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Hatch Opening Statement at Finance Committee Markup of Tax Cuts and Jobs Act

WASHINGTON – Senate Finance Committee Chairman Orrin Hatch (R-Utah) today delivered the following opening statement at the markup of the Senate tax overhaul package, the *Tax Cuts and Jobs Act*.

To view a full copy of the chairman's mark, click here.
A score of the mark may be found here.
A section-by-section of the mark may be found here.

Today the committee has before it a chairman's mark of an original bill entitled the Tax Cuts and Jobs Act.

This legislation, if enacted, would make a number of important reforms to our nation's tax system, and relieve the tax burden on American taxpayers, with a focus on middle-class families.

Today's markup is the culmination of a years-long tax reform effort. On this committee, both parties have been engaged in this endeavor, which has included the work of multiple chairmen – from both sides of the dais – and almost every member.

Our former chairman, Senator Max Baucus, was very much engaged in this effort, as was his counterpart on the Republican side – another former Chairman, Senator Grassley. Our Ranking Member, Senator Wyden, has also done a great deal of work in this effort, both as previous chairman of the committee and as a long-time committee member. Others who have served on this committee and most of those who are now on the committee have done a great deal of work to advance tax reform.

I want to thank all of my colleagues for their work over the years to get us to this point. I'll have more to say about members' individual contributions in the coming days.

For now, I'd like to take a few moments to talk about some of the highlights in the bill that is before us today.

First and foremost, this legislation will provide much-needed tax relief to American workers and families.

It reduces rates across the board, particularly for those in the middle class who have struggled to get through the past eight years of economic stagnation.

It provides substantial benefits for parents and families and preserves a number of key elements of our existing tax code.

The bill modifies the bracket schedule, setting up seven separate tax brackets, the lowest at 10 percent, and the highest at 38.5 percent. There's also an expanded zero tax bracket, meaning more families will see their tax liability eliminated entirely.

While the unified framework that congressional and administrative leaders released last month envisioned fewer rate brackets, we've found that the additional brackets help us to better target tax relief to lower-income Americans and to the middle class.

However, even with the additional brackets, the system will be much simpler for the vast majority of taxpayers because the bill nearly doubles the standard deduction, up to $12,000 for individuals, $24,000 for married couples, and $18,000 for single parents. This, as I just mentioned, effectively expands the zero tax bracket and reduces the tax burden for millions of families – removing entirely the tax liability for many others and eliminating their need to itemize deductions.

According to projections, more than 90 percent of taxpayers will use the standard deduction under this plan, in contrast to around 70 percent today, which makes the process of computing and filing one's taxes a much simpler proposition.

The bill also expands the child tax credit from $1,000 to $1,650 and substantially lifts existing income caps on the credit, allowing many more parents to claim the credit and giving additional tax relief to middle-class families.

Let me give a couple of examples of how this will help:

Under our bill, a family of four making the U.S. median family income of around $73,000 a year will see their federal income taxes reduced by more than 40 percent. In specific dollar terms, that's a reduction of nearly $1,500 for a single year. That's about $125 more take-home pay for every month.

For a single parent making $41,000 a year, they'll receive a tax cut of more than $1,000, which cuts their overall tax liability by a little more than half.

That's real money that will help a tens of millions of American families make ends meet, save for the future, or simply improve their quality of life.

Our bill also preserves the mortgage interest deduction and the deduction for charitable contributions. Those are two important provisions that many support and want to keep in place.

We've also gotten a number of letters and heard statements from many of our Democratic colleagues urging us to maintain a number of other provisions in the current code.

For example, I received a letter last week signed by 16 Senate Democrats urging us to "protect existing tax incentives that promote retirement savings among American workers." Our bill, in accord with the urging of these colleagues, keeps the most popular retirement savings programs – 401(k)s and Individual Retirement Accounts – fully in place.

Others have weighed in on things like the adoption tax credit or the deduction for medical expenses, both of which are unchanged in this legislation.

And, we've gotten word from colleagues about their desire to keep the Earned Income Tax Credit where it is. Our bill protects that provision as well.

Thus far, I've only mentioned the individual reforms in the bill. But, if you look at the policies I've mentioned, you should notice that they represent ideas that both Republicans and Democrats tend to support.

In fact, our Ranking Member introduced legislation a few years back that would have significantly brought down individual rates across the board – in a fashion similar to the approach outlined in our framework, I might add – and nearly tripled the standard deduction. It would have also repealed the alternative minimum tax, as would the bill we're debating today. In those and other respects, that previous legislation is pretty similar to ours.

On the business side, our bill will permanently lower the corporate tax rate to 20 percent. The current 35 percent corporate tax rate is the highest in the industrialized world. This is a drag on our economy and is one of a few factors continually chasing companies and economic activity offshore.

If this idea sounds familiar, it should. Members of both parties, for years now, have called for lowering the corporate tax rate, recognizing that, by being so out of step with the rest of the industrialized world, we put American companies, the workers they employ, and the customers they serve, at a major disadvantage.

For example, in his legislation with former Senator Coats, Senator Wyden proposed reducing the corporate tax rate to 24 percent.

Two years ago, our bipartisan working group on business tax, co-chaired by Senators Cardin and Thune, said that business taxes should be lower. In fact, that recommendation was the first principle of business tax reform listed in their report.

President Obama, in one of his later budgets, proposed reducing corporate tax rates to as low as 25 percent for certain sectors.

And, last year, President Bill Clinton, even as his wife's presidential campaign was calling for an increase in corporate taxes, said that we should lower our corporate rates to be more on par with our foreign competitors.

We place the rate at 20 percent in our bill, which is slightly below the current average of OECD countries.

Our bill also lowers the burden on small business through a fairly unique approach.

For pass-through businesses whose income is taxed on individual returns, our bill provides a simple tax deduction for qualified business income, leaving regular compensation to be taxed at the individual rates. The mechanism involved uses existing provisions of the tax code, which businesses are accustomed to dealing with and have a large body of precedent behind them. The mechanism provides firm policing against anyone thinking about mischaracterizing one form of income as another in order to unduly lower their tax bill.

Our legislation also expands the availability of cash accounting in order to allow more businesses to simplify their accounting methods.

It expands Section 179 expensing for small businesses in order to help owners invest and expand their businesses so they can increase productivity and hire more workers. The bill also provides businesses with full and immediate expensing for new equipment; again to enhance productivity, create jobs, and grow wages for American workers.

Finally, the bill modernizes our archaic international tax system, moving us more toward a territorial tax system. Our current worldwide system is another element of our tax code that chases jobs, economic activity, and investment out of the United States. Under this legislation, American multinationals will be able to bring funds from their foreign subsidiaries back into the U.S. without facing tax liability. That means an end to the "lock-out effect," which, in turn, means more investment, production, and economic growth here in America, which translates into more jobs and better wages for taxpayers.

To provide safeguards, our bill also includes provisions to prevent earnings stripping and other practices that erode our tax base.

This is another area where both parties tend to agree. In 2015, for example, a bipartisan working group on international tax reform, which was co-chaired by Senator Portman and the current Senate Minority Leader, assessed the problems with the current international tax system and recommended changes entirely consistent with the ones we're proposing with this legislation.

Long story short: Our proposed international reforms are not just a Republican wish list or some sort of favor to big companies. They are, in fact, well within the bipartisan mainstream. All told, the business tax proposals in our bill are designed to grow our economy, increase wages, promote the expansion of businesses, and, of course, create jobs. These sections of our bill will modernize our business tax system, finally updating it for the 21st Century.

Thus far, I've only gone over some of the highlights of the bill. There's more about the bill to discuss, which we'll get to throughout the course of this markup.

However, before I conclude, I do want to respond in advance to some of the claims we're certain to hear this week about this legislation. There are a number of myths being spread about this bill and what we intend to accomplish. I want to put some of those to bed right now.

For example, I'm quite certain we'll hear a lot about supposed process fouls here today. We'll hear that we're rushing the bill through committee and that we haven't had enough hearings. We'll also likely hear about bills drafted in secret and Democrats being shut out of the process.

Let me set the record straight on these points.

Under no objective standard is this bill being rushed or forced through this committee or through either congressional chamber. As I noted earlier, this committee's efforts on tax reform go back years. Let me outline some of the work we've done to lay the groundwork just since I became the lead Republican on the committee in 2011.

In that time span, just short of seven years, we've held about 70 tax hearings, most of which included in-depth discussions on ways to improve our code.

In the first year, I was joined by all the Republicans on the committee in submitting 21 pages of tax reform recommendations to the so-called Super Committee. This was the start of laying the groundwork.

Chairman Baucus and I, as part of our "blank slate" approach in 2013, produced 10 separate bipartisan options papers discussing concrete policy solutions to fixing our tax code. At the end of 2014, I released an extensive report – more than 300 pages long – discussing, in some detail, ideas and principles to be considered during the tax reform debate.

The following year, Senator Wyden and I oversaw the creation of five separate bipartisan working groups, all of whom produced reports, which provided the foundation for even more hearings.

In other words, we've discussed all of these topics at length. We'll also be walking through the bill as part of this markup. There is, quite simply, no reasonable basis to claim that more hearings, more discussion, and more deliberation have to take place before we can move forward.

Virtually every proposal contained in the bill has been the subject of public debate for many years. Working with colleagues in Congress and the administration, and after close consultation with committee members, we've put together this chairman's mark. There's nothing unusual about this process, except that, with other matters, we don't usually spend so many years of study and discussion before putting a more concrete proposal together.

Furthermore, I have personally invited Democrats to participate in this process on a number of occasions, both publicly and privately. I've sat in our committee in front of cameras and microphones and asked colleagues to come to the table with objective minds and without preconditions.

Our friends on the other side decided it was in their best interest to put some fairly strict preconditions on their involvement. Some of those preconditions did shift a bit over time, like the later retracted, specious demand that President Trump release his tax returns before Democrats would come to the table, an ultimatum made by key members of the Senate Democratic leadership.

But, one precondition that never went away – and was shared by almost every Democrat in the Senate – was the demand that Republicans swear off the use of budget reconciliation before any real bipartisan discussions take place. Forty-five Democrats signed a letter in August stating that the public abandonment of budget reconciliation was, in their words, a "prerequisite to any bipartisan tax reform effort."

Essentially, our colleagues demanded that we empower them to kill any potential tax reform bill before they'd even begin talks. That's not the kind of statement one usually hears from someone who wants to work in good faith toward shared goals.

It's also at odds with the history of the Senate. Over the years, the Senate has moved many tax bills through reconciliation, and, in almost all cases, the bills ended up getting votes from both parties. Reconciliation in no way precludes the possibility of bipartisanship and Republicans were prepared to follow a similar route with this particular process as was followed in previous tax bills and budget bills.

So, just so everyone is clear, it was the Democrats' own preconditions that kept them from engaging on tax reform. There was an open seat at the negotiating table, they collectively chose not to sit in it.

Another claim I expect to hear is that our bill is a massive tax cut for the so-called rich. This claim is false.

Under the bill, the top rate will go down by roughly one percentage point. But, the bill repeals a number of tax credits and deductions, many of which disproportionately benefit the wealthy, meaning that the slightly lower rates will apply to a larger base of income.

The Joint Committee on Taxation produced a distribution table that clarifies a number of key points, including the fact that Americans in all income categories will receive a tax break under our bill, with the middle class getting a larger percentage of the reductions. JCT also found that our bill will NOT shift the tax burden from the high-end onto taxpayers down in lower brackets. In fact, according to JCT, those with incomes of $1 million a year or more will see their share of the overall tax burden go up.

So, while the bill lowers rates across the board, it actually increases the share of taxes paid by those earning a million dollars or more in annual income.

Let me say that again: Our bill increases the share of the overall tax burden paid by millionaires and billionaires.

Let me address another JCT analysis that includes more good news. Some of my colleagues have latched onto a JCT table showing that some percentages of taxpayers in the individual cohorts will see their taxes go up under the bill. I believe the talking point is that 13 million families in the middle class will see their taxes go up next year if the bill becomes law. Let's set aside the fact that it is virtually impossible to create a tax plan that will impact every taxpayer the same way. And, let's assume, for the sake of argument, that my colleagues' estimates, which include virtually no context, are correct.

Even then, the critics of our bill are missing the forest for the trees. They would have the American people believe that the real story is that a relatively small minority of taxpayers could see a slight increase in their taxes, with the biggest portion of overall increases going to upper-middle-class taxpayers. But, to do that, they have to obfuscate the fact that, under that same JCT analysis, about 90 percent of those same middle-class taxpayers are getting a tax cut, or, at the very least, are held harmless under our plan.

I know my colleagues prefer to label any Republican tax proposal as a massive tax cut for the rich, but that isn't the case here. Our bill is primarily focused on tax relief for middle- and lower-income taxpayers. And, the analysis by our non-partisan congressional scorekeeper has confirmed that the legislation we've crafted accomplishes that goal.

I'm sure we'll also hear more about tax breaks for big corporations under the bill. Yet, I would think that anyone who has previously gone on record in support of lowering the corporate tax rate will refrain from attacking this bill for doing just that. Of course, I won't hold my breath on that. But, if that simple baseline of intellectual honesty were to be observed in this markup, most of the Democrats on this committee would be unable to criticize our effort to lower corporate rates as most of them have endorsed a similar approach in the recent past.

I'm sure we'll also hear about the death tax today. But, I hope that, with that discussion, we'll get an explanation from some of our Democratic colleagues, including my friend, the ranking member, why they are so critical of our efforts to simply mitigate the impact of the death tax when they've voted in the past to repeal the tax entirely. I also hope they'll have an explanation for America's farmers and businesses for why their deaths should be considered a taxable event when they choose to pass their life's work, which has already been taxed, at least once already, to the next generation.

Another matter that we'll likely hear about this week is the state and local tax deduction. I'm sure a number of our Democratic colleagues will argue that the deduction is an absolute necessity. I plan to ask them why they want to forego middle class tax relief in order to preserve a tax deduction that overwhelmingly benefits the taxpayers at the very high end of the income spectrum, particularly after they've been publicly lamenting the very idea of cutting taxes for the so-called rich.

I could go on here. But, I think my overall point is pretty clear. So far we've heard a number of attacks on our tax reform bill that just can't withstand much objective scrutiny. But, once again, objectivity isn't really in order these days.

At this point, one thing should be clear: Our goal with this effort is to provide tax relief and bigger paychecks to low- and middle-income families and to make America a better place to start and grow a business.

There are many in the middle class who have felt left behind in the sluggish economy under the previous administration, and they feel that they are not being heard. We have an opportunity this week to show that we are listening, that we will act to get the economy moving again to provide better wages, more jobs, and new opportunities for individuals and families in America. We can act by reforming our broken tax code in a manner that will provide a growing economy for the benefit all Americans and tax relief targeted toward the middle class.

I want to once again thank all of my colleagues for their work to get us this far. I'll have more to say about their individual efforts in the coming days.

But before I conclude, I do want to note something that a few observers have recognized, namely, that the mark, as originally introduced, leaves us with some work to do in order to make the reforms permanent, particularly on the business side where job creators need to be able to plan many years into the future. We are, of course, aware of this problem and are *working to ensure that the reduced rates and additional reforms designed to bring investment back to the United States and create more American jobs remain in place past the 10- year budget window.*

There's no real cause for concern at this point. But I do want to make clear that we're looking at a number of alternatives that will fill the necessary gaps and we have every intention of making the business reforms permanent.