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Response to Chairman Hatch's Call for Feedback on Tax Reform July 17, 2017

Chairman Hatch:

Thank you for the opportunity to provide input as the Senate Finance Committee works to develop the tax reform legislation that the country needs.

The last major tax reform occurred more than 30 years ago, and the need to overhaul the tax system is as great as ever. The current tax code is a major impediment to economic growth because of its high marginal rates (our statutory corporate income tax rate is the highest in the developed world), significant complexity, and broken rules for international taxation. It also contains nearly [\\$1.6 trillion](#) in annual tax breaks that grow the federal budget deficit, pick winners and losers, and distort economic decision-making.ⁱ

Pursue Tax Reform, Not Just Tax Cuts. While comprehensive tax reform is sorely needed to simplify the tax code and help reignite economic growth, debt-financed tax cuts will only increase the massive fiscal burdens being passed on to future generations while delivering little to no economic benefit. Higher government debt crowds out private investment, which over time can dampen economic activity more than lower tax rates would boost it. That is why any tax reform should be at least revenue-neutral compared to current law. It should not rely on unjustified timing shifts, double-counting, or other gimmicks that obscure its true effects on the deficit.

Improving the Tax Code for Individuals and Families. Families and individuals would be best served by a simpler, fairer, and more efficient tax system with lower marginal rates and fewer tax breaks. This could be accomplished by eliminating or reforming various individual tax expenditures, which make the code more difficult for families to navigate, treat similar households differently, and tend to deliver the largest benefits to the affluent and not the middle-class. Another option is to [limit the total value of tax expenditures](#) taxpayers can claim to a certain share of their income or a set dollar amount.ⁱⁱ

Tax Reform Can Promote Growth, Investment, and Jobs. Pro-growth tax reform would ideally broaden the tax base and lower rates while setting aside funds for deficit reduction. Reducing the various distortions in the current code can help create a simpler and fairer tax system that encourages businesses and individuals to make investment decisions based on sound economic reasoning rather than what gives them the biggest tax benefit. Lawmakers should consider replacing the current international tax system, which taxes worldwide income after deferral, with a more modern approach that improves our ability to attract investment and protect the integrity of the tax base. Importantly, any revenue generated through stronger economic growth should go towards reducing projected budget deficits and closing our large fiscal gap.



Fiscally Responsible Tax Reform is More Pro-Growth. The Joint Committee on Taxation (JCT) has [estimated](#) that revenue-neutral tax reform that lowers rates while eliminating special exemptions, deductions, and credits could increase the size of the economy by 1.1 to 1.8 percent in the long-run, leading to higher wages, more jobs, and greater economic security for all Americans.ⁱⁱⁱ JCT also estimated that revenue-*raising* tax reform of the same design would be even more pro-growth, increasing the long-run size of the economy by 1.7 to 2.2 percent, because it would help slow the unsustainable rise in government debt that is otherwise projected to crowd out private investment and hold the economy back.

As the Committee moves forward in developing tax reform legislation, we stand ready to work with you to help develop a plan that is fair, pro-growth, and fiscally responsible. Our principles for tax reform are available [here](#).^{iv}

ⁱ <http://www.crfb.org/blogs/jct-estimates-record-16-trillion-tax-breaks-2017>

ⁱⁱ <http://www.nber.org/papers/w16921>

ⁱⁱⁱ [https://www.finance.senate.gov/imo/media/doc/Comprehensive Tax Reform for 2015 and Beyond5.pdf](https://www.finance.senate.gov/imo/media/doc/Comprehensive%20Tax%20Reform%20for%202015%20and%20Beyond5.pdf), p. 336

^{iv} <http://www.crfb.org/papers/principles-responsible-tax-reform>