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April 25, 2012

CONTACT: [Julia Lawless](#), [Antonia Ferrier](#)

(202) 224-4515

HATCH STATEMENT AT FINANCE COMMITTEE HEARING EXAMINING THE IMPACT OF TAX REFORM ON STATE & LOCAL GOVERNMENTS

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today delivered the following opening statement at a committee hearing examining the impact of tax reform on state and local governments:

In reading the written testimony of our guests today, I was particularly struck by Mr. Hellerstein's recitation of the Hippocratic Oath — first, do no harm. Too often, Congress forgets this sensible advice. My hope is that this hearing, drawing on the wisdom of our five witnesses, will help Congress observe and honor Mr. Hellerstein's admonition.

The rush for new tax dollars that too often characterizes the federal legislative process, oftentimes leaves issues involving federal-state tax coordination by the wayside. But we cannot forget that the policies being discussed today touch on fundamental constitutional principles of federalism and separation of powers. And if we are to do no harm it is important to hold hearings such as this one.

Though I do not have all the answers to the specific policy questions this hearing will wrestle with, I do have a series of bedrock principles that I believe will serve as a useful guide. The Tenth Amendment to our Constitution serves as the lodestar for today's hearing. As the testimony of our witnesses at least implicitly reminds us, under our Constitution of enumerated and limited federal powers, the powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people. Issues involving the federal impact on state and local revenues impact both the Constitution's separation of powers between the federal and state governments and the separate identity of the sovereign states.

Too often, some view the Constitution and its limits on federal power as a hindrance to important objectives. I cannot subscribe to this approach. We all take an oath to protect and defend the Constitution. That Constitution, with its limits on federal power, is our greatest strength, not a weakness. And in walking the fine line between federal and state powers, we need to be especially mindful of our oath.

Federal discussions about state finances frequently highlight budgetary pressures that have required cuts in spending. These are no doubt difficult issues for states, but it simply is not the responsibility of the federal government to address state budget shortfalls. Some argue that the recent recession has uniquely harmed state revenues, somehow justifying the use of the federal government as a backstop. Yet as the Census Bureau noted in an April 12, 2012 report, state government tax collections in FY 2011 were actually up nearly 8 percent from the revenue collected in FY 2010. Something else is driving state budget shortfalls, and I think in many instances the principal issue for states is their own unsustainable spending.

Also, it is important to recall that the states are already receiving significant support from federal taxpayers. According to the Joint Committee on Taxation, federal deductions for state and local taxes will diminish federal taxes by around \$347 billion from 2011 to 2015. These deductions are generally regarded as helping states to leverage spending by minimizing the true cost of state and local government. As someone dedicated to states' rights, I believe that a state should be free to set its own tax and spending policies. But with rights come responsibilities. And state officials need to take responsibility for their own spending decisions.

In closing, I want to show my appreciation to the Members of this Committee who have a strong interest in these issues involving federal and state interaction. I know Senator Enzi has worked very hard for many years on what is now the Marketplace Fairness Act. Senator Thune and Senator Wyden have proposed the Digital Goods & Services Tax Fairness Act. Senators Snowe, Wyden, Menendez and Nelson are cosponsors of the Wireless Tax Fairness Act. Your work on these issues is a resource for all of us, and I look forward to continuing to work with all of you.

Thank you again Mr. Chairman. The work already done in this area, which is substantial, and the opportunities facilitated by this hearing, will help us ensure that when we go down the road of comprehensive tax reform we do no harm, and possibly even accomplish some good.

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