



For Immediate Release
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**Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding Historical Trends in Income and Federal Revenues**

A tax system expresses a society's values.

America's always changing. That's one of our strengths.

That change also means that, periodically, we need to consider whether our tax system continues to express the values that we want to put first.

To consider where we want to our tax system to go, we need to understand where we are and understand where we've been.

In September, the Committee kicked off a series of hearings on tax reform. We examined the environment that produced the 1986 tax reform.

Today, we look at historical trends in income and in taxes. This will give us useful background as we roll up our sleeves for tax reform.

First, we need to examine where Federal revenue comes from.

The composition of Federal revenue has changed significantly since World War II. As a percentage of total revenue, Social Security taxes have increased and corporate and excise taxes have decreased.

For example, in 1950, corporate income taxes provided 30 percent of Federal revenue. But by 2009, they made up only seven percent.

In the 1950's, excise taxes produced 19 percent of Federal revenue. By 2007, they comprised only three percent.

Over the same period, social insurance taxes — like Social Security and Medicare taxes — more than quadrupled. In 1950, they provided about 10 percent of Federal revenues. By 2009, they generated 42 percent.

Why has the composition of Federal revenues changed so dramatically?

Should we be concerned that the share of revenue raised by the corporate income tax has declined by more than 75 percent? Is that a result of an increasingly global economy? Is it because the corporate tax base is too narrow?

Or is it linked to the fact that the share of business income subject to the corporate income tax — as opposed to the share taxed on a pass-through basis — has fallen from about 70 percent to about 43 percent, over the past quarter century?

Is it a cause for concern that fewer businesses are structuring themselves as corporations? Did more businesses structure themselves as corporations in the past because corporations were used as tax shelters? Or was it because we now tax corporations too heavily?

Answers to questions like these will help us know where we are going on corporate tax reform.

Second, we need to understand the distribution of income and Federal taxes.

In 1980, the richest one percent of Americans received about nine percent of total income. By 2006, this share more than doubled, to about 19 percent.

Meanwhile, the share of total income received by the 20 percent of households with the lowest incomes fell from about six percent to about four percent.

Over this period, average tax rates fell for all households, including the richest one percent. The share of Federal taxes paid by the top one percent grew. But this group's share of income grew even faster. As a result, over the past quarter century, the share of after-tax income received by the richest one percent has doubled, from about eight percent to 16 percent.

Meanwhile, the share of after-tax income declined for almost all other households. For example, the share of the middle fifth of taxpayers fell from about 16 percent to 14 percent.

Why are these trends occurring? Are highly-paid workers working harder, relative to other workers, than they did in the past? Or are changes in the economy failing to benefit low- and middle-income workers?

Has the tax code kept up with these broad changes in the economy?

We need to understand how tax burdens are allocated, and how they have been allocated in the past.

Third, we need to look at how America compares to our global competitors.

We need to have a tax code that encourages companies to locate and grow in America. We need to help to create American jobs.

We need to ensure that America maintains our global competitiveness. American companies will win when they compete with foreign companies, provided they compete on a level playing field.

But we also need to ensure that our tax code needs to promote the growth of our economy and the creation of jobs.

I often hear that we need to change the tax code to level the playing field for American companies. Today, we'll ask how our tax system compares with our major competitors.

And so, let us consider the way that the American economy has changed. Let us think about whether we need to change our tax system, as well. And let us seek to ensure that our tax system expresses the values that we as a society want to put first.

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