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CONTACT: [Julia Lawless](#), [Antonia Ferrier](#)
(202) 224-4515

HATCH STATEMENT AT FINANCE COMMITTEE HEARING EXAMINING BURDENS & BENEFITS OF DISTRIBUTION WITHIN THE U.S. TAX CODE

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today delivered the following opening statement at a committee hearing examining the burdens and benefits of distribution within the U.S. tax code:

The debate that we will have here today on the distribution of tax burdens has a long and distinguished pedigree.

From my perspective, I have not heard anyone get the better of former Prime Minister Margaret Thatcher, who addressed this issue in her last speech before the House of Commons on November 22, 1990.

This is how she responded to a liberal colleague who made the mistake of thinking that he could get one by her.

The honorable Gentleman is saying that he would rather that the poor were poorer, provided that the rich were less rich. That way one will never create the wealth for better social services, as we have. What a policy. Yes, he would rather have the poor poorer, provided that the rich were less rich. That is the Liberal policy.

This quote, more than 20 years old, is uncannily applicable to the subject of today's hearing.

Our examination of the burdens and benefits of the tax code is taking place in the shadow of a debate as to whether a group of people, described as "the rich" are paying what others call their "fair share."

The canned answer for those asking this question is that the rich are never paying their fair share, and must pay more for the good of the whole.

A certain percentage of the population obsesses over this issue — making sure that the so-called rich do not exceed their allotted share of the fruits of their own labor.

How Washington politicians hope to determine this fair share in an even-handed way that does no harm to our economy and job creators remains a mystery to me.

As we head into this debate, there are a few basic facts we need to acknowledge. According to the Urban Brookings Tax Policy Center, in 2009, the top quintile of the population, in terms of income distribution, earned 53.4 percent of income, but paid 67.2 percent of all taxes.

When we look at only federal income taxes, the numbers show that the so-called wealthy are paying an even greater share relative to everyone else. According to the Tax Foundation, for calendar year 2008, the most recent year for which actual tax data is available, the top 1 percent of the population in terms of income paid 38 percent of all federal individual income taxes. The top 5 percent paid approximately 58.7 percent of all income taxes, while everyone else — the bottom 95 percent — paid 41.3 percent of federal income taxes.

I don't have a Ph.D. in math, but I'm pretty sure 41.3 is less than 58.7.

Meanwhile, the Tax Policy Center, estimated that for tax year 2010, approximately 45 percent of households, or about 69 million households, ended up owing nothing in federal income taxes for last year.

Now I'm no linguist, but I think that the proper term for that level of income tax liability is zilch.

Finally, the Joint Committee on Taxation estimates that approximately 51 percent of all households, which includes filers and non-filers, had either zero, or negative income tax liability for tax year 2009. Just think about that. More than half of all tax units either paid no income taxes, or got money back.

There is a lot we can make of this information, and that's why we are having this hearing. I think many taxpayers are skeptical that the answer to our fiscal problems is for them to sacrifice more, when almost half of all households are not paying any income taxes.

The other side argues that those 69 million households pay other taxes, like employment taxes. But this point avoids the larger issue.

Those who promote higher income tax rates in the name of equality and deficit reduction need to come clean about what this entails. With the income tax base so narrow, meaningful reductions in our deficits would require far more than taxes on the rich. Those tax increases would hit squarely in the middle class, which the President promised is off limits.

As I said earlier, it is estimated that the top quintile of population, in terms of income, pays more than 67 percent of all taxes to the Federal government.

Margaret Thatcher understood that by artificially forcing equal outcomes through confiscatory taxation, we undermine the vibrant and dynamic economy that encourages productivity and the creation of resources and wealth. And by doing so we actually diminish the revenues that would otherwise be available to the government to perform its limited constitutional functions.

In short, the quest for social equality through government tinkering actually results in fewer resources and worse outcomes for the nation as a whole and the poor in particular.

There are some who have become so fixated on what other people have that they see the tax code as a sort of utopian sociology experiment, and are willing to kill the goose laying the golden eggs.

When we talk about raising income taxes, we need to be clear about what we are doing. We are not taxing wealth. We are taxing income, and by doing so we are discouraging productivity, entrepreneurship, and risk-taking.

The millionaire Thurston Howell, III already has his money, and he's taking an extended vacation on Gilligan's Island.

Trust me.

Thurston and Lovey don't care if you raise the income tax.

The people who would care if income tax rates were jacked-up in the name of social and economic equality are the people who are not rich now, but might be in the future. It is the entrepreneurs and small business owners who would get hurt. In the name of socking it to Thurston and Lovey, it is the Skipper and Gilligan who get whacked.

Why would anyone take risks and work harder if they knew in advance they would not be allowed to enjoy the fruits of their own labors?

What this hearing is fundamentally about is whether the tax code is a means of funding the basic and essential functions of a constitutional republic, or whether it is a means for a small elite to try to create their vision of a utopia. I think the answers to these questions about the equitability of tax burdens and tax benefits will become apparent once we actually determine the purpose of the federal tax code.

I hope that in the end we can agree that it is a good thing for all people, rich and poor, to do better.

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