



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Statement of Senator Chuck Grassley
Senate Finance Committee Hearing:
Kick-off for Tax Reform: Tackling the Tax Code
Thursday, Aug. 3, 2006

There's almost universal agreement 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. Add to the complexity of the regular tax system the creeping effects of the alternative minimum tax ("AMT"), and 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 2007, 24 million tax filers, mostly families, will be affected by the AMT. Twenty-four million families. Think about it. 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 this year's patch was \$34 billion and it grows to \$44 billion next year. We are facing an AMT train wreck.

Senator Wyden and I resolved in a dialogue in this committee to remedy the AMT problem. Senator Baucus introduced legislation to that effect, joined by Senators Kyl, Wyden, myself, and others. 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 I instructed the Finance Committee tax staff to develop simplification proposals in all income tax areas. The staff are working on those proposals.

On a preliminary note, we did invite Treasury Department officials to today's hearing. Treasury officials told us that, at this time, they did not wish to participate in the hearing so that they could have a chance to review tax reform proposals with Secretary Paulson. Treasury officials informed my staff that Treasury would be happy to participate in future hearings on this topic. We hope to have hearings this Fall on tax reform. We will look forward to Treasury's participation at that time. In addition, I still expect Treasury and the Administration's official response to the President's Advisory Panel on Federal Tax Reform that is the focus of today's hearing. In other words, we're kicking off tax reform, but we'll be waiting to hear from one of the key coaches, Secretary Paulson, as he draws up the Treasury's playbook. I know the Secretary is very dedicated to reforming the system and look forward to hearing from him and his staff.

Today, we'll hear from a couple of former Finance Committee veterans who took the charge from President Bush to take the first step at tackling the problems of the tax system. Senator Connie Mack, from Florida, served for several years on the Committee, and came back to public service to Chair the President's tax reform panel. Senator John Breaux served on the committee from 1990

through 2004, almost a decade and a half, and served as the Vice-Chairman of the advisory panel. They are with us today as are panel members, Elizabeth Garrett, who served as tax counsel for former Finance Committee member David Boren, and Professor James Poterba.

I appreciate the tax panel's months of study and analysis. It seems the panel members were apolitical in their work, and that's good. Some of their recommendations were bound to be politically unpopular. Cutting the home mortgage interest deduction is an example. But it's important to have a comprehensive starting point that will get everyone talking and thinking. We have a couple of witnesses to provide an evaluation of the advisory panel's recommendations. We'll hear testimony from David Walker, Comptroller General of the Government Accountability Office ("GAO") and Dr. Jane Gravelle of the Congressional Research Service ("CRS").