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Hatch Statement at Finance Hearing Regarding Comprehensive Tax Reform: Prospects and Challenges

WASHINGTON – Senate Finance Committee Chairman Orrin Hatch (R-Utah) today delivered the following opening statement at a hearing entitled, “Comprehensive Tax Reform: Prospects and Challenges”:

Welcome, everyone, to our first hearing of the day, where we will discuss the ongoing effort to reform our nation’s tax code. We have a distinguished panel of bipartisan experts before us today to help shed some light on issues surrounding tax reform. I look forward to a productive discussion and appreciate your attendance here a bit earlier than our normal meetings.

In 1984, President Reagan called for a reform of the tax code. He laid out three main goals for tax reform: Fairness, efficiency, and simplicity.

Those three goals are as relevant today as they were a generation ago. For our current efforts, I would add a fourth goal: American competitiveness. This goal is essential in today’s global economy, as we must also consider what is happening outside our borders.

When discussing tax policy or legislation, it’s very easy to find oneself heading down byzantine paths of ever-greater complexity, but I think we would do well to keep focused, and to frequently remind ourselves of these basic principles.

Therefore, I’ll repeat them: Fairness, efficiency, simplicity, and American competitiveness. The Tax Reform Act of 1986 is generally considered to be a great success.

However, one question people should ask themselves is: If the law we passed in 1986 was such a success, why did it disintegrate so quickly?

Obviously, there are a number of competing interests out there, with many of them focused on narrow provisions or benefits in the tax code. Some of these interests have employed efficient lobbyists to make compelling cases for changes while others have elected efficient legislators who have done the same.

That’s one reason for the more or less constant change we’ve seen to the tax code since 1986. Another reason might be that the theoretical underpinnings of the 1986 weren’t as sound as many assumed.

For one thing, the 1986 reform was a shift toward pure taxation of income. But, in the last couple of decades, there has been an increasing awareness of the efficiency of taxing savings and investment lightly (or not at all), and instead basing the tax system on consumption. And indeed, a number of the subsequent changes to the tax code could be described as a shift away from taxing income toward taxing consumption. This helps to explain things like decreased tax rates on capital gains and dividends, more rapid depreciation schedules, and more qualified retirement plan options. Many of the major reform proposals we've seen in recent years – including the House's Better Way Blueprint – would take us further in that direction.

And while some of these changes have been very good, the piecemeal fashion in which they have happened was not consistent with simplicity. And many of the changes have been bad.

Another way of looking at the unraveling of the 1986 tax reform law is that it had a sound theoretical basis at the time, but technological changes in the intervening decades have required us to make changes in the years since. For example, the tax base is far more mobile today than it was in 1986. And, a mobile tax base is inherently less reliable, making efforts to heavily tax highly-mobile assets an exercise in futility.

Whatever the case, we know that the myriad changes to the tax code in the past three decades have left us with a status quo that is simply unsustainable.

American families, individuals, and businesses collectively spend hundreds of billions of dollars a year – not to mention countless hours – simply trying to comply with the tax code.

Tepid growth rates for the U.S. economy have seemingly become the new normal for some. America's multinational businesses find it difficult to compete abroad and are often targets for acquisition by foreign companies.

All of this should be unacceptable to every member of the Senate. Senator Wyden was correct when he recently described the current tax code as a "rotting economic carcass."

There is no longer any question as to whether we SHOULD reform the tax code. The only questions remaining are: HOW and WHEN.

For this reason, we are engaged in a long-term effort to fix these problems. And, in my view, the momentum in favor of comprehensive tax reform is stronger now than at any point since the 1986 reform was signed into law.

I know Republicans – both on this committee and elsewhere – are united in our commitment to fix our broken tax system and efforts in both chambers of Congress and on both sides of Pennsylvania Avenue are ongoing.

My sincere hope – which I've repeated numerous times – is that our Democratic colleagues will be willing to join in this effort. Tax reform should not have to be a partisan exercise. Indeed, the negative impact of the status quo falls on Republican and Democratic voters alike. So, we should all be willing to work toward solutions.

I know that many of my colleagues on the other side of the aisle recognize the need for reform. However, much of the Democratic leadership's rhetoric on this issue has been less than encouraging.

We've heard condemnations and claims about tax plans that do not yet exist.

We've heard demands – sometimes stated as preconditions to any bipartisan cooperation – for concessions that are unrelated to tax reform.

And, on a similar note, we've heard demands that Republicans make significant procedural concessions for moving a tax reform bill as a prerequisite for any bipartisan engagement on the substance of potential legislation.

I won't belabor this issue too much at this point. I'll simply say that, historically speaking, this is not how we've worked on bipartisan tax policy, and I hope that the statements we've heard from some of the Senate Democratic leaders discouraging bipartisan efforts on tax reform do not reflect the views of all our Democratic colleagues.

Today, we have a panel of four very skilled experts who represent both parties – they are all former Assistant Secretaries of Treasury for Tax Policy. They've been on the front lines of tax policy for some time, and I am certain that their insights can help us today as we work to address both the shortcomings of our current tax system as well as the divisions that could hamper our tax reform efforts.

With that, I'll turn to Senator Wyden.

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