

Statement of Senator Chuck Grassley  
Senate Finance Committee Hearing, "Tax Reform: Lessons from the Tax Reform Act of 1986"  
Thursday, September 23, 2010

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 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), 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 2010, about 26 million tax filers, mostly families, will be affected by the AMT. That would be an increase of around 22 million families and individuals over 2009. Because of the way the AMT is structured, with no indexing, this AMT problem grows exponentially from year-to-year, and more and more people are pulled in every year we do not enact a permanent solution.

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.

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 law levels of tax relief remain 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.

President Obama campaigned on a "current policy" as opposed to a "current law" baseline. In an editorial appearing in "The Wall Street Journal" on August 14, 2008, Obama advisors Jason Furman and Austan Goolsbee wrote "the Obama plan is a net tax cut – his middle-class tax cuts are larger than the rollbacks he has proposed for families making over \$250,000. Sen. Obama would pay for this tax cut by cutting spending..." Whatever one's opinion of the specifics of this tax policy, I think most taxpayers, and certainly myself, support the idea of lowering the overall level of taxation, and are certainly opposed to increasing the overall level of taxation. Since January of 2009, Dr. Furman has been Deputy Director of the National Economic Council. Since last week Austan Goolsbee has been Chairman of the Council of Economic Advisors.

I ask unanimous consent that their editorial be printed in the record of this hearing.

As the Congressional Budget Office noted this past June in a publication titled "The Long-Term Budget Outlook," revenues, or taxes collected by the federal government, have averaged around

18.1 percent of GDP over the past 40 years. My reading of the Furman/Goolsbee quote is that candidate Obama was elected in part upon a promise to not increase the level of taxation. An important question that must be answered before tax reform can be attempted is whether reformers are committed to holding taxes at or below the historical level of taxation of 18.1 percent for GDP. Given that President Obama was elected in part upon a promise of a net tax cut, I don't see how any reform could contemplate increasing the historic level of taxation.

As I've noted in the past, I believe that for fundamental tax reform to truly succeed, it would require the full support of a White House in possession of an unambiguous mandate directly from the American people.

What this means is that a President must campaign and be elected in part on his vision for our tax system, as President Reagan was. Unfortunately we are not able to speak with President Reagan any more on his role in enacting the Tax Reform Act of 1986, but because of his absence we should not take the importance and responsibility of the executive branch for granted in this process moving forward. Aside from creating the political clout necessary to get a complicated bill enacted into law, if a candidate sticks to the principles of tax policy he campaigned on and won on, it is more likely that the American taxpayer will see reform as beneficial and be supportive of it.

I raise this point because 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 policymakers should have to answer and we must acknowledge today.