After Tax Reform: Transition

by Anne Warhola
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This is the final installment of an 8-part series on comprehensive tax reform. Scroll to the bottom to read the other posts.

My co-worker and U.S Chamber Chief Tax Policy Counsel Caroline Harris recently posted that the United States should switch to a territorial system of tax. There’s another important “T” word in comprehensive tax reform that you don’t hear much about: transition.

It is imperative that tax reform include rules to make the transition from the old system to the new one as smooth as possible so that companies can concentrate on what they do best – successfully running their business operations. Businesses wouldn’t be able to simply turn a switch and … presto!... be in compliance with the new tax code. They would have to upgrade their systems so that they could report transactions under the new tax laws. Transition rules should be in place, giving them appropriate lead time in order to make the requisite systems changes.

With tax reform, many tax provisions in the current code would be eliminated. We may see, for example, the reduction or elimination of certain tax expenditures in exchange for lower tax rates.
The short-term cash impact of losing the full benefit of tax expenditures could be substantial for many businesses. Appropriate transition relief, such as phase-in rules, will be needed to lessen the economic hardship businesses may face as a result of these changes.

A lot has been written about the need for transition rules as part of comprehensive tax reform in the United States, but very little has been provided in the way of specific proposals. This lack of specificity could be an acknowledgement of the old saying, “the devil is in the details.”

Identifying transition issues and, moreover, figuring out how to deal with them will be a daunting task for sure. A Tax Foundation article written in 1998, but still relevant and informative, provides an overview of transition issues and principles for addressing them. Transition rules deserve careful attention sooner rather than later.

*Part One: Why We Need Tax Reform*

*Part Two: Revenue Scoring*

*Part Three: High Business Taxes*

*Part Four: Double Taxation of Foreign Profits*

*Part Five: Depreciation*

*Part Six: Investment Taxes*

*Part Seven: Uncertainty and Complexity*