also clearly evidenced by the growth in the number of individuals filing their return through tax agents, increasing from approximately 20 per cent in 1980 to around 72 per cent just twelve years later.[46] Indeed, Australians have been described as probably the most agent-dependent taxpayers in the world.[47] Further, the scale of the problem is amplified in that under Australian's system of self-assessment, virtually 100 per cent of individuals are required to file an annual return of income.[48]

In December 1993 it was announced by the then Treasurer, the Hon John Dawkins MP that there was to be a re-write of the *Income Tax Assessment Act 1936.* The rewrite was not to address policy issues (which in hindsight proved to be critical flaw), but to express the legislation in simple language in order to make it more understandable (though there was some confusion as to whether this was to the taxpayer in the street or the suburban accountant) and therefore easier, and less costly, with which to comply.[49] However, the rewrite, known as the Tax Law Improvement Project (TLIP), was disbanded prior to completion and its success unable to be fully measured.

An important consequence of the rewrite exercise was that both the two Income Tax Assessment Acts, 1936 and the one-third-completed 1997, were enacted and remain operative. Thus on a simple scale of measuring the volume of legislation, complexity was clearly not reduced. Further,

[42] K Asprey, *Taxation Review Committee Full Report* (1975).
[43] R Ralph, R Allert and B Joss, 'A strong foundation-discussion paper: establishing objectives, principles and processes' 1998 <http://www.rbt.treasury.gov.au>.
[44] I Spry, 'Editorial: developments in taxation from 1971-1993' (1993) 22 *Australian Tax Review* 5-6.
[45] Ibid.
[46] S Bird, 'Helping tax agents help taxpayers' (Paper presented at Australian Taxation Office Research Conference, Canberra. 2-3 December 1993).
[47] J Baldry and K McKinstry, 'Explaining the growth in usage of tax agents by Australian personal income taxpayers' (Paper presented at ATO Compliance Research Conference, Canberra, 7-8 December 1995). Quoted with permission.
[48] Chris Evans, 'Diminishing returns: the case for reduced annual filing for personal income taxpayers in Australia' (2004) 33 *Australian Tax Review* 168-181.
[49] B Nolan and T Reid, 'Rewriting the Tax Act' (1994) 212 *Federal Law Review* 448-460.

by rewriting in plain English there was the possibility that meanings may inadvertently change, thereby creating opportunities for avoidance and evasion. Indeed, a joint task force reported to the then (Labour Government) Treasurer (Paul Keating) 1990 that a rewrite project would be ineffective, but the offending consultative paper was never released.[50]

Disbandment of TLIP occurred as both Government and the tax administration finally accepted the widely held view that the rewriting of the legislation into plain English was a misdirection of effort and inadequate. By 1995 the Keating Government conceded that the complexity of the tax law and compliance costs were still problematic. The Howard (Liberal) Government came to power in 1996 and instigated extensive reforms measures including the implementation of *A New Tax System* (ANTS) from 1 July 2000 (of which the introduction of a Goods and Services Tax was the major feature and subject to considerable political debates that resulted in the inclusion of a zero rate for 'basic' food and some services) and the formation of another inquiry, the Business Taxation (Ralph) Review Committee. However, the drafting style adopted by TLIP (of plain English, diagrams, flow charts and a new numbering system) was adopted in all subsequent tax legislation.

The Ralph Review (1998) described complexity as having three aspects: technical, structural and compliance.[51] Technical complexity arose where ascertaining the meaning of the legislation was less than straightforward. Structural complexity (which ANTS highlighted) referred to the poor structuring of provisions and to the unintended or inconsistent interaction of different provisions of the tax legislation. Compliance complexity arose where there was an excessive burden of record-keeping, tax form completion or other compliance activity (again, the reforms of ANTS served to exacerbate this aspect of complexity). A range of factors which interacted to produce tax law complexity were identified including black letter law; grafting of legal meaning; policy instability; tax preferences; tax reform; differentiated taxation of entities and investments; policy framework; progressivity of personal tax system; and equity concerns. The Ralph Review recommended that tax policy and law design needed to be replaced with a principle-based approach that was holistic and fully integrated.

Criticism of the complexity of the tax system remained unabated, in particular, in respect of the compliance burden on small business. The volume of legislation continued to grow to almost 4,000 pages in 2000 and then to 7,000 pages in 2003. As part of ANTS a Simplified Tax System (STS) directed at small business was enacted. However, the take up rate was so low (practitioners felt that its 'advantages' were not enough to warrant the effort of changing over and re-evaluating the decision on an annual basis) that in March 2005 the Treasurer (Peter Costello) announced a tax rate reduction (via a new entrepreneur tax offset) to small businesses that elected to be taxed under STS. That is, rather than fully address the issue of compliance costs for small businesses, a form of compensation was offered instead.

Other developments worthy of note (in terms of measures directed at reducing complexity) include the establishment in 2000 of the Board of Taxation and the appointment of an inaugural Inspector General of Taxation in 2003. The Board of Taxation is a statutory independent body to advise the Treasurer on the quality and effectiveness of tax legislation and on improvements to the general integrity and functioning of the tax system. One of its key objectives is to engage in broad consultation.

Based on the Board's recommendation, tax policy staff was transferred from the Australian Taxation Office to Treasury in 2002. In 2004 Treasury announced the adoption of a new approach known as "coherent principles drafting", supposedly higher level drafting rather than black letter law, though how it will operate in practice remains to be seen given that the lack of consultation or

[50] Rick Krever above n 29.
[51] Ralph *et al*, above n 43.

documentation to date.[52] In 2005 the Board engaged consultants to fully identify the inoperative provisions of the two income tax assessment acts.[53] As a result, the Government announced in late 2005 that it expected to reduce the volume of tax legislation by up to 30 per cent. However, any rationalisation of the two income tax assessment acts into one does not appear to be on the agenda in the near future.

The Inspector General of Taxation is a statutory independent office to review systemic tax administration issues and to report to government with recommendations for improving tax administration for the benefit of all taxpayers. That is, the Government is now receiving advice on tax policy and tax administration from a number of independent statutory sources which may give rise to communication and demarcation issues.

Simplicity as a goal driving change does appear to have more importance than ever on the Australian tax reform agenda. However, practitioners and taxpayers would argue that much remains to be done particularly in regards to personal and small business taxpayers. Much of the reform to date has focused on addressing (or at least appearing to address) the symptoms and not the causes of complexity. Changes have tended to be incremental and reactionary rather than addressing long-term policy objectives.

The Australian tax and welfare systems have become increasingly enmeshed. This in itself is not an insurmountable complication provided that the objectives of both can be articulated and the relationships between the two are understood and the outcomes of reforms can be reliably predicted. What is apparent from the Australian experience is that the presentation of the legislation is a comparatively minor issue, and that it is the simplicity and articulation of policy that has more far reaching effects. While there are some promising signs emerging (at least there is an acknowledgement of the concerns of taxpayers and tax practitioners), the level of commitment by Government to simplifying tax policy and whether or not it reforms are acceptable to voters remains to be seen.

C *New Zealand*

The structure of the NZ Income Tax Act remained largely unchanged from 1976 until the 1990s at which time it underwent a major structural review. Major tax reforms (regarded as an integral part of economic strategy by the then Labour Government) were introduced in 1984, including broadening of the tax base to include a goods and services tax (with no exemptions or zero rates) and a fringe benefits tax. Further, the number of steps in the income tax scale was dramatically reduced and many tax incentives and subsidies were removed.[54]

In the wake of these reforms, the legislation was considered to be difficult to read, poorly integrated and lacking in logical structure. Further, it had grown from 43 pages (1981) to over 2000 pages.[55] In response to these issues and the increasing concerns about compliance costs for small businesses in particular, the (then) Minister of Finance, Caygill, announced in 1989 the appointment of a Tax Simplification Consultative Committee (Waugh Committee) with the terms of reference that required any recommendations made to be revenue neutral and in respect of non-policy issues only.

The Waugh Committee made 176 recommendations, many of which were aimed at simplifying the tax system. Some were in respect of the alignment of payment dates, the reduction of returns and

[52] Michael Dirkis and Brett Bondfield, 'Trans Tasman insights into tax policy design: do the tax policy design processes adopted in Australia and New Zealand require consultation in the development of a new drafting style?' (Paper presented at 17th Australasian Tax Teachers' Association Conference, Wellington NZ, 26-28 January 2005).

[53] Atax, 'Slashing the Tax Act', UNSW (Sydney) 28 November 2005 <http://www.atax.unsw.edu.au/news/slashingthetaxact.htm>.

[54] Tan and Tower, above n 18.

[55] L M Tan and S Tooley, 'The effectiveness of New Zealand tax simplification initiatives: preliminary evidence from a survey of tax practitioners', Massey University Accountancy Department Discussion Paper Series No.146 (May 1994).

forms, and the increase in thresholds. Further, the Waugh Committee recommended that the wording of the tax legislation be simplified in a number of regards, including drafting it in simple and clear language which was understandable to the ordinary taxpayer so that the intent of the legislation was clear.[56]

However, the effectiveness of these early tax simplification initiatives was questioned. In 1992 Tan and Tower[57] found that the tax legislation was very difficult to read by a high percentage of taxpayers and that the post-simplification codes appeared to be at least as complex as their pre simplification equivalents.

A second attempt at simplification followed. In 1994 the Government supported a recommendation from the Organisational Review Committee to rewrite the tax legislation (including legislation relating to tax administration and to the goods and services tax) over four to five years. An Advisory Panel was formed comprising representatives from the accounting and law professional bodies, senior officials from the Inland Revenue Department (IRD) and the Treasury, the hallmark of the process being consultation and public comment.[58]

At the outset, the aims of the project was remarkably similar to the TLIP in Australia, although the New Zealand rewrite exercise did allow for changes to policy to be identified, and when approved by government, included in publicly disseminated draft legislation. Policy changes needed to be revenue neutral and directed at either clarifying the law or bringing it into line with commercial or actual practice. One of the first steps undertaken in the rewrite process was to reorganise existing legislation into three new acts. Draft legislation was assented to in 1994 and the old acts repealed.

Further, there were three major reviews that reported in 1998 and 1999 (Commerce Committee Inquiry into Compliance Costs for Business; The Committee of Experts on Tax Compliance; and Parliament's Finance and Expenditure Committee) that culminated in a discussion document, 'Less Taxing Tax' which was released in September 1999. The Business Compliance Cost Panel was formed in 2000. Drafts of Parts C, D and E of the rewritten income tax Act were released in instalments from 2001 and become law in 2004. Together these activities reflected a change in emphasis away from earlier measures such as simplifying tax forms, towards greater consultation and more substantial reductions in the obligations imposed on businesses.

New Zealand introduced a Generic Tax Policy Process (GTPP) in 1995 and it reflects continued commitment to transparent consultation. Formalised, rather than ad hoc, it is now the normal expectation. In contrast to the Australian position, drafting is the responsibility of the Law Drafting Unit within the Policy and Advice Division of the IRD, not by a separate office of Parliamentary Counsel The style of drafting adopted is characterized by purposive clauses and extra-statutory references, general rules to overarch more specific rules, and a commitment to modern drafting techniques and to plain language.[59]

The impact of tax simplification on compliance costs is unclear, at least in respect of businesses.[60] However, a new tax payment regime introduced in September 2003 to change the frequency and timing of provisional tax payments could be expected to have a positive impact. Compliance costs for personal taxpayers have arguable diminished from 1999-2000 as the majority of salary and wage earners or those in receipt of investment income subject to resident withholding tax are no longer required to file an annual income tax return.[61]

[56] Tan and Tower, above n 18, 358.
[57] Tan and Tower, above n 18.
[58] Simon James, Adrian Sawyer and Ian Wallschutzky, 'The complexities of tax simplification: progress in Australia, New Zealand and the United Kingdom' in Chris Evans Abe Greenbaum (eds) *Tax Administration: Facing the Challenges of the Future* (1998) 333-356.
[59] Dirkis and Bondfield, above n 52.
[60] For example, see Adrian Sawyer, 'Comment: rewriting the NZ Income Tax Act 1994 – the Income Tax 'Act'' (2003) 9 *New Zealand Journal of Tax Law and Policy* 12-25.
[61] Evans, above n 48.

Tax simplification in New Zealand does appear to have made real and substantial progress. While the size and scale of New Zealand's economy and tax system may well be a contributing factor, what is apparent is a strong, sustained and unified commitment to reform, both on the part of both politicians and administrators. No doubt having a unicameral Parliament has been influential in this regard. Further, the general public appear to have accepted the need for and the direction taken by the reform measures. The level of consultation and the demonstrated willingness to make modifications in the light of reasoned argument have been features of the process.[62] It is also important to recognise that reform of the tax system has been an integral part of the overall economic strategy of New Zealand and the focus has been on economic efficiency and competitive advantage (in particular for small businesses). Tax reforms (at least from 1984 onwards) have been part of big picture policy and this has been critical to their success. The tax base does include both direct and indirect taxes (note that there is no tax on capital gains), but they appear to be well integrated in terms of policy, design and application.

Finally, another important feature of New Zealand tax reform has been the attention given to the simplicity of applying and administering the law. Making compliance as straightforward as possible is driven by the focus on economic efficiency. This focus has extended to both taxpayers and to tax administration. The success of New Zealand's reforms is readily apparent. Its tax system is reported to be one of the most efficient in the OECD[63] and it is one of the fastest growing economies within the OECD during the past decade.[64]

D *United Kingdom*

The UK tax reforms of 1960s to the 1970s have been described as lacking in preparation, having no preconceived strategy and further characterised by the lack of debate. Even into the 1980s such was the desire to avoid the barrage of lobbyists that secrecy, subtlety and speed became the watchwords of Lawson, Chancellor from 1983-1989, who had concluded that reform would be more likely achieved by a well-directed side offensive with no prior warning.[65]

Reforms such as value added tax (VAT) in 1979 and changes in corporations tax in 1984 were incremental and ad hoc. New schedular law was enacted on an annual basis and the consolidated tax legislation in 1988 had 845 sections and 30 schedules. There were large tax cuts in 1988 and these added to an overheating economy and subsequently inhibited economic policy, making it politically very difficult for a conservative government to raise income tax. Further, the reforms of the 1980s accentuated inequalities in the distribution of income and of wealth. There was also growing concern about increasing compliance costs.[66]

In 1995 the decision was made to rewrite the UK's existing tax legislation into clearer and more user friendly language, and a Revenue Simplification Project Team, a steering committee (chaired by Lord Howe) and a consultative committee were established. The rewrite was to be done without changing existing policy. The decision was made at the outset to restructure the legislation based on its present purpose (as opposed to its original purpose) and this required an analysis of all existing legislation on a particular topic and then a reconstruction of the propositions in the most logical order. A reordering of material within the Acts and between Acts at a higher level was to be complemented by reordering at a detailed level. That is, the approach was to be schedular and there was to be ongoing consultation.

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[62] R Stephens, 'New Zealand tax reform' in J Head (ed), *Australian Tax Reform in Retrospect and Prospect* (1989) 65-98.

[63] T Dalsgaard, 'The tax system in New Zealand: an appraisal and options for change' (Economics Department Working Papers No. 281, OECD, 2001) 7.

[64] OECD, *Economic Survey of New Zealand 2005* (2005). [0]

[65] Sandford, above n 31.

[66] Ibid.

The contemporary UK tax system has been described as heavily influenced by Australian tax administrators, thus predictably the UK moved to a system of self-assessment in the 1990s.[67] The Inland Revenue published two consultative documents on self assessment in 1991 and 1992, with its subsequent adoption for individual pay-as-you earn taxpayers in 199X and for companies from 1 July 1999. At the outset there appeared to be communication problems and a lack of real liaison and consultation with practitioners at least in terms of the application of the reforms, though this has since been addressed to some extent by a 'Working Together' initiative established in 1999.[68]

It has been argued that the real objective of self assessment was to reduce administrative costs with savings over the 15 year period to 2007-8 expected to save the Inland Revenue £500 million. This was significant in that it was reported that the administrative cost of the UK tax system as a percentage of tax revenue was much higher compared to that of Canada and Australia.[69] Currently one third of individual taxpayers (basically those not subject to the pay-as-your earn system) lodge income tax returns.

To date the rewrite of the Capital Allowances Act 2001 and the Income Tax (Earnings and Pensions) Act 2003 have been completed and PAYE regulations have also been rewritten. However, critics claim that the Income Tax (Earnings and Pensions) Act 2003 is not simple and is too lengthy, claiming that it needs to be rewritten yet again by adopting principles based drafting.[70]

Another act covering trading and other income is about to be enacted. An act covering miscellaneous matters is yet to be rewritten (expected to be finished late 2006), and then an act covering corporations law is set to follow. However, progress on the consultative process in respect of corporation tax reform appears somewhat stalled (in spite of the first document issued in August 2002 and another in August 2003) as business and financial advisors argue that the proposed changes (which include carve out, phase in phase out provisions) may increase compliance costs.[71] Further, pension simplification changes scheduled for 2006 are set to include complex transitional arrangements. It does not appear that the consultation process (at least in terms of design) has been effective.

In terms of the volume of legislation, the Finance Act of 2004 with 328 sections and 42 schedules holds the record as the longest UK Finance Act ever and the aggregation of tax law is set to continue increasing. There is mounting criticism that the tax law rewrite project is misdirected in that it is not making the law simpler or easier (or cheaper) to comply with, and that the current system is lacking in integration and contains economic distortions. There is pressure to adopt principles based drafting and an accounts-based (rather than the schedular) approach.[72] Fundamentally, there is a clear lack of comprehensive and strategic economic policy objectives driving the tax reform (and related) agenda(s) in the UK and it is unlikely that real simplification can be achieved unless this is addressed.

[67] Simon James, 'Self-Assessment and the UK Tax System', (1997) 13 *Australian Tax Forum* 205-226.
[68] Ann Hansford and Margaret McKerchar, 'Developing the UK self-assessment regime: is collaboration the key?' (2004) 19 *Australian Tax Forum* 77-94.
[69] Ern Chen Loo, Margaret McKerchar and Ann Hansford, 'An International Comparative Analysis of Self –Assessment: What Lessons Are There For Tax Administrators?' (2005) 20 *Australian Tax Forum* 667-708.
[70] D Martin, *Tax Simplification* (2005).
[71] For example, see Grant Thornton, 'Company tax reform – may be costly for businesses', 15 November 2003, <http://www.grant-thornton.co.uk/pages/press_room-press_releases-company_tax_reform_may_be_costly_for_businesses.html >
[72] Ibid.

IV CONCLUSIONS

By reviewing the strategies adopted and progress made towards tax simplification by comparative regimes there are lessons to be learnt that can be considered in the light of the literature reviewed and the model proposed in this chapter.

In terms of developing policy, New Zealand clearly demonstrated the greatest need for change and this may in turn have galvanized greater commitment to reform by policymakers and wider acceptance of the reform agenda by the general public. Certainly in terms of having clear objectives, integration of the various components of their tax system and the adoption of a more purposive style of legislation, policymakers appeared to have made effective decisions and to have engaged in real consultation. In contrast, the experiences of the United States, Australia, and the United Kingdom demonstrate the ineffectiveness of tax simplification measures when there is poor policy development and the objectives of reform not clearly articulated.

In terms of integration, Australia and the UK appear to have been less successful than NZ in integrating a range of taxes into the tax system. The issue in Australia may to some extent be exacerbated by the relative newness of its goods and services tax. However, more fundamental weaknesses in developing policy (such as having clear objectives) may also be influential. As the US considers embarking on reforming its tax base, policymakers may take heart that if effectively integrated (as has been the case in NZ), such reforms may still give rise to an overall net benefit for taxpayers (that is, the benefits that arise may outweigh both the transitional and ongoing compliance costs). Another clear lesson is that continuing to rely on black letter law approaches will hinder tax simplification reforms.

In terms of drafting legislation, the experiences of the US, Australia and the UK experiences clearly demonstrate that improving the readability of tax laws per se is largely ineffective or at best superficial where the underlying policies are not also reviewed. That is, complex policy, or policy where the objectives are not well articulated, impede the drafting of simple and less voluminous legislation.

In terms of applying the law, the Australian experience clearly demonstrates that the scale and completeness of reform has important consequences for compliance and administrative costs. Ongoing amendments to legislation and the issuing of rulings and interpretative statements may increase taxpayer certainty, but they are addressing the symptoms of poorly considered policy. Greater consultation is certainly an effective strategy for foreseeing some of the pitfalls and developing systems that can be efficiently applied by both taxpayers and administrators. Having to rewrite the rewritten legislation (as has been suggested is required in the UK) indicates that the illness is in danger of remaining undiagnosed. Other aspects of applying the law – such as transitional arrangements, carve outs, complex calculations, onerous reporting and record keeping requirements, multiple definitions for the same concept, and providing unwarranted choices – can only reduce efficiencies and could inadvertently create loopholes.

In the introduction to the paper the following questions were posed: Is tax simplification possible or is it simply a holy grail or a smoke screen? If it is possible, are there approaches that are more likely to be successful than others? Are some approaches completely misguided? Further, how do we know where we are in terms of reaching it?

The NZ experience clearly demonstrates that tax simplification is possible. It is undoubtedly a long hard road, but by taking a full assessment at the outset and not viewing tax reform in isolation, much can be achieved if there is commitment by policymakers and wide public support is gained. To gain support requires the policy to at least be clearly articulated so that it is understood by all stakeholders. By allowing stakeholders to be fully engaged in consultation does give a measure of shared responsibility and this may also be effective in terms of sustaining commitment.

Clearly the most effective approach is to focus first on developing appropriate policy and the various dimensions regarded as critical are set out in the model. It is argued that this phase provides the essential foundation to achieving real simplification. Approaches that have failed, at least in the case of the US, Australia and the UK, have failed because they did not adequately develop tax policy in the context of wider economic reforms.

How do we know where we are at in terms of achieving simplification? It is proposed that the model herein may be of assistance to policymakers and administrators. Many of the requirements could be measured by various means. Indeed there may well be other indicators that are relevant. Ultimately measures must be set and milestones identified if simplification is to be an observable goal and no longer orphaned.