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Tax Mavens

Annette Nellen: Tax Reform Advocate

Testifying before Congress, Professor and Director of the SJSU MST Program, AICPA chair Individual Taxation Technical Reference Panel – All in a day's work!

By: Evie Lee, *MST Student*

Annette Nellen is not your typical scholastic administrator. For those of you who have not been through the SJSU MST Program, Annette is the MST Program Director and is the main architect of the new co-curricular elements of the SJSU program. Well-respected by students and peers, Annette takes a very active role in the program, teaching three of the five core MST program courses and several of the current elective classes.

Annette is also not your typical tax professional. When I first met Annette, I was (to put it mildly) blown away by her enthusiasm and passion for tax. (Now, let's all admit, these words are rarely evoked when anyone talks about tax.) Her fervor for tax and her eagerness to share her passion with all of us provides the encouragement that is needed to pursue an MST at SJSU. Because Annette is so unique, I have often wondered, who is the woman behind the smile?

> ***Fun Fact 1:***
>
> *Professor Nellen has taught over 3,000 students for the past 20+ years. That's a lot of grading!*

First let us run down Annette's credentials, which would make most overachievers green with envy. Annette has a BS in Accounting from CSU, Northridge, an MBA from Pepperdine, and a JD from Loyola Law School. Annette started her tax career at the Internal Revenue Service, followed by a stint at Ernst & Young, and finally coming to SJSU in 1990. She presently chairs the AICPA's Individual Taxation Technical Resource Panel, is a frequent speaker and author on

tax policy and reform, and is the faculty advisor for the newly launched SJSU Contemporary Tax Journal. Recently, I had the pleasure of asking Annette to share with us her experience testifying before Congress earlier this year, some insights on tax reform, and her thoughts on the SJSU MST Program.

SJSU CTJ: On April 13th of this year, you testified before the House Way & Means Committee. Tell us what that was like.

Nellen: I had the opportunity to testify on behalf of the AICPA. The hearing was on individuals and complexity, and I chair the AICPA's Individual Taxation Technical Resource Panel. I was fortunate to testify for the AICPA as they provided me with helpful advice, and we based the testimony on prior simplification proposals of the AICPA. The committee's meeting room is quite large, and there is tiered seating for the members and almost all were there. Three others also testified. We each had five minutes for our prepared statements, and I knew in advance it was extremely important to keep to that limit. There was a timing system with the green, yellow and red lights, and I finished before the red light (as practiced). After our prepared remarks, each member had five minutes to ask questions. Some of the questions addressed reasons for complexity, but some members used their time to make a point about tax cuts and the budget. It was an exciting opportunity. I was honored to be asked by the AICPA and to be part of the committee meeting.

SJSU CTJ: Was there anything about the hearings that caught you by surprise?

Nellen: I was surprised that some members did not take advantage of an opportunity to ask the four people testifying questions about complexity and how to address it.

Fun Fact 2:

Professor Nellen does not mind being called a "code head". She has a photographic memory that works well for the all those lengthy tax laws!

SJSU CTJ: What would you recommend for anyone testifying for the first time in front of Congress?

Nellen: Get your key points in your oral testimony and leave the details for the written testimony. Practice to be sure you are under the time allotted to you. Be prepared for any question. Think a few seconds before answering.

SJSU CTJ: Having had time to reflect on the hearings, what would you change to improve the process?

Nellen: Provide a longer time for asking questions of those testifying and coordinate the questions in advance.

> ***Fun Fact 3:***
>
> *Professor Nellen's passion for tax started way back in the 1980s when she was with the IRS. This passion for tax really grew while working in EY's DC office right after the passage of the Tax Reform Act of 1986.*
>
> *Since 1990, she has been very active with the tax sections of the AICPA, ABA and California Bar.*

SJSU CTJ: What do you think are the top three ways to get Congress to enact tax reform?

Nellen: Well, first, our unsustainable budget practices and expiring tax cuts will require that something be done to address continued budget deficits, and tax changes will have to be part of the solution. Second, I think efforts to better educate the public about how our tax system works today and who benefits from the multitude of tax expenditures and how poorly structured many are, will get more individuals to support a simpler and more equitable system. Finally, I think the messages from everyone have to be, "stop studying and act," and work together. The Senate and House tax committees have been holding many hearings to understand today's tax problems and possible solutions, but they really are not bringing up anything new in this information gathering stage. Also, President Obama and Congress need to work together to improve the system. Unfortunately, the situation seems to be too partisan now to move forward constructively.

SJSU CTJ: As a leader in this area, what are the top tax issues that should be addressed in tax reform today?

Nellen: The individual system needs to be simplified. There are too many special deductions, exemptions, rates and credits. These distort behavior, provide greater benefit to high-income taxpayers, and increase compliance costs and errors. Generally, a system with a broader base and lower rates is the way to go to best meet principles of good tax policy. I have more at my 21st Century Taxation website and blog - http://www.21stcenturytaxation.com.

SJSU CTJ: As a facilitator of learning, what is the best approach to engage taxpayers in tax reform?

Nellen: Provide information about how the current system works and its flaws. I think if more people really knew how the system worked, they would advocate for reform. The home mortgage interest deduction, one of the most expensive features of the federal and California individual income tax systems, is a good example. Most people don't know that it allows people to deduct interest on a mortgage on a second home. If the law is designed to help people buy a

home to live in, why a deduction for a second home? Also, that provision offers a tax break to higher income individuals who can afford a second home. Why not remove that deduction and use the savings for a higher standard deduction that would benefit more taxpayers. Also, why allow a deduction for interest on a home equity debt? That benefits homeowners only and encourages people to sometimes place too much debt on their home. If you borrow on a credit card to take a vacation or finance a car purchase, you can't deduct the interest. But if you borrow against the equity in your home to fund the same purchases, you get a deduction. That's unfair and a poor use of government funds. Of course, the government is everyone. The special deductions are really being paid for by everyone who doesn't claim them. Finally, why a maximum mortgage level of $1.1 million? I don't think the median home price in California has ever exceeded $600,000. Research shows that this high limit just helps higher income individuals to buy a more expensive home. This deduction could be reformed to just encourage ownership of your principal residence with the savings used to address the deficit and allow for lower rates or a higher standard deduction. So, more education on how our system works would likely be a good way to get taxpayers engaged in wanting reform.

SJSU CTJ: Do you have any recommendations for taxpayers on how to go about pursuing tax reform?

Nellen: Learn how the system works and tell your representatives in Congress and President Obama that you want a tax system that reflects principles of good tax policy.

SJSU CTJ: What do you like most about teaching?

Nellen: Finding ways to facilitate people's understanding and perhaps heighten their interest in a subject matter. I enjoy discussing topics with students and learning from them. I also enjoy research and writing on topics that I teach.

SJSU CTJ: Over the years, what do you think has changed the most about the direction of the SJSU MST Program?

Nellen: I have been teaching in the program since I came to San Jose State in 1990. I think two significant changes are first that the subject matter just keeps on getting more and more complicated. Second, we have a trend of having more students who are getting their

Fun Fact 4:

Some favorite things that Professor Nellen keeps in her office:

- ✓ *Her daughter Jalissa's art work from when she was 5 (she is now in high school).*
- ✓ *A photo of her with Patricia Breivik, a former library dean at SJSU and one of her most favorite people.*
- ✓ *A life-size poster of one of SJSU's most famous alums - Edwin Markham (class of 1872). The poster is used for the SJSU Legacy of Poetry Day which Professor Nellen started and helps coordinate annually.*

MST as an entry into the tax field, rather than only people that have already been working in the tax field for a few years. I expect this trend to continue as California implements the requirement for 150 units to become a CPA. The program will continue to add or modify existing courses to have more courses (whether 1-unit or 3-unit classes) that are more foundational. That is, these courses devote more time to underlying rules, definitions and concepts in a variety of areas. Many of our courses cover more advanced topics. I hope that going forward, people who go right from undergrad to the MST program will come back after 3 to 7 years of practice and earn the Advanced Certificate in Taxation as a way to get a strong, broad and deep understanding of more advanced topics.

Fun Fact 5:

Professor Nellen's fantasy dinner is with Oprah Winfrey!

SJSU CTJ: What do you hope to accomplish with the launch of the *Contemporary Tax Journal*?

Nellen: With the growing trend of more students earning an MST to enter the tax field, I want to be sure the program has more opportunities to engage in some type of tax work, such as preparing and delivering financial literacy workshops, participating in VITA, and editing and writing tax papers. Students can write pieces for the tax enlightenment and tax policy sections of the journal, or write or edit a longer tax article. They also have opportunities to attend and write a summary of the two tax institutes the program now offers in conjunction with TEI. I think the journal will also bring greater attention to the program and the good work students are doing in and out of the classroom. And, the "Focus on Tax Policy" section, which students will add to monthly, is a good public service to help promote a better understanding of the tax law and how to improve it.

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