Boosting Opportunities and Growth Through Tax Reform: Helping More Young People Achieve The American Dream

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Tax reform presents an opportunity to review a jurisdiction's goals *and* its tax system to be sure the system supports and does not hinder achievement of the goals. Economic growth, ability to compete in the global marketplace, an educated workforce, no poverty, economic mobility, and a clean and sustainable environment are longstanding goals in the United States. The topic of this hearing is helpful in focusing attention on whether achievement of the nation's economic, societal and environmental goals for young people is supported by the tax system and whether changes are needed. Changes in the economy, technology, the workplace and K-16 education, are a few areas which call into question whether the existing tax system is supporting U.S. goals for young people and others.

This testimony addresses:

- The need for strategic tax reform
- Benefits of analyzing trends to help guide tax reform
- The need for tax reform to follow principles of good tax policy
- The need for tax expenditure reform to improve equity
- Suggestions for modernizing and addressing needs for:
    - Retirement plans and savings
    - Workforce preparedness and lifelong learning
    - Entrepreneurship

I. Strategic Tax Reform

An effective tax system should support the jurisdiction's economic, societal and environmental goals. Thus, it is important that these goals be articulated and at the forefront of tax reform discussions. Existing tax rules and proposals should be analyzed and evaluated to determine if they support achievement of the goals and to be sure they do not operate in opposition to the goals. For example, assume there is a goal to have over 50% of high school graduates finish college. A tax rule that provides a tax deduction for a portion of college costs for less than 20% of filers, with the benefit skewed to higher income individuals, likely works in opposition to achieving the goal and the tax rules should be restructured to support the goal.

II. Recognize Trends to Help Guide Tax Reform

No one would argue that the world has changed tremendously in the past 20 years and even in the last two years. Advancements in technology have changed business models, education, and health care. Longer life expectancies have changed the demography of the workforce, financial planning needs, and health care costs.

A review of trends can help identify areas where the tax system needs to be modernized because the system does not reflect today's ways of living and doing business. Numerous reports and data exist to help identify trends.[1] A sampling of data and reports describing and supporting trends are noted in the footnotes for the chart below.

The chart is an example of a more detailed analysis that is needed. Items included in the chart are ones pertinent to young people.

Trends and Relevance to Our Tax System

Trend and Examples	Relevance to Tax Law Design
ECONOMIC	
Increasing global and mobile business environment: • Growth of virtual workplaces and markets / E-commerce • Ability to serve customers worldwide from a single location • Telecommuting and distance workers, global work teams • Increasing need for special expertise on an as-needed basis	▪ The tax law should not hinder alternative compensation techniques, including equity compensation. ▪ Outdated and complex worker classification rules play too great a role in hiring practices which can adversely affect employers and workers. ▪ Existing tax rules for deductions for employees who telecommute require that it be done for employer-convenience. Ease and benefits of working anywhere with today's technology should not hinder employee and employer discretion in work locations and hours. ▪ Complexity of international provisions of the federal income tax system may hinder international operations of businesses of all sizes.
Workforce[2] ▪ Increased emphasis on technology literacy, adaptability to change, lifelong learning ▪ A college degree is required for many types of work ▪ Service economy and the possibility of serving someone via electronic means (over the Internet, for example) provide greater opportunity for being	▪ Education for job retraining is generally not deductible. ▪ Multiple education rules in the tax law create confusion. Tax rules that only encourage savings for college education are not enough to support lifetime learning needs beyond college and for non-degree learning. ▪ Employees and self-employed individuals who bear the cost of working at home, likely get no tax deduction for work-related expenses because of strict home office rules under IRC §280A (particularly the exclusive use requirement), and the 2% of AGI limitation for unreimbursed employee business expenses. ▪ Worker classification rules to determine if a worker is an

[1] See for example, data from the US Census Bureau, Department of Labor, and other government agencies, universities and non-profit organizations. For example, see *Global Trends 2025: A Transformed World*, National Intelligence Council, Nov. 2008; http://www.dni.gov/nic/PDF_2025/2025_Global_Trends_Final_Report.pdf.

[2] See for example, trends noted in "The Future of Work," *Time*, 5/25/09; http://www.time.com/time/specials/packages/article/0,28804,1898024_1898023_1898169,00.html.

self-employed and working out of one's home.[3] ▪ Increase in number of businesses operating out of someone's home.[4] ▪ Increase in number of self-employed individuals.[5] ▪ Increased mobility of the workforce ▪ Decline in defined benefit retirement plans and increase in defined contribution plans.[6]	employee or independent contractor are troublesome because the classification criteria are subjective and out-dated. ▪ Tax rules regarding retirement and benefits are focused on the employer, rather than the worker. Workers may lose retirement benefits or incur administrative difficulties when they change jobs. ▪ Worker may not have access to work-provided retirement plan. The number of self-directed retirement options in tax law creates confusion. Workers who must self-fund their retirement do not get same tax advantage as workers with an employer-sponsored and funded plan. ▪ Requirements for timing of required distributions from retirement plans and limits on Social Security benefits may be too strict where healthy, older workers prefer to continue to work or may have a financial need to keep working. ▪ Employees required to work in more than one state face myriad of filing and payment requirements among the states.
SOCIETAL	
Increasing gaps • Income[7] • Education opportunities[8] and attainment of college degree or required knowledge and skill	▪ Overall progressivity of the tax system hindered by payroll tax structure and differential rates for investment income versus earned income. ▪ Some low-income individuals may face high marginal tax rates due to phase-outs of earned income tax credit (EITC), child-care credit, education credits, etc.

[3] Pete Engardio, "Mom-and-Pop Multinationals," *Businessweek*, 7/2/08; http://www.businessweek.com/stories/2008-07-02/mom-and-pop-multinationals.

[4] US Census Bureau data for 2002indicates about 49% operating out of their home (9/27/06 release; http://www.census.gov/newsroom/releases/archives/business_ownership/cb06-148.html) and for 2007, 51.6% operated out of their home (6/14/11 release; http://www.census.gov/newsroom/releases/archives/business_ownership/cb11-110.html).

[5] For example, see Magnus Lofstrom, *Entrepreneurship Among California's Low-skilled Workers*, Public Policy Institute of California, April 2010, page 6; http://www.ppic.org/content/pubs/report/R_410MLR.pdf. "The number of self-employed workers in California has steadily increased over the last three decades, from 1.17 million in 1980 to 2.37 million in 2007. This represents an annual average growth rate of 2.7 percent, significantly greater than the 1.5 percent annual growth in wage or salary employment." Also see V. Dion Haynes, "High unemployment spurs rise in self-employed," *The Washington Post*, 4/24/11; http://www.washingtonpost.com/business/capitalbusiness/high-unemployment-spurs-rise-in-self-employed/2011/04/21/AFatf5cE_story.html.

[6] See data and links in Annette Nellen, "Rethinking IRAs," *AICPA Tax Insider*, 7/24/08; http://www.cpa2biz.com/Content/media/PRODUCER_CONTENT/Newsletters/Articles_2008/Tax/rethinking.jsp.

[7] See for example, Adam Bee, *Household Income Inequality Within U.S. Counties: 2006–2010*, US Census Bureau, Feb 2012; http://www.census.gov/prod/2012pubs/acsbr10-18.pdf. "Since 1967, U.S. household income inequality has grown 18 percent."

[8] See for example, Sabrina Tavernise, "Education Gap Grows Between Rich and Poor, Studies Say," *New York Times*, 2/9/12; http://www.nytimes.com/2012/02/10/education/education-gap-grows-between-rich-and-poor-studies-show.html?pagewanted=all.

set for today's higher paying jobs.[9]	▪ Tax breaks for higher education are not fully refundable and therefore do not necessarily help those most in need. ▪ Tax credits for education tend to favor higher income individuals. Dollars spent to subsidize education via the tax system should be aligned with other government subsidies (such as Pell Grants) to be sure benefits go to those most in need.
Retirement[10] ▪ Increased life expectancy ▪ More people working past retirement age ("retirement age" becoming a less relevant concept)[11] ▪ Decline in number of defined benefit plans and increase in number of defined contribution plans ▪ About one-third of workers change jobs annually[12] ▪ Growing decline in ratio of workers to retired individuals[13]	▪ Social Security system needs to be reformed to address longevity and increasing numbers of retired individuals relative to workers. ▪ Participation in tax-favored retirement plans tends to be skewed to higher income individuals who are more likely to participate and to make the maximum allowed annual contributions.[14] ▪ Job changes likely to reduce retirement plan contributions and participation.

[9] See for example, Erin Ailworth, "Growing income gap threatens area, report says," *Boston Globe*, 3/14/12; http://www.boston.com/business/articles/2012/03/14/boston_foundation_finds_growing_income_disparity_is_greatest_threat_to_regions_prosperity/. "In 2010, Boston's richest 20 percent earned more than half of the income in the region. The poorest 20 percent made just over 2 percent of the income, according to the report. Part of the problem, the report says, is that while Boston has a thriving innovation economy with well-paying jobs in finance, high technology, and biotechnology, finding a job in those sectors requires training and skills that many residents don't have."

Also, *A Generation of Widening Inequality*, California Budget Project, Nov. 2011, page 19; http://www.cbp.org/pdfs/2011/111101_A_Generation_of_Widening_Inequality.pdf. "The top 1 percent had an average income of $1.2 million – 33 times the average income of the middle fifth. That gap is about twice as large as it was a generation ago. This means that in 2009, the average Californian in the top 1 percent of the distribution earned in less than eight workdays what the average middle-income Californian earned in a year."

[10] For additional information on this trend and links to data, see Annette Nellen, "Rethinking IRAs," *AICPA Tax Insider*, 7/24/08; http://www.cpa2biz.com/Content/media/PRODUCER_CONTENT/Newsletters/Articles_2008/Tax/rethinking.jsp. Also, Annette Nellen, "401(k) Concerns and Ideas," *AICPA Tax Insider*, 11/20/08; http://www.cpa2biz.com/Content/media/PRODUCER_CONTENT/Newsletters/Articles_2008/Tax/ConcernsAndIdeas.jsp. Also see Patrick Purcell, *Retirement Plan Participation and Contributions: Trends from 1998 to 2006*, Congressional Research Service, 1/30/09; http://assets.opencrs.com/rpts/RL33116_20090130.pdf.

[11] Kimberly Palmer, "Why These Retirees Are Still Working,"*U.S. News*, 6/13/12; http://money.usnews.com/money/retirement/articles/2012/06/13/why-these-retirees-are-still-working. "more *Californians are Working Later in Life*, California Budget Project, April 2009; http://www.cbp.org/pdfs/2009/090406_pp_WorkingLaterInLife.pdf.

[12] Bureau of Labor Statistics, USDL-10-1243; 9/10/10; http://www.bls.gov/news.release/pdf/nlsoy.pdf.

[13] Gayle L. Reznik, Dave Shoffner, and David A. Weaver, *Coping with the Demographic Challenge: Fewer Children and Living Longer*, Social Security Bulletin, Vol. 66 No. 4, 2005/2006; http://www.ssa.gov/policy/docs/ssb/v66n4/v66n4p37.html.

[14] In 2004, 4.5 percent of eligible taxpayers under age 30 contributed an average of $1,875 while 16.8 percent of eligible taxpayers ages 60 to 69 contributed an average of $3,849. See Victoria L. Bryant, *Accumulation and Distribution of IRAs*, IRS, 2004; http://www.irs.gov/pub/irs-soi/04inretirebul.pdf.

III. Use Principles of Good Tax Policy

Principles of good tax policy, such as simplicity, equity and economic efficiency, should be used to:

- Identify where current rules violate such principles and what reforms will enable rules to better meet the principles. The analysis of the equity, neutrality and economic growth principles will highlight areas of inequity that either harm or do not support opportunities for young people. Inequities are further discussed in the next section.
- Evaluate reform proposals to determine if they meet the principles of good tax policy and where such principles are not met, the principles can help identify improvements.

Various formulations of principles of good tax policy exist. The Joint Committee on Taxation and Government Accountability Office have suggested appropriate principles in reports. The American Institute of CPAs (AICPA) has suggested a set of ten principles. These formulations are all quite similar with key principles being:[15]

- Equity
- Simplicity
- Neutrality
- Economic growth and efficiency
- Minimum tax gap
- Transparency

IV. Bringing Equity to Tax System Spending (Tax Expenditures Review)

Key improvement: The needed funds to help benefit young people obtain necessary education and training, start retirement accounts, and start businesses, exists within the current array of special tax rules. The funds currently used for unnecessary and inequitable subsidies can be redirected to help bring more equity to the tax system and to benefit a larger group of individuals.

Definition: Tax expenditures can be thought of as special rules in a tax system that are not crucial to the basic design of that tax. For example, an income tax should consist of a tax base equal to income less expenses of producing the income. A personal income tax should also include some type of personal exemption and/or standard deduction to ensure that some portion of an individual's income is not taxed because it is needed for basic living expenses. Thus, these deductions are not tax expenditures.

The word "expenditure" is used because the special rules, such as the mortgage interest deduction or an energy credit, result in reduced revenues for the government – the same result as when the government makes a direct outlay, such as a grant. Most tax expenditures or special rules could instead be direct spending by a government agency, that is, a subsidy. For example, instead of a mortgage interest deduction, the government could provide a subsidy to individuals at the time of purchase or provide a subsidy to lenders so as to allow lower interest rates for borrowers.

[15] For a list of various formulations including the ones noted in this testimony, see http://www.cob.sjsu.edu/nellen_a/TaxReform/PolicyApproachToAnalyzingTaxSystems.pdf.

Not all tax expenditures though are the equivalent of a government provided subsidy, yet they still represent a special rule not required for the basic (or normal) design of a particular tax system. For example, IRC Section 1202 allows non-corporate shareholders to exclude 50% of their gain from the disposition of qualified small business stock held over five years. This is a tax expenditure in that it is a rule not required to be in a basic income tax. It does not translate well though, to a subsidy.[16] A 2002 report on tax expenditures described two types of tax expenditures. One type could instead be direct government spending and the second type represent a "fiscal cost" of rules that are "departures from proper income measurement, even if they do not have an obvious programmatic spending counterpart."[17]

Problem: As part of tax reform, every special tax rule (tax expenditure) should be examined to determine if its purpose is appropriate (does it help support the country's economic, societal or environmental goals) and does it meet principles of good tax policy. Special tax rules tend to cause a tax system to not meet principles of good tax policy. For example, the simplicity principle is violated as any special rule creates complexity relative to a system without the special rule. Also, the equity principle is often violated because the tax benefit is not equal among filers. For example, assume two individuals who itemize deductions make a $1,000 charitable contribution. If one individual is in a 15% tax bracket, the deduction reduces his tax liability by $150. If the other individual is in the 35% tax bracket, the contribution reduces his tax liability by $350.

Today, the "cost" of all federal income tax expenditures is roughly $1 trillion in terms of tax savings for taxpayers and reduced revenues for the government. This amount is close to what the discretionary spending is in the federal budget. Thus, a significant amount of spending resides in the tax system. Unlike spending in a government agency's budget though, tax expenditures are not regularly reviewed for effectiveness. Tax reform should cause that analysis to occur for all tax expenditures.

Disadvantage to young people: Several tax expenditures provide significant benefit (tax savings) to higher income individuals (unlikely to be young people). For example, the Joint Committee on Taxation reports that the "cost" of the home mortgage interest deduction is $83.7 billion for 2012.[18] This benefit is only for the roughly one-third of individuals who itemize their deductions. The Joint Committee reports that the mortgage interest deduction benefits taxpayers in different income groups as follows.[19]

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[16] The gain exclusion might be viewed as the equivalent of the shareholder obtaining a subsidy from the government to help them purchase or carry the stock, but the tax benefit is not obtained until the stock is held over five years and sold at a gain. It does not translate to a subsidy as well as most other tax expenditures, such as tax credits for purchasing certain assets or deductions for certain activities, such as making mortgage interest payments on a home.

[17] Eric Toder, "Evaluating Tax Incentives as a Tool for Social and Economic Policy," essay included in *Bad Breaks All Around*, a report of The Century Foundation Working Group on Tax Expenditures, 2002, page 44.

[18] Joint Committee on Taxation, *Estimates Of Federal Tax Expenditures For Fiscal Years 2011*-2015 (JCS-1-12) 6/17/12, page 36; https://www.jct.gov/publications.html?func=startdown&id=4386.

[19] *Id*. page 53.

Table 3.--Distribution by Income Class of Selected Individual Tax Expenditure Items, at 2010 Rates and 2010 Income Levels [1] -- Continued

[Money amounts in millions of dollars, returns in thousands]

Income Class [2]	Mortgage Interest Deduction		Phase out of Personal Exemption for Regular Income Tax, and Denial of Personal Exemption and the Standard Deduction for AMT	
	Returns	*Amount*	*Returns*	*Amount*
Below $10,000	[4]	[3]	[4]	[6]
$10,000 to $20,000	196	$63	[4]	[6]
$20,000 to $30,000	481	258	[4]	[6]
$30,000 to $40,000	985	654	[4]	[6]
$40,000 to $50,000	1,797	1,324	[4]	[6]
$50,000 to $75,000	5,750	6,855	22	-$13
$75,000 to $100,000	5,966	8,748	58	-52
$100,000 to $200,000	13,932	35,609	587	-745
$200,000 and over	4,575	29,142	3,279	-8,735
Total	**33,682**	**$82,654**	**3,947**	**-9,546**

[1] Excludes individuals who are dependents of other taxpayers and taxpayers with negative income.
[2] The income concept used to place tax returns into classes is adjusted gross income ("AGI") plus: (a) tax-exempt interest, (b) employer contributions for health plans and life insurance, (c) employer share of FICA tax, (d) workers' compensation, (e) nontaxable Social Security benefits, (f) insurance value of Medicare benefits, (g) alternative minimum tax preference items, and (h) excluded income of U.S. citizens living abroad.
[3] Positive tax expenditure of less than $500,000.
[4] Fewer than 500 returns.
[5] Includes the refundable portion.
[6] Negative tax expenditure of less than $500,000.

NOTE--Details may not add to totals due to rounding.
Source: Joint Committee on Taxation

As indicated in the table, over half of the "cost" of the mortgage interest deduction benefits individuals with income greater than $100,000.

Research shows that the mortgage interest deduction tends to help individuals afford a more expensive home rather than to enable them to buy any home.[20] Thus, this expensive tax provision is not fully meeting its goal of helping individuals purchase a home.

In examining whether the tax system hinders achievement of the American dream for young people, the mortgage interest deduction should be carefully examined and reformed. The roughly $85 billion annual cost could be distributed more equitably among various income categories and perhaps skewed to lower income individuals where it is likely able to do more good to help someone purchase a home who otherwise might not be able to do so. The broader home ownership that results could benefit the economy and strengthen communities.

Several other tax expenditures should be analyzed and either eliminated or reformed to enable them to benefit more taxpayers. Areas of particular relevance to helping young people are tax-favored retirement plans, employer-provided health insurance, property tax deductions on second homes and high value principal residences, and rules for higher education expenses and savings. That is, these (and other) tax expenditures could be reformed to ensure that the dollars involved are more equitably distributed among taxpayers. Such reform might include elimination of particular expenditures as well as creation of ones that better enable the tax system to support the country's economic, societal and environmental goals.

Tax expenditures are likely to be more equitable, (1) if provided in the form of tax credits rather than deductions, (2) if the tax benefit of deductions and exclusions is capped, (3) if the benefit phases out as income increases, or (4) if provided as direct grants based on need, if the required infrastructure to do so is not costly (such as providing grants and scholarships through the existing Department of Education mechanisms rather than via deductions and credits for higher education costs).

[20] Eric Toder, "Reforming the Mortgage Interest Deduction," Tax Policy Center, 5/26/10; http://www.taxpolicycenter.org/publications/url.cfm?ID=412099.

V. Consider How to Support Modern Workforce Preparedness and Lifelong Learning

Improve existing rules: Many jobs today require a well-educated, tech savvy workforce. A college degree is a requirement for more jobs today than in the past. Also, as technology and business models continue to change, workers often need to obtain new skills and knowledge.

IRS Publication 970, *Tax Benefits for Higher Education*, explains twelve rules that encourage and subsidize either costs of higher education or saving for future college costs. Some of the weaknesses that exist with this current set of rules include:

- *Complexity*: There are too many rules with varying definitions and qualifications. There is duplication among the rules and some rules cannot be used along with others.
- *Equity*: As noted in the prior section, special tax rules tend to provide a greater benefit to higher income individuals. This is true of deductions and exclusions. It can also be true of credits if not refundable. To support more people going to college, funds need to be available to those most in need rather than to individuals who may not have a financial need.
- *Transparency and Accountability*: Because the twelve special tax rules for education are in the tax system, their cost is not compared to higher education subsidies offered by the Department of Education, such as Pell grants. Thus, there is no analysis of how the total tax and direct spending dollars are allocated among income groups.

  There are often news stories about insufficient funding for Pell grants, yet several of the education-related tax rules provide benefits to taxpayers with income too high to qualify for Pell grants. Considerations should be given to distributing all education benefits out of a single government source to best ensure they are used for the greatest need and there is accountability for all of the spending.

Other reforms: Consideration should be given to modifying the tax law to allow a deduction or credit for costs of continuing education to maintain job skills or retool for a new job. Consideration should be given to allowing workers to create tax-free accounts with funds to be used for continuing education needs in order to encourage and support this necessary activity.

To help young people gain the necessary knowledge, skills and experience needed for today's workplace, consideration should be given to incentivizing donations by employers for scholarships and for providing internships.

VI. Rethink Retirement Plans and Savings Incentives for the Modern Era

As noted in the trends discussion earlier, several changes have occurred which make retirement savings more important to workers, but which also make it more difficult to build such savings. For example, years ago, many employees could expect to have a defined benefit type retirement vehicle provided by their employer. This required little action by employees. They did not have to understand investment options, contribution requirements, and tax rules. Today, many employees are offered no retirement plan and thus, must figure out on their own how to establish one. They have a choice of tax vehicles for an IRA (such as regular or Roth) and they have many options as to where to set up their IRA (stock brokerage firm, bank, etc.).

Many workers do not expect to stay, and in fact do not stay, at one employer for many years. Thus, even if an employer sponsors an IRA or 401(k) plan, the employee will need to be involved in the management and movement of the funds when they change jobs. Employees who changes jobs several times could end up with multiple accounts if they do not or cannot consolidate the funds saved at each place of employment into a single retirement plan.

There is a greater need for workers to have retirement savings today than was true decades ago because people are living longer.

Tax law changes to increase the number of workers participating in retirement plans should consider the following:

- A simple system to enable all workers (employees and self-employed individuals) to have a retirement savings account. This should occur for both part-time and full-time workers and even if an employer does not help with administration or contributions.
- Retirement savings contributions should be coordinated with payroll tax deductions. A system to enable self-employed individuals to also make contributions along with self-employment tax payments should also be considered.
- Find ways to help individuals improve their financial literacy.
- Portability. Be sure the system allows for contributions to be made to the one account even if a worker changes employers or also has income from self-employment.
- Strive for simplicity.

The government can play a role in establishing accounts, simplification, and educating individuals.

Example of a new approach: The first time an individual receives a W-2 or pays self-employment tax (whichever happens first), the government could set aside a set dollar amount in a retirement account for that person. This would constitute the start of their retirement account that would be used for all future contributions; there would be only one account. When the individual works for an employer who also wants to contribute to employee retirement accounts, such funds are placed in the individual's existing account. Also, for each paycheck or quarterly estimated tax payment of a self-employed individual, an amount would be contributed to their retirement account. Individuals could be allowed to transfer their retirement account to a commercial broker for management or let it stay with the federal government. The federal government could be allowed to transfer management to third parties for a fee.

Annual reporting would be required to let individuals know their account balance and other details. Rules would continue to exist, but in more simplified form, governing how much could be contributed annually, how much employers could also contribute, the age when distributions may begin, hardship withdrawals, etc.

Benefits of this type of approach:

- All individuals who work have a retirement account. This single account would be used whether they are an employee or sole proprietor or both.
- The initial contribution from the government ensures that all workers start a retirement account.
- The initial contribution from the government may also encourage individuals to be tax compliant from the start of the time they begin earning money.
- The system ties to payroll tax withholding and so should not be burdensome to any size employer since they already are required to comply with payroll tax rules.

- For low-income workers, the annual contribution could be made via part of the earned income tax credit (EITC) the worker receives.

VII. Support Modern Entrepreneurship

Several trends indicate that workers today are more likely to be self-employed, telecommute or work in their home, and have continual needs for new technologies (such as for hardware and software). Many existing tax rules though, work contrary to support these trends. For example, worker classification rules are unclear causing some employers to label all workers as employees, making it difficult for a self-employed entrepreneur to succeed. Strict home office deduction rules, particularly the exclusive use requirement, make it almost impossible for workers and self-employed individuals to qualify for the deduction. Thus, they are not able to properly calculate true taxable income because some valid business expenses are not deductible.

Additional reforms should be considered to help young people obtain initial funding to start a business. For example, existing tax rules could be modified to provide incentives for established businesses to donate to entrepreneur grant programs where individuals could submit business plans with the hope of being awarded a tax-free start-up grant. The reforms to help fund such grant programs could come from a lowered tax rate on repatriated earnings that go into the fund, or an enhanced charitable contribution deduction for donations to such grant programs.

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