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Note: Sen. Chuck Grassley, ranking member of the Committee on Finance, gave the following speech on the Senate floor today. The charts he referred to are at the end.

Statement of Senator Chuck Grassley
One-Year Anniversary of Bipartisan Tax Relief
Tuesday, July 30, 2002

I rise today to discuss the one year anniversary of the bipartisan tax relief package. On June 7, 2001, President Bush signed the legislation. On Friday, June 7th of this year, the President marked the first anniversary of that event in Des Moines, Iowa. I was pleased to join the President for that anniversary celebration.

One year ago this week, taxpayers started receiving checks sent by the Treasury Department.

Now, Mr. President, those checks represented the first broad-based tax relief in nearly a generation. Generally, single taxpayers got a \$300 check and married couples got a \$600 check.

What I'd like to do today is first put the tax cut in historical context. Secondly, I'd like to set the record straight in terms of the progressivity of the tax relief and its budget effects. Finally, I'd like to illustrate what the tax relief legislation means in terms of typical families across America.

I'm going to use a series of charts as I move through the discussion.

Let's start with historical context. In the last 20 years, there have been several pieces of major tax legislation. When I use the term major, I'm referring to net tax hikes or net tax cuts in the neighborhood of \$100 billion or more.

In the last generation, frankly, the American taxpayer has come out on the short end of the deal. By and large, the tax-and-spend Washington crowd prevailed. There have been four major tax increase bills. There have been three major tax cut bills, with one of those, the 1997 tax relief package, barely breaking into the major category.

Let's take a look at the tax increase bills first. They were 1)"TEFRA" in 1982, 2)"DEFRA" in 1984, 3)"OBRA" in 1990, and, as then Finance Chairman Pat Moynihan said, the 4)"world record tax increase" of President Clinton's 1993 tax package. Senator Moynihan's description was verified by a Joint Committee on Taxation estimate. It showed the 1993 tax increase raised taxes by over \$1 trillion.

In the same generation, taxpayers have received net tax cuts three times. The three events occurred in 1981, in 1997, and last year. In 1981, the Reagan tax cuts brought down the top rate of

70% to 50%. In 1997, modest bipartisan tax relief, had, as its centerpiece, the \$500 per child tax credit. Of course, last year, all taxpayers received tax relief.

So, Mr. President, when you look over the last generation, the bipartisan tax relief of last year, in effect, helped tip the balance back a little bit toward the American taxpayer. I say a little bit, because, by any reckoning, even when fully in effect, last year's bill still leaves the balance toward higher taxes and more government. More on that in a minute.

For another point of historical context, take a look back at the fundamental tax reform of 1986. You will recall that effort was a grand compromise between liberals, led by Congressman Rostenkowski, and conservatives, led by President Reagan. We came up with a revenue neutral package by broadening the tax base by shutting down tax shelters. The revenue raised was used to create two rates - 15% and 28%. In addition, millions of low income families ceased paying income tax.

During the tax reform debate, today's House Democratic leader, Congressman Gephardt, pursued a tax reform plan with former Senator Bradley. The Bradley-Gephardt plan contained three rates of tax. The three rates were 35%, 25%, and 15%. Former Senator Mitchell, who would become the Democratic leader and a great champion of the liberal wing of the Democratic caucus, supported a top rate of 35% as well. Indeed, the House, at that time controlled by Democrats, passed a tax reform bill with a top rate of 35%.

So, at the watershed event of 1986, the leaders of the Democratic caucus said individual income tax rates should not exceed 35%. As everyone knows, 35% is the top rate when the bipartisan tax relief package is in full effect in 2006. I guess I find it a bit ironic that today the Democratic leadership says individual tax rates must be above 35%.

It makes you wonder why today's Democratic leadership, in historical context, is so fixated on higher taxes. Why is Congressman Gephardt, the House Democratic leader, insisting on tax rates at higher levels than his 1986 era plan? Why is Senator Daschle, today's leader of the Democratic caucus, insisting on tax rates at higher levels than his predecessor, Senator Mitchell?

Isn't 35% of a person's income enough of a contribution for their share of the burden of the federal government?

That's where the Democratic leaders were during tax reform. That's where the bipartisan tax relief plan leaves us when fully in effect in 2006. Unfortunately, that's not where the Democratic leaders are today.

Well, Mr. President, the question of why 35% isn't enough leads to the second part of my discussion. What I'd like to do is set the record straight on the progressivity and budget effects of the bipartisan tax relief plan.

It seems to me that the Democratic leadership has moved its tax reform target away from tax relief for a very simple reason. The reason is to provide resources to grow the federal government by increasing spending.

It is part of a larger agenda of moving a society, America, the engine of capitalism, to look more like European socialism. It means more government and less individual responsibility. It means less reward for work and more money from the pockets of working people for the federal

government. It means opportunity defined less by a dynamic market and more by political criteria.

Now, a lot of inaccurate information has been spread about the bipartisan tax relief package. At the head of this campaign is the Democratic leadership. Perhaps unwittingly, perhaps by design, much of the media has worked hand in glove with this partisan campaign.

The misinformation comes forward in three bogus assertions. The first incorrect assertion is that the bipartisan tax relief was a partisan Republican product. The second is that the bipartisan tax relief package is the source of our current budget problems. The third incorrect assertion is that the tax relief favored the wealthy over low and middle income taxpayers.

I'd like to turn to the first incorrect assertion. Often we hear the phrase Republican tax cut or partisan tax cut. In fact, the tax cut was bipartisan. Twelve Democratic Senators voted for the conference report. Senator Jeffords also voted for the conference report. That's over one-fourth of the Democratic caucus.

The tax relief legislation was bipartisan by design. In a Senate divided down the middle, the tax relief had to be bipartisan to pass. There was no other way.

Democratic members of the Finance Committee played a key role in crafting the bill. Led by our current chairman, Max Baucus, they insisted on a bill that reflected their priorities. Senators Breaux, Torricelli, Lincoln, all contributed to the formation of this bill. Republican moderates like Senator Snowe also played a key role. Without these senators' input and support, we would not have the tax relief in place.

So, Mr. President, anyone who characterizes the tax relief as partisan is flat out wrong.

Now, I'd like to move on the second incorrect assertion. How many times have we heard on this floor or seen written in the media the charge that the bipartisan tax relief caused the current and projected deficits. If I have a dollar for every time I've heard or read this point, I could put the budget in balance.

Cold hard numbers tell a different story. Cold hard numbers from the Congressional Budget Office ("CBO"), the Office of Management and Budget ("OMB"), and private sector sources reveal the truth.

Here's what the numbers say. You can check it out on the CBO web site.

According to CBO's January baseline, for the current fiscal year, the tax cut represents barely 14% of the total change in the budget since last year. For instance, for the same period, increased appropriations outranked the tax cut by \$6 billion. So, spending above baseline, together with lower projected revenues, accounted for 86% of the change in the budget picture. Let me repeat that. Bipartisan tax relief was a minimal, 14% factor, in the change in the surplus.

Over the long-term, the tax cut accounts for 45% of the change in the budget picture. Stated another way, the 10-year surplus declined from \$5.6 trillion to \$1.6 trillion. Of that \$4.0 trillion change, the tax cut represented about \$1.7 trillion of the decline. That's less than one-half of the change. Let me repeat that for our friends in the Democratic leadership and their allies in the media. The tax relief package accounts for less than 45% of the decline in the surplus.

So, Mr. President, the second incorrect assertion, that the tax cut ate the surplus, is incorrect, according to CBO.

Now, I'd like to turn to the third incorrect assertion about the bipartisan tax relief package. That assertion is that the tax relief package was a tax cut only for the wealthiest Americans.

How many times, Mr. President, have we heard the statistic that 40% of the benefits of the tax cut went to the top 1% of taxpayers?

Where did the statistic come from? Did it come from the non-partisan Joint Committee on Taxation? The answer is no. The statistic cited by the media and the Democratic leadership came from the liberal think tank known as the Center on Budget Policy and Priorities. How do they get their numbers? Here's an example. Let's talk about how they distribute the benefits of the death tax. The liberal think tank assumes that the person benefitting from death tax relief is the dead person. Imagine that. Only in Washington, D.C. do they assume you can take the benefit of tax relief with you to the grave.

It takes these kinds of distortions in methodology to get the conclusion the liberal think tank wants. That's why our friends in the Democratic leadership rely on the Center for Budget Policy and Priorities. Unfortunately, some in the media accept these statistics at face value.

Once again, facts can be ugly things for harsh critics of the bipartisan tax relief package. According to the Joint Committee on Taxation, Congress' official non-partisan scorekeeper, the tax code is more progressive with the tax relief package. Let me repeat that fact. Joint Tax, not a liberal or conservative think tank, says the bipartisan tax relief package made the tax code more progressive.

Now, some might ask how does Joint Tax conclude that the bipartisan tax relief made the tax code more progressive.

The answer is that the bipartisan tax relief returns to taxpayers, on a progressive basis, a small portion of the record level of federal taxes.

Take a look at this chart. It shows that the largest tax cut went to taxpayers in the lower and middle income brackets. For instance, taxpayers with incomes between \$10,000 and \$20,000 will see their taxes reduced by almost 14% when the tax cut is fully in effect. Taxpayers with over \$200,000 will see their taxes reduced by barely 6%.

Now, Mr. President, the Democratic leadership and many in the media, will focus not on the burden taxpayers bear, but on the benefits of the tax cut. In other words, they will try to ignore the progressive nature of our current system and use isolated examples. For instance, they will say that a taxpayer at \$50,000 of income gets more of a tax cut than a taxpayer at \$10,000 of income. In fact, a taxpayer at \$50,000 of income, pays considerably more tax than a taxpayer at \$10,000 of income. Comparing two different taxpayers' tax relief benefits without looking at the burden is comparing apples to oranges.

Let's compare apples to apples. That is, the burden borne by groups of taxpayers before and after the tax relief bill.

What I talked about before was the change in the tax burden for different categories of

taxpayers. This chart allows you to see how progressive the current system is and how the tax relief bill made the tax system even more progressive. Keep in mind that this table includes all taxes. That's income taxes, payroll taxes, excise taxes, and corporate income taxes.

Let's compare the same two groups I talked about before. Taxpayers with incomes between \$10,000 and \$20,000 bore 1.2% of the federal tax burden before the tax relief bill and 1.1% after the tax relief bill. Taxpayers with over \$200,000 maintained their burden, 32.1%, before and after the tax relief bill.

So, Mr. President, you can see the bipartisan tax relief bill lightened everyone's federal tax burden but did it in a progressive way.

What the tax relief bill aimed to do was send back to the American people a portion of the record-high levels of taxation. But the bipartisan tax relief bill sent the money back in a progressive manner.

Let's take a look at where we were early last year. You'll see the federal government was taking in record-high levels of individual income taxes. For instance in 2000, federal taxes were taking 20.5% of GDP and individual income taxes were taking 10.2% of GDP.

According to CBO, those upward record-high level trends were going to continue throughout this decade. In fact, even when fully in effect, the bipartisan tax relief bill leaves both federal and individual income taxes at near record levels.

Chairman Greenspan gave us a green light to provide broad-based tax relief because he foresaw a long-term economic problem. The record level of taxation, if left on track, would have been a drag on economic growth.

As a matter of fact, there is substantial agreement that the tax cut came at just the right time. The rebate checks and other relief arrived just as the recession started to hit home. According to the Department of Commerce, the tax relief boosted personal incomes by the highest amount in almost 10 years.

Mr. President, you can now see that those three widespread incorrect assertions about the bipartisan tax relief package have been countered. One, the tax relief package was bipartisan, not partisan as its critics claim. Two, the tax relief package did not cause either the short-term or long-term budget problems we face. Three, the tax relief package provides broad-based relief in a progressive fashion.

Now, Mr. President, I'd like to turn to the final part of my discussion. This is the most important part because it describes what the tax relief package means to typical taxpayers.

We took as a starting point President Bush's efforts to provide income tax relief to all Americans. This legislation includes the four main elements of President Bush's goals of providing tax relief to working families.

These goals are to: 1) provide tax relief for working families through reducing marginal rates; 2) reduce the marriage penalty; 3) expand the child tax credit; and 4) eliminate death taxes. Let's look at each one.

First, this legislation reduced marginal rates at all levels and creates the new 10% level proposed by the President. We also began to address the hidden marginal rate increases such as PEPS and PEASE that complicate the Code.

The 10% bracket means a tax cut for every American taxpayer. It was the source for the rebate checks that every taxpayer received last year. That's \$600 for every family and \$300 for every single person.

America is a society of opportunity. Over 60% of all families will at one time or another be in the top fifth of income in this country. A man will make more at 55, after 30 years of hard work, than he did at 25. A family should not face a crushing marginal rate tax burden when they finally get a good paycheck for a few years as a reward for years of hard work.

For those that have worked hard over the years, there is some marginal tax rate relief. Here, I'm referring to small business. Small business generates 80% of the new jobs in this country. Small business owners receive 80% of the benefits of the marginal rate reductions. When fully phased in, the marginal rate paid by a successful small business will be the same as that paid by General Motors. Don't know how senators can argue that 35% is an appropriate top rate for General Motors, but too low for Joe's Garage.

While I'm on the topic of marginal rate relief one political development continues to surprise me. Those on the other side most opposed to the marginal rate relief come from the higher income states, the so-called high-tax or "blue states" that tend to be on each coast and around the Western Great Lakes. Taxpayers in those states, in particular, bear the brunt of higher marginal rates.

It continues to surprise me that senators from those high-tax paying states attempt to obstruct tax relief that is most meaningful to their constituents.

Federal taxes squeeze harder in those states where incomes are higher and the cost of living is higher. To this day, I do not understand the vigorous opposition these members have to relieving the high tax burden their constituents face. Instead, members from these states tend to focus on those who don't pay income tax. Maybe members from the other side of the aisle and who are from these states seem oblivious to this disproportionately heavy tax burden. Or maybe they think federal taxes should be higher. I can't figure it out. One has to wonder what the folks in those states who work hard and pay high taxes would think if they took a look at these charts. One has to wonder what they'd think about higher taxes those on the other side seem to yearn for.

So, Mr. President, the first part of the package provides progressive income tax relief to every American that pays income tax. Let's move on to the second part.

The second part provides income tax relief for married families -- for families where both spouses work and where only one spouse works. In addition, thanks to the advocacy of Senator Jeffords, we expanded the Earned Income Credit for married families with children. Further, there was wide bipartisan agreement to simplify the Earned Income Credit which will mean that hundreds of thousands of more children will receive the EIC benefits.

Mr. President, this package contains the first marriage penalty relief in 33 years. Let me repeat that. For the first time in 33 years, we're delivering marriage penalty relief.

Third, the President's desire to expand the child credit to \$1000 was met in the bipartisan tax

relief package. And in response to the concerns of Senators Snowe, Lincoln, Breaux and Jeffords, the child credit was expanded to help millions of children whose working parents do not pay income tax.

Let's take a look at an example. For a single mother with two children at \$16,000 of income, this tax relief package means \$600 more in her pocket for this year. That's an increase of almost 4% in this single mother's budget. I'm sure she can use the money.

The fourth part of the package dealt with the death tax. The death tax is reduced and finally eliminated -- as called for by President Bush. We were successful in this effort due to the work of many senators, but I would particularly note the efforts of Senators Kyl, Phil Gramm, and Lincoln.

Thus, this legislation contained the four main elements of President Bush's efforts to provide tax relief for working families - marginal rate reduction, relief for married families, the expansion of the child credit and the reduction and ultimate elimination of the death tax.

I would remind my colleagues again that the hallmark of this legislation is that relief for low income families comes first. The marginal rate drop to 10% was immediate, the child credit expansion to low income families was immediate, the expansion of EIC was immediate.

The greater progressivity of the tax relief legislation is certainly due in no small part to the work of Senator Baucus.

Everyone knows Senator Baucus and other Democrats who crafted this package took a lot of heat from the liberal core of the Democratic caucus. His objective, like mine, was a bipartisan tax relief package. It seems that while many are happy to talk about bipartisanship they can't stand to see bipartisanship practiced.

In addition to President Bush's proposals to provide tax relief to working families, the tax relief package included legislation that had been considered by the Finance Committee previously.

I believe that not all good ideas come from just one end of Pennsylvania Avenue. Thus, we included the Grassley/Baucus pension reform legislation which probably would not have made it in the bill without the longtime support of Senators Hatch and Jeffords.

That package means \$50 billion in tax benefits for enhanced retirement security. That figure will be compounded many times over in retirement assets. A lot of folks like to play political football with retirement security issues. The bipartisan tax relief package actually moved the ball forward on retirement security.

Let's take a look at an example. Under the tax relief legislation, workers will be able to raise their IRA contributions to \$5,000 annually. Workers will also be able to put away up to \$15,000 annually in their 401(k) accounts.

In addition, the legislation contained over \$30 billion in tax benefits targeted for education. Elements of this package included language to expand the prepaid tuition programs to help families pay for college - long advocated by Senators Collins, McConnell and Sessions. In addition, the package provided a college tuition deduction thanks to Senators Torricelli, Snowe and Jeffords, private activity bonds for school construction in response to Senator Graham's concerns, as well as an expansion of the education savings accounts - in honor of Senator Coverdell - thanks to the work

of Senator Torricelli and Senator Lott.

Let's take a look at an example. Under this legislation, a young couple can contribute \$2,000 per year per child to an education IRA. The account enjoys inside buildup tax-free and is available to pay tuition and other college costs.

None of us should forget the great winners of this legislation - the American taxpayer. We provided the American taxpayer the greatest amount of tax relief in a generation. And they deserve it.

With the bipartisan tax relief legislation in place, all taxpaying Americans have a little bit more of their money in their pockets. Struggling families will have more money to make ends meet; parents and students will be able to more easily afford the costs of a college education; a successful business woman will be able to expand her business and hire more people; a father finally getting a good paycheck after years of work will be able to better provide for his aging mother; and, a farmer can pass on the family farm without his children having to sell half the land to pay estate taxes.

Mr. President, as an illustration of the breadth of this relief, I ask unanimous consent to place in the Record a state-by-state analysis of the per taxpayer benefits, prepared by the Tax Foundation.

This chart illustrates the benefits of the income tax rate reductions state-by-state. As you can see, all taxpaying families in all states benefit. The examples are endless of the great benefits that we realize when we give tax relief to working families.

Mr. President, while I'm pleased about the first anniversary, I won't be satisfied until we make these bipartisan measures permanent.

Let's tell every taxpayer they can count on the 10% bracket 10 years from now. Let's tell the small business owner that, after 10 years of hard work, they won't face a tax rate of 39.6%. Let's tell the single mother with two children that her taxes won't rise by \$1,200. Let's tell the newlyweds that 10 years from now they don't have to face a marriage penalty. Let's tell family farmers they won't face the death tax 10 years from now. Let's tell workers saving for retirement that they can put away \$5,000 in their IRA 10 years from now. Let's tell a young couple that 10 years from now they will continue to be able to save \$2,000 each year per child for college savings.

Mr. President, I'd like to sum up. In historical context, the tax relief package provides a modest refund to all taxpayers at a level previously supported by the Democratic leadership. Over time, the Democratic leadership's notion of what the top rate of tax should be has moved up.

Three assertions about the tax relief package, repeated almost daily by its critics, are incorrect. I will correct them once again. The tax relief package is bipartisan. The tax relief package did not cause our current or long-term budget problems. The tax relief package is progressive.

Finally, and most importantly, the tax relief package provides important resources for families, small businesses, retirement security, and education. These resources are valuable and should be available to the American people on a permanent basis.