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Contact: Communications Office
(202) 224-4515

Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding Tax Reform and Capital Gains
As prepared for delivery

Winston Churchill once said, "The pessimist sees the difficulty in every opportunity. The optimist sees the opportunity in every difficulty."

As we work on comprehensive tax reform, the treatment of capital gains is one of the most difficult issues we face. Some are pessimistic and don't believe we can agree. I am optimistic. We need to come together and find a workable solution.

Through that process, there are four considerations we must weigh.

First, we need to consider the capital gains rate compared to the rates on wage income, dividends, and corporate income.

The tax rate on capital gains is currently lower than the rate on wage income. Some say this is to avoid double taxation.

But most of the time, that claim doesn't prove true. Only a third of capital gains come from sales of corporate stock. The rest have never previously been taxed before reaching individuals.

Second, we need to consider how capital gains rates affect different income brackets. Capital gains go disproportionately to high-income taxpayers.

Last year, capital gains represented half the income of the top 0.1 percent of earners, but three percent for the lowest 80 percent of taxpayers.

Low capital gains tax rates are the main reason why many wealthy individuals pay lower tax rates than middle class families.

Third, we need to consider our low savings rate. Americans need to save over their lifetimes. This is an opportunity for our witnesses to talk about the relationship between tax rates on capital gains and national savings.

Fourth, we must consider complexity. Experts tell us that about half the U.S. tax code – more than 20,000 pages – exists solely to deal with capital gains.

That complexity, as well as the wide gap between the tax rates on income and capital gains, invites people to use all kinds of shenanigans to game the system.

Our entire tax code – including its treatment of capital gains – needs to be rebuilt for the 21st century economy. We need a system focused on broad-based economic growth and jobs.

I'm glad to be joined today by Chairman Camp and my colleagues from the House of Representatives.

In order to get tax reform done, we'll need members of both parties and both chambers willing to tackle these difficult issues.

So let's set aside our political differences today. Let's listen to the witnesses with an open mind.

Let's see this as an opportunity, and let's be optimistic that we can reform the tax code to spark growth, create jobs and strengthen our economy.

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