

OPENING STATEMENT OF SENATOR CONNIE MACK – SENATE FINANCE
COMMITTEE

Before I provide a brief description of the options, I want to highlight the need for tax reform and to explain the framework under which we operated.

As a member of the Senate Finance Committee for many years, I had spent a lot of time working with the tax code, and I was aware of its deficiencies.

However, it was my service on the tax panel -- conducting hearings, gathering information, and reading comments -- that really confirmed just how bad the situation really is.

Instead of a sleek and simple system designed to raise revenue for our national defense, social programs, and other vital public services, we have a system so complex that almost \$150 billion is spent each year by U.S. households, businesses, and the federal government, just to make sure taxes are tallied and paid correctly. In 2003, 60 percent of filers hired a tax preparer. Between 1986 and last November, there had been over 15,000 changes to the tax code.

Instead of a system that ensures that all pay their fair share, we have a system so confusing that two million taxpayers collectively paid over \$1 billion more in taxes by making a wrong decision about the

basic choice of itemizing or taking the standard deduction. And while some people overpay because of their confusion, the vast majority of people underpay. The IRS has estimated that there is a net tax gap of \$290 billion per year, which translates into a tax hike of more than \$2,000 per year for honest taxpayers. There is no easy answer to reducing the tax gap, but an obvious and productive place to start is by reforming the code so that it is easier to understand and enforce.

Instead of a tax system that draws revenue efficiently from the base of the nation's considerable economy, we have a tax code that distorts basic economic decisions, sets up incentives for unwise or unproductive investments, and induces people to work less, save less, and borrow more. By some estimates, this economic waste may be as much as \$1 trillion dollars each year. In an increasingly global environment, our tax code also plays an important role in the competitiveness of American business. Our corporate tax rates are high, and even if companies can employ strategies to lessen the effect of those high rates, they are wasting valuable resources.

Now let me say a few words about the Panel's framework. We operated under a set of rules – some of which the President imposed and others that we adopted for ourselves. In the former category, our options were to be revenue neutral - and we used the Administration's baseline.

The Executive Order also instructed us to develop options that were “appropriately progressive.” Some Panel members felt that the current distribution of federal income taxes was appropriate or that it should be more progressive, while others felt that higher income taxpayers shouldered too large a share of the

tax burden. We quickly realized that we could consume all of our time debating this question, and still probably not reach a resolution. In the end, we concluded that the appropriate burden of taxation was an issue that elected officials should resolve.

The resolution of the burden question helps to illustrate how we viewed our role. We could have operated through the prism of politics or the prism of economics and tax policy. We chose the latter, recognizing that the Administration and Congress would have to deal with the political issues, and that our options should be based on sound economic and financial principles.

Now let me say a word about our options. We unanimously settled on two options, which we called the Simplified Income Tax Plan (SIT) and the Growth and Investment Tax Plan (GIT). We did not reach consensus, and thus did not recommend, a national retail sales tax, a value added tax, or a progressive consumption tax.

The Simplified Income Tax Plan dramatically simplifies our tax code, cleans out targeted tax breaks that have cluttered the system, and lowers rates. It does away with gimmicks and hidden traps like the Alternative Minimum Tax. It preserves and simplifies

major features of our current tax code, including benefits for home ownership, charitable giving, and health care, and makes them available to all Americans. It removes many of the disincentives to saving that exist in our current code, and it makes small business tax calculations much easier. It also offers an updated corporate tax structure to make it easier for American corporations to compete in global markets.

The second recommended option, the Growth and Investment Tax Plan, builds on the SIT and adds a major new feature: moving the tax code closer to a system that would not tax families or businesses on

their savings or investments. It would allow businesses to expense or write-off their investments immediately. It would lower tax rates, and impose a single, low tax rate on dividends, interest, and capital gains.

Both of these plans offer dramatic simplification - reducing the number of lines on the Form 1040 from 75 to 32, and the number of commonly used forms from 52 to 10 - and make the tax code fairer - transforming deductions that are only allowed for a few into credits or deductions that are available to all. And these are important accomplishments. But I also believe that the most important thing that we can do

is to ensure that the tax code promotes growth and competitiveness. The principle of freedom – free markets and democratic capitalism -- is transforming the world. The growing economies of China and India, along with the rest of the world, are providing us with fierce competition. Our current tax system distorts capital flows and impacts economic decisions. And our options respond to that challenge by reducing the cost of capital, lowering the corporate rate, moving our international tax system to either a territorial or a border adjusted one. Expensing is especially important, as it would reduce the effective tax rate on new investment from 17

percent to 6 percent, and make us the best place in the world to invest.

I have been asked numerous times since we submitted our report to point out the Panel's most significant accomplishment. I am extremely proud of our substantive work and our recommended options, but in answering that question, I often pick up the Panel report, and turn directly to the signature page, where I point to the signatures of all nine Panel members. We had our disagreements, and each of us did not get everything we wanted, but we worked together and we issued a unanimous report; Republicans and Democrats -- working together.

I do not need to tell members of this committee about the importance of bipartisanship. One of the great things about this committee is its long history of bipartisanship in order to achieve significant accomplishments. We all know that in 1986, which is the last time that major tax reform occurred, it took a bipartisan effort. I applaud this committee for holding this hearing and focusing on tax reform, and I hope that you will carry forward the spirit of bipartisanship in order to accomplish a major victory for the American people.

Thank you.