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Statement of Senator Chuck Grassley
Senate Finance Committee Hearing, “Cracking the Code – Tax Reform for Individuals”
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Just about everybody agrees that our tax code is too complex. The tax form instruction book is probably the most unwelcome piece of mail many taxpayers get. The complexity means taxpayers can't be confident that they've received all the breaks coming to them, or that they haven't paid more than they owe. As last month's tax filing deadline came to a close, millions of hard-working American taxpaying families knew about the complexity firsthand. As we note the complexity, we should note a point one of the key 1986 Tax Reform Act architects has made many times. Former Senator Packwood was fond of saying, “Many taxpayers accept complexity that favors them.”

When we consider the complexity of the regular tax system and the creeping effects of the alternative minimum tax (“AMT”), you have a recipe for disaster. As an example of the problems from the AMT side, if we do not extend the hold-harmless or “patch” for 2008, 25 million tax filers, mostly families, will be affected by the AMT. Twenty-five million families. Think about that. And, because of the way the AMT is structured, with no indexing, this AMT problem grows exponentially from year-to-year. The revenue loss for last year's patch was \$50 billion and it grows to \$65 billion this year. We are facing an AMT train wreck.

So, there's no question that we have a big problem. It is a problem that the committee should focus on. Let me say that I have no pre-conceived notion of which direction we should go, whether we're talking about a flat tax, national retail sales tax, value-added tax (“VAT”) or substantial modification of the current system. Let me also note that more than three years ago, I instructed the Finance Committee tax staff on our side to develop simplification proposals in all income tax areas. The staff has worked up some proposals.

While we all agree something should be done and we should be open-minded about what reform would look like, I'd like to remind folks that there is a key premise to tax reform that needs to be fleshed out. The premise I refer to is whether we assume current year law levels of tax relief in effect or whether we assume that the bipartisan tax relief plans of 2001 and 2003 have expired. If we use the latter assumption, i.e., that the post-2010 record level tax increase goes into effect, then tax reform really becomes an historic tax increase.

According to the latest figures from the non-partisan Congressional Budget Office, individual income taxes will go up by more than 10 percent in terms of a share of GDP. Let me say it in a different way. American taxpayers will, on average, be sending an additional 10 percent in taxes to

Washington, D.C., simply because the bipartisan tax relief expires. Said still a different way, the typical worker, every thing else being equal, will see his or her take-home pay shrink by that extra 10% in taxes.

I raise this point because we're talking about individual income tax reform. If we are to enter the tax reform playing field, we need to know the rules, including the size of the playing field in revenue terms. Are we assuming tax reform is not possible without a record tax increase? This is a question that all policymakers should have to answer. This is a question that the presidential candidates should have to answer.

I hope the answer is that the goal of a tax reform exercise ought to be to maintain the levels of taxation in effect before the Armageddon nearly every taxpayer faces in 2011. If the goal is different, a record tax increase, upwards of 10% on the American taxpayer, then I have very serious reservations about whether we can or, more importantly, should undertake the effort.

I look forward to the testimony from our distinguished panel. Each of these witnesses brings us their experience from participating in major tax legislation. They held key policy positions in the Reagan, George H.W. Bush, Clinton, and George W. Bush Administrations. All four of our witnesses have continued to participate in tax policy debates from their roles in think tanks with varying views. I appreciate all four witnesses' dedication to this continued debate.