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1. INTRODUCTION

According to the Taxpayer Advocate Nina Olson, tax complexity represents the most serious problem facing taxpayers (Olson, 2013). She went even further in her 2014 Annual Report in suggesting that I believe we need fundamental tax reform, sooner rather than later, so the entire system does not implode (Olson 2015). In a June 28, 2011 Congressional Hearing before the US Senate Finance Committee, Olson (2011) directly linked complexity to the tax gap and cited an IRS National Research Program that identified 67 percent of errors on tax returns as inadvertent and caused by complexity of the tax system.[4] Even though major changes have been made to the Internal Revenue Code (IRC) in the last three decades, or maybe because of these changes, the tax law still remains highly complex. For example, in 2014 the US tax law and regulations contained more than 74,608 pages in the CCH Standard Federal Tax Reporter (CCH, 2014). Compare this number to the 26,300 pages the US tax law contained in 1984 and you will see that it is almost three times longer today.

In addition, in the National Taxpayers Union Foundation (NTUF) annual study of tax code complexity in the US, they found that the economy lost $233.8 billion due to 6.1 billion hours of lost productivity (an estimated value of $202.1 billion) and $31.7 billion in out-of-pocket costs spent complying with a complex tax code in 2015. According to this study the cost of tax complexity spiked from under $150 billion per year to well over $200 billion per year between 2009 and 2011. It has not fallen igher than the previous year, showing that complexity costs are rising each year (Brady, 2016).

Over the past 20 years, an increasing number of American taxpayers bewildered by the increasing complexity of tax law and confusion over how to comply with the tax code

One of the current suggestions in Congress is to broaden the tax base while reducing the tax rates. The *Tax Reform Act of 1986* (86TRA) broadened the tax base and lowered the tax rates in an effort to simplify the tax code. However, few would argue that the 86TRA made the tax law simpler with the inclusion of the Passive Activity Loss rules, the limitation on interest deductions, the repeal of the General Utilities doctrine, the expansion of both corporate and individual Alternative Minimum Tax, and inclusion of transfer pricing relative to intangibles (Kent, 2011; Slemrod, 1992).

We would hope that Congress would look at the complexity issues before deciding whether a provision should be included or not. However, recent experieniETBT/b9(i)-4(ssec)wh s

This paper is presented in six parts. It begins with a short discussion of the complexity of the current US tax law and provides the context for the balance of the paper. The second part reviews prior research regarding tax complexity and includes

methodology and hypotheses used in the study. The fourth part reports the results of the study. The fifth part lists some of the limitations and strengths in the study. The final section reviews the conclusions that can be reached from the study and includes some recommendations on how the results can impact tax policy.

2. TAX COMPLEXITY

Many US tax practitioners cynically and realistically assume that when Congress adds

even more complex. The effect of this complexity results in a significant cost to both taxpayers and the government. According to Olsen (2013), tax compliance translated into 6.1B work hours. If one compares this number to the 2001 estimate of 4.6B (Moody, 2001), one can see that complexity is increasing rapidly. In her 2012 report to Congres

consolidated groups. Interestingly, the results of the current study found some of the same issues among the most complex, 35 years later. This reminds one that the more things change, the more they stay the same.

Samelson and Harkness (1997) investigated the complexity of the US Schedule C (sole proprietors reporting schedule) but did not examine other small business entities such as partnerships and S corporations. They found the major factors of complexity for sole proprietorships were rules related to auto expense, depreciation expense and the office-in-home deduction. Davies, Carpenter and Iverson (2001) surveyed tax practitioners and tax educators regarding their perception of tax complexity. Their survey included 39 tax issues that mainly concentrated on individual tax. They found support for the idea that the US tax laws are extraordinarily complex.

Both Ingraham and Karlinsky (2005) and McKerchar, Ingraham and Karlinsky (2005) ty of tax issues relative to small businesses. Ingraham and Karlinsky examined the perception of US tax preparers while McKerchar, Ingraham and Karlinsky compared the perception of tax preparers in the US and Australia. Ingraham and Karlinsky (2005) examined 37 areas of tax law. They found the five most complex areas to be partnership taxation, estate and gift taxation, tax deferred exchanges, frequency of tax law changes and retirement plans. The Ingraham and Karlinsky study was replica(am)15(iDudy)11( )1 474.31 udy stlesta

from both public accounting and private corporations and thus the job titles

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Of the ten most complex LB&I tax provisions identified by the participants the average score ranged from 1.637 to 2.300. Of those ten, five related to the international arena. Issues related to domestic mergers and acquisitions were rated as the sixth and seventh most complex signifying that determining the taxability and the tax attributes that come with a merger or acquisition still give sophisticated practitioners problems. As with the 2005 small business survey done by Ingraham and Karlinsky, partnership tax issues were included in the ten most complicated areas. Many people perceive partnerships as a small business issue but this ranking emphasises the increased complexity engendered by using partnerships and limited liability companies (LLCs) to transact business (e.g. joint ventures, strategic

To determine if the difference in perception is statistically significant between the two groups, a t-test for each factor was performed. Table 4 shows the average rating for both groups. Based on the t-test, the perception of the complexity of 13 of the 40 tax issues was significant at either the .01, .05 or .10 level11. In all cases where the difference was significant, the more experienced group rated the issue as less complex. In addition, none of the issues rated in the bottom ten by either group was significantly different.

-b test. The Tau-b test is a commonly used non-parametric measure of association used to look for a trend in the responses. There were 13 issues that were significant based on years of experience, seven of which were significant in the t-tests.[12] In all cases the responses to years of experience were negative, meaning that there was a negative correlation between years of experience and perception of complexity. This result of the Tau-b tests support the results found with the t-tests. Both the t-tests and the Tau-b tests support hypothesis 1 that the perception of complexity decreases with experience.

5.5 External versus internal adviser analysis

We also tested to see any differences between the perception of the complexity of the 40 tax issues between the external advisors and those that work in the tax department of large corporations. Table 5 shows how the 40 factors rank for the overall sample and for the external professionals versus the internal professionals. For most of the factors the two groups rated the factors consistently.

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Table 4: Forty factors in descending order of complexity — experience

	>20 Years	< 20 Years	T-test

Table 5: Forty factors in descending order of complexity — public versus private

		Total Aver	Overall Rank	Public	Private
Foreign mergers and acquisitions (Section 367)		1.637	1	1	1
Deferred income taxes (FAS 109, 123R, 141, FIN 48, etc.)		1.840	2	2	3
Section 482		1.953	3	11	2
Foreign tax credit (including sourcing rules)		2.038	4	5	5 tied

5.6 Within job description analysis

Table 8: Forty factors in descending order of complexity

Table 10: Forty factors in descending order of complexity — less experienced

		External Advisor	Corporate	T-test
Foreign mergers and acquisitions (Section 367)		1.682	1.762	
Deferred income taxes (FAS 109, 123R, 141, FIN 48, etc.)		1.619	1.850	
Section 482		2.455	2.000	*
Foreign tax credit (including sourcing rules)		2.000	2.000	
Subpart F		2.091	2.190	
Domestic mergers and acquisitions (including corp. divisions)		1.955	2.238	
Sections 381 384 Loss carryover limitations		1.955		

participants were tax professionals who were many years away from working regularly with financial accounting. However, the results do point to the importance

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