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BAUCUS EXAMINES TRENDS IN INCOME, FEDERAL REVENUE AT TAX REFORM HEARING

Finance Chairman Continues Series of Hearings on Tax Reform With Examination of Income, Corporate Tax History

Washington, DC – Senate Finance Committee Chairman Max Baucus (D-Mont.) convened a hearing today to examine the relationship between the tax code and historical trends in income and federal revenues as part of his series of hearings on tax reform. Baucus’s hearings are examining how the tax code can be changed to boost the economy, make the tax system fairer and simpler and make the U.S. more competitive in the global marketplace. Today’s hearing focused on how the taxes individuals and businesses pay have been affected by economic, demographic and social changes, why these changes have occurred and how those changes can be leveraged to improve the economy.

“The American economy is evolving, and the tax code should follow suit,” said Baucus. **“We need to be at the forefront of adapting our tax system to the constantly changing economy, and the challenges these changes create for families and businesses. We need to find ways to improve the tax code that attract new businesses, manufacturers and jobs, while boosting those that already exist as well. The tax code should be constructive and fair for all individuals and businesses, and no one – either in Montana or across the country – should be left on April 15th feeling like the only one paying an honest share.”**

Baucus questioned expert witnesses about the causes of changes in tax revenues over the last several decades, particularly the declining share of revenue raised by the corporate income tax. He sought their perspectives on whether this decline is cause for concern, and whether the tax code currently strikes the right balance in its taxation of corporations versus businesses taxed on a pass-through basis.

Baucus noted that over the last few decades, the income of the wealthiest one percent of Americans grew from nine percent to nearly 20 percent, far outpacing the share of federal taxes paid by that same one percent of the population. As a result, economic disparities after taxes have also increased. Baucus pressed the witnesses on what factors might be causing these growing economic disparities.

Baucus sought the witnesses’ perspectives on the way the tax code affects America’s ability to remain competitive in the global economy. He asked them how the tax code can help save and create jobs, and to what extent the tax code plays a role in outsourcing American jobs overseas. Today, some corporations take advantage of low-tax jurisdictions overseas to shift profits offshore, allowing the corporations to reduce their effective tax rate and avoid paying U.S. corporate taxes on income earned in the U.S. Baucus asked how changes in the tax code might prevent tax dollars from being shifted overseas.

Baucus also asked the witnesses if there was a proven means of determining how effective tax expenditures are in achieving their desired outcomes and what changes could be made to tax expenditures to improve that effectiveness, while also helping to close the tax gap, or the estimated \$345 billion in taxes owed, but not paid each year.

Today's hearing continued the series of tax reform hearings begun earlier this fall with an examination of the 1986 tax reform effort. The Finance Committee has jurisdiction over tax policy.

Watch today's hearing and view witness testimony at <http://finance.senate.gov/hearings/hearing/?id=ef1c57ac-5056-a032-5247-0a981d8c0058>.

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