

Senator Chuck Grassley  
Opening Statement, "Marginal Rate Reductions: Tax Relief for All Taxpayers"  
March 7, 2001

Senator Baucus and I have called this hearing to address an issue on which Republicans and Democrats all agree: the Federal government is over-collecting taxes. The current and projected U.S. tax receipts are far in excess of the amounts needed to operate the federal government. The bulk of these excess collections comes from income taxes imposed on individual taxpayers.

The Congressional Budget Office's January 2001 Report to Congress shows that in 1992, collections from individual income taxes were 7.7 percent of our GDP. That percentage has risen steadily each year and as of the year 2000, the percentage is an astronomical 10.2 percent of GDP. Individual income taxes now take up the largest share of GDP on record, even above the levels imposed during World War II.

As further evidence that the current surpluses are borne by America's working men and women, corporate taxes during the past 10 years have increased from 1.6 percent of GDP to 2.1 percent, and estate taxes have remained essentially unchanged. So as you can see, the main source of the current surpluses is from the huge increases in individual tax collections.

Unfortunately, most of the excess collections are attributable to the 1993 Clinton tax increase. As I noted above, in 1992 the collection rate was 7.7 percent of GDP, and it now stands at 10.2 percent. Admittedly, some of this increase is due to our booming economy. The White House has estimated that approximately 20 percent of this increase is attributable to real gains in wages which have forced people into ever higher tax rate brackets, the so-called "bracket creep" effect. Those same individuals also lose a portion of their deductions and exemptions through the various phase-out provisions, which will be discussed here today.

Nonetheless, the Joint Economic Committee has estimated that just repealing President Clinton's 1993 individual income tax hike would yield tax relief of over \$1 trillion over 10 years. So, I think we can all agree that individual taxpayers are the ones most deserving of relief from the federal government's over-taxation.

Now, whether the relief we enact is going to be the \$900 billion suggested by my Democrat colleagues or the \$1.6 trillion requested by the President, is **not** the issue we are here to address today -- we are not here to talk about the appropriate level of tax relief. We all agree relief is needed. The question we address today is whether marginal rate reductions are the best way to grant tax relief from an economic management standpoint.

In designing tax legislation, I want to employ three principles: efficiency, equity, and simplicity.

What I mean by efficiency is that changes to the tax code must help grow our economy. At the end of the day, we have failed as tax policy makers, Republicans and Democrats alike, if we impair the American economy's capacity to grow. Many believe that there is a direct link between lower tax burdens and higher rates of economic growth. The question before us today is whether the most efficient way to promote economic growth is through marginal rate reductions.

My second principle is equity or fairness. I want to make tax policy changes that address

inequities in the tax code. There are many inequities in the code, and we will hear about some of them today.

My third principle is simplicity. Everyone who fills out a Form 1040 knows about the complexity of the tax code. All across this country, Americans are dealing not only with the burden of paying federal taxes, but the added burden of tax complexity. One of the complexities that will be addressed here today are the impenetrable “phase-outs” of tax benefits, personal exemptions, and deductions that are arbitrarily imposed on taxpayers across the entire spectrum of income levels. Our witnesses today will address those complexities and explain how they actually operate as backdoor tax hikes that effectively impose marginal tax rates far beyond the rates specified in the Internal Revenue Code.

Whatever we decide to do on this Committee, our actions must make sense with respect to these principals of efficiency, equity, and simplicity.

Our first panel will consist of two distinguished economists, Mr. Stephen J. Entin of the Institute for Research on the Economics of Taxation, and Mr. Henry Aaron of the Brookings Institution. These gentlemen will address whether marginal rate reductions are the simplest, fairest, and most efficient way of distributing tax relief to the American taxpayer.

Our second panel will explain how the various phase-outs and limits increase effective marginal tax rates, operate to cut off taxpayers from their personal exemptions and legitimate deductions, and needlessly complicate the tax laws.

This panel will also focus on the payroll tax and the earned income credit. In his budget message to Congress, the President expressed his dismay that under the present tax code, many low-income families are now facing higher marginal tax rates than wealthy individuals due to the combined effect of the phase-out of the earned income credit, and the income and payroll taxes. Certain senators on this Committee have rightly expressed similar concerns. We want to look at that and see whether the earned income credit is effective in alleviating that burden.

In addition, the GAO will give us an update on efforts to address fraud in the EIC program. Sadly, according to the Department of Treasury, approximately 25 percent, one-quarter, of EIC payments are inappropriately made. Any efforts to expand the EIC program must face this reality.

Finally, the Committee will hear about efforts of the states to expand the EIC program. It may come as a shock to many here in our nation’s capital that the answer to every problem does not have to emanate from Washington. Several states, including my own state of Iowa, have taken the lead in creating their own EIC programs that are an add-on to the federal EIC program. Eleven states now have such programs.

This is the first of a series of hearings the Finance Committee will have on President Bush’s tax proposals. I believe these hearings will provide a useful overview of the different aspects of the President’s efforts to give tax relief to America’s working families.