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United States Senate

Mr. Chairman, Senator Baucus, and distinguished members of the Committee.

Thank you for the opportunity to discuss the Administration's proposals to extend expiring tax provisions.

Expiring provisions vary widely in intent and purpose from the higher expensing limits for small businesses and the research and experimentation credit to the work opportunity and welfare-to-work tax credits to the higher exemption for AMT taxpayers. As you know, many of the expiring provisions were extended through the end of 2005 by Congressional action last fall as part of the Working Families Tax Relief Act of 2004 and the American Jobs Creation Act of 2004.

The choices made with respect to expiring provisions inevitably reflect a balancing of the various and sometimes competing goals of fiscal discipline, providing a stable tax code on which households and businesses can make clear and well-informed decisions, and reevaluation of the effectiveness of special tax provisions. The President has proposed to extend many of these expiring provisions in his FY 2006 Budget.

Whether to extend these provisions and for how long is a multi-faceted and complex decision. Some of these provisions involve substantial revenue cost. Others are relatively new provisions whose temporary nature is by design to give policy makers an opportunity to evaluate their effectiveness. Still others are fully intended to be temporary, such as the provision providing 50 percent bonus depreciation, to allow the economic recovery to strengthen and provide the needed incentive for new corporate investment at just the right time.

I would like to spend a few moments providing some insights on how the Administration approached the choices with respect to expiring provisions for the FY 2006 Budget. Three factors were considered in making decisions about expiring provisions, as well as some of the other budget proposals:

1. Is the provision central to the President's program for promoting economic growth and creating jobs?
2. Should the provision be more broadly considered with reform of the tax system, a key domestic priority of the President?
3. Does the provision otherwise serve an important policy objective?

Although not the subject of this hearing, the 2001 and 2003 tax cuts were essential to the robust economic growth that we now enjoy. The tax cuts increased after-tax rewards from working and reduced taxes paid by entrepreneurs thereby increasing their rewards to innovation and risk-taking. The cost of equity capital and investing were reduced. More risk-taking, investment and innovation mean higher productivity, greater capital formation, and, ultimately, higher living standards.

Permanent extension of these tax cuts is a key component of the President's economic agenda to ensure that taxes do not increase for millions of Americans. Households and businesses also need a predictable and stable tax code on which they can rely to make sound decisions.

There are several other provisions that fall into the first category of expiring provisions, although not necessarily core elements of the 2001 and 2003 tax cuts which are also important to achieving the nation's full potential for economic growth. The research and experimentation (R&E) tax credit provides a substantial incentive for businesses to invest in technology development and encourages innovation in the economy. The Congress acted this past fall in the Working Families Tax Relief Act to extend the R&E credit through 2005. However, businesses need the certainty and assurance of this credits' availability over the long-term to make R&D plans and commitments that can involve significant lead times. The President's FY 2006 Budget once again proposes permanent extension.

The President has made reforming our tax system a key priority. The tax code is extremely complex is perceived by many as unfair, and the compliance costs place a huge drag on our economy. Complexity arises from the myriad provisions with income phase-ins and phase-outs, numerous definitions and overlapping and duplicative purposes. This complexity translates to total compliance costs of the tax system of what experts estimate to be roughly $125 billion per year and 3.5 billion hours spent by individuals to maintain records and understand and comply with the tax system. The economic costs are even greater, with some estimates suggesting that fundamental reform could ultimately add $200 billion to $400 billion in output to our economy annually.

The President's Advisory Panel on Federal Tax Reform, named by the President earlier this year, will develop options to reform our tax system to make it simpler, fairer and more pro-growth. A number of provisions were excluded from the Budget in anticipation of this panel's work and to provide the panel with greater flexibility and latitude.

Examples of tax provisions that fall into this second category are the provisions to increase the AMT exemption and allow all personal credits to be claimed against the AMT – the so-called "AMT patch" – both of which remain in effect through 2005. These provisions were excluded from the FY 2006 Budget in anticipation of the tax panel developing a long-term solution to the AMT problem.

Similarly, extensions of the low- and moderate-income savers credit and the deduction for higher education expenses were not included as in deference to the panel's work. In last year's Budget submission, the Administration included a simplification proposal to collapse the four existing education provisions into the HOPE Scholarship and Lifetime Learning Credits. These duplicative and overlapping provisions require taxpayers to understand all four provisions to determine which they should claim. The Administration anticipates that all of these education provisions will be considered by the panel as it considers option for how the tax code can best provide appropriate incentives for individuals to invest in education.

The tax code also includes numerous provisions that allow individuals to save through tax-preferred accounts. The FY 2006 Budget again includes a proposal to consolidate many of these savings vehicles into the Lifetime Savings Accounts (LSAs) and Retirement Savings Accounts (RSAs). Similar to the education provisions, the Administration anticipates that the tax panel will broadly consider options that promote savings.

The third category of expiring provisions are those with certain policy objectives that need to be extended at least for several years to provide taxpayers a basis for planning, but that also need to remain temporary, to allow the Congress and the Administration to continue to reevaluate and monitor their effectiveness on a periodic basis. The Administration has proposed to extend many of these provisions, which are varied in their purposes, through 2007 (see Table below). One consideration in determining whether to extend these and other provisions permanently is whether the benefits they provide exceed the costs associated with their complexity.

Thank you again, Mr. Chairman, Senator Baucus, and members of the Committee for the opportunity to appear before you today. We look forward to working together with this Committee and others in the Congress on this and other issues.

Tax Provisions That Expire Through FY 2006 Proposed to be Extended			
Tax Provision	**Expiration Date**	**Proposed Expiration Date**	**Revenue Estimate, 2006-20015 (in millions)**
Leaking Underground Storage Tank Trust Fund excise tax	03/31/2005	03/31/2007	229
Various Vehicle Tax Provisions	09/30/2005	09/30/2011	65
IRS Authority for Undercover Operations	12/31/2005	12/31/2010	___
Credit for research and experimentation	12/31/2005	permanent	-76,225
Deduction for Elementary and Secondary School Teachers	12/31/2005	permanent	-2,630
Corporate Contributions of Computers to Schools Donations	12/31/2005	12/31/2006	-122
Brownfields Remediation	12/31/2005	permanent	-1,743
Credit for Electricity Production from Renewable Sources	12/31/2005	12/31/2007	-1,779
Combat Pay Included as Income for EITC Purposes	12/31/2005	12/31/2006	_____
Work Opportunity and Welfare-to-Work Tax Credits	12/31/2005	12/31/2006	-383
Qualified Zone Academy Bonds	12/31/2005	12/31/2007	-162
Tax credit for first-time DC homebuyers	12/31/2005	12/31/2006	-19
Tax information for Employment Tax Reporting and to Inform Officials of Terrorist Activity	12/31/2005	12/31/2006	_____
Disclosure of tax return information for student loans	12/31/2005	-	_____