



Statement of Senator Chuck Grassley
Senate Finance Committee Hearing: Kick-Off Tax Reform
Tuesday, April 15, 2008

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 today's tax filing deadline comes to a close, millions of hard-working American taxpaying families know about the complexity first hand. 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"), 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 2008, 25 million tax filers, mostly families, will be affected by the AMT. Twenty-five million families. Think about that, Mr. Chairman. 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, over three years ago, I instructed the Finance Committee tax staff on our side to develop simplification proposals in all income tax areas. The staff have 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.

Let me repeat that point in a different way. This hearing is a kick-off hearing. 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 policy makers should have to answer. This is a question that the presidential candidates should have to answer. I hope the answer is the goal of a tax reform exercise ought to be to maintain current law levels of taxation. If the goal is different, a record tax increase, upward of 10 percent on the American taxpayer, then I have very serious reservations about whether we can or, more importantly, should undertake the effort.