United States Senator Orrin G. Hatch
Cutbacks in Tax Expenditures Will Mean Drastic Changes in Tax Benefits for Middle Income Families
United States Senate
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Mr. President, according to President Obama and Treasury Secretary Geithner, the federal government will default on its obligations in five days, on August 2, 2011.

It is clear that some Democrats, including President Obama, want to use this fiscal crisis to raise taxes.

Under the guise of closing loopholes, the administration wants to set the stage for tax increases to finance historic levels of government spending.

When this President came into office, he saw himself as the second coming of Franklin Roosevelt. He was going to finish the work that LBJ was unable to complete. And a fawning media was happy to encourage his grandiose vision for national economic reordering.

Using the financial crisis of 2008 and 2009, he was going to transform the United States into a European-style social democracy.

Businesses, and the individuals who start them, would no longer be free entities with property rights. They would be arms of the state that exist for the purpose of funding ever expanding welfare programs.

Taxation would no longer be a necessary evil, with citizens and businesses recognizing a legal duty to pay what was owed, but understanding that they were ceding their property rights to the government to provide for certain public goods.

Instead, businesses and taxpaying citizens would be obligated to share their wealth with the state.

Because the progressives running the administration do not believe in natural rights to liberty and property — because they think everything a family or business makes is in fact due only to the largesse of the state — paying taxes is no longer something that must be done, but something that people should want to do.

They owe it to the government to pay taxes, since that money is not really theirs anyway. In this new progressive political community that the President hopes to create, taxation becomes shared sacrifice, and taxpayers become gleeful participants in "spreading the wealth around," as the President once put it.

But the President and his party have hit a brick wall.

The spending part was easy.

The taxing part is hard.

For all of the talk about how Republicans are divided on the issue of raising the debt ceiling, you only have to scratch the surface to see the deep divisions among Democrats.

The reason that the President has offered up no plan to reduce spending, and the reason Democrats have not passed a budget in over 800 days, is because they are badly divided.

They all want the massive levels of new spending that the President pushed through in his Stimulus and ObamaCare. But not all want to pay for it.

They all want to maintain existing levels of entitlement spending. But not all want to raise the taxes necessary to pay for it.

They know that some of their constituents like all this spending, but they know that the vast majority of Americans reject the President's funding of his leviathan state through higher taxes.

So they do nothing.

The President has no plan.

I want to repeat that again.

The President has no plan.

Maybe if we shout it from the rooftops, the media will start to take notice.

The President has no plan!

And Senate Democrats don't either; certainly not one that addresses our current fiscal crisis.

The critical issue we face is more than imminent default on our obligations. That is unlikely to happen. It certainly should not happen. In my opinion, it will only happen if the President wants it to happen. On Wednesday, I asked the Financial Stability Oversight Council, which is chaired by Secretary Geithner, to provide me and the rest of this institution with an assessment of the cash position of the United States. As Congress considers options for raising the debt ceiling, it needs to know precisely how Treasury plans to pay its bills, and when it is going to fall short of cash to do so.

I asked that the Secretary respond to this reasonable request by yesterday afternoon.

The Secretary chose not to respond.

Mr. President, I want to be clear that this unresponsiveness by his Treasury Secretary is unacceptable.

President Obama needs to understand that this failure to provide the Senate with critical information is not tolerable and will not be forgotten.

Still, I am confident that the nation will get through this immediate crisis, and there will be no default.

But that is only part of the problem. The real issue remains. The United States cannot support the level of spending President Obama has given us, and that Democrats from the New Deal onward have bequeathed to the nation in the form of ever expanding entitlement spending programs.

That is the real issue. And the Majority Leader's proposal does not address this, any more than the President's White House bromides about a balanced solution address it.

The real threat to this nation is not the threat of a downgrade due to default.

The real long-term threat is a downgrade of the nation's credit rating because President Obama has written checks that this country can't cash.

The real threat is that interest rates will go up for businesses, families, students, homeowners and anyone who has to borrow money. The economic ramifications of a downgrade threaten to bowl over our fragile economy. Job creation remains weak. Annualized growth in real inflation-adjusted GDP was only 1.3 percent in the second quarter. This follows on the heels of 0.4 percent growth in the first quarter.

Along with many others, I have said that if we do not get our spending under control, we are on a glide path to Greece and other Eurozone countries whose credit ratings are destroyed and whose bonds have junk status. Those countries would not have solved their problems by allowing the government to borrow more. Their only way out was to reduce the size of their welfare states.

Yet this is what the President, and the Treasury Secretary, and congressional Democrats are suggesting as a solution. They would have you believe that everything will be set right if only we give the President the legal authority to borrow an additional $2.7 trillion

Americans are not buying this snake oil. I know that Utahns are not buying it. They understand that our nation's fiscal problem is spending. Giving the President more power to borrow more money is not going to fix that problem. Reducing spending is going to fix that problem.

The numbers could not be more clear.

Federal spending, as a share of our economy is trending at a pace 15 to 20 percent greater than its historical average of 20.6 percent of GDP. If we leave in place this year's level of taxation, including the marginal rate relief of the 2001 and 2003 tax cuts, and patch the Alternative Minimum Tax — or AMT — the federal tax take will equal or exceed its historic share of the economy.

Liberals suggest that the deficit and debt must be addressed through tax increases.

This is either deliberately misleading or sadly delusional.

Maybe we have found the truly shovel-ready policies of my friends on the other side, and they smell like a freshly fertilized farmer's field.

Or maybe my friends on the other side simply refuse to come to grips with reality.

But sticking their heads in the sand is not an option here.

The markets, and the American people, understand the nature of our crisis.

Non-defense discretionary spending is at historic levels.

And our entitlement programs are headed for bankruptcy.

This fiscal year we have a projected budget deficit of $1.5 trillion.

We have a debt of over $14.3 trillion.

President Obama's budget assumes $13 trillion in new debts.

This spending needs to be brought to heel. But the proposal of the Majority Leader does not get the job done.

It allows for the largest debt ceiling increase in history.

This makes sense. President Obama has given us the largest deficits in our history, and his borrowing needs are historic as well.

To pay for his political science experiment to turn the United States into Sweden, he earlier required a $1.9 trillion debt limit increase. That was the largest in the nation's history.

But now he is coming back for another $2.7 trillion.

Conservatives understand that this is not sustainable. It is one thing to raise the debt limit. It is another thing to do so without reforms that would keep us from getting into a fiscal crisis of this magnitude again. That is why I, and many others in Congress, pledged to vote against a debt ceiling increase prior to the institution of immediate spending cuts and spending caps, and sending a strong Balanced Budget Amendment with taxpayer protections to the states for ratification.

To be clear, that commitment to Cut, Cap, Balance passed the House with bipartisan support. The Senate could have taken that bill up last week, but Democrats chose to table it rather than debate it. And the President chose to tell us what he did not support, rather than what he does support.

Any increase in the debt limit needs to be accompanied by serious spending reductions, but the bill of the Majority Leader does not get us there. All it does is provide President Obama with an opportunity to borrow more money to pay for more spending.

The President would get a $2.7 trillion debt limit increase, but less than $1 trillion in cuts.

And most of those cuts are gimmicks. They assume savings from war spending that the President has not requested and that is unlikely to materialize.

It does not include a Balanced Budget Amendment.

And most importantly from my perspective, it assumes a massive tax increase in 2013 by allowing the 2001 and 2003 tax relief to expire, allowing the AMT to hit middle-class taxpayers, and allowing for increases in estate taxes that are a small business and job killer.

You won't see that though in the talking points. They bury the breadth of that tax hit in their baseline assumptions.

But we know that President Obama and his liberal allies are planning massive tax increases on the middle class. While their rhetoric suggests that we can fix out debt crisis just by raising taxes on the rich and closing loopholes, the reality is that they are setting the stage to roll back tax expenditures.

And cutting back tax expenditures will be a tax increase on middle income itemizers.

When Democrats talk about tax expenditures, they are talking about your ability to purchase a home, or save for retirement, or give to your church, or put away money for your children's education.

That is where the money is. It is not in bonus depreciation for corporate jets. And it is not in tax benefits for energy companies. It is not in changing the treatment of carried interest for private equity companies. It is not in repealing the deduction for mortgage interest related to yachts used as second homes.

This issue of tax expenditures is confusing and demands greater clarity. As Ranking Member of the Finance Committee, it is my responsibility to correct the record on what the curtailment or elimination of tax expenditures would really mean for taxpayers and families.

I have spoken about tax expenditures a number of times in the last few weeks, but given the failure of the President and his congressional allies to take on our spending crisis, I want to reemphasize the essential point — if Democrats are allowed to balance the budget their way, it will result in new tax burdens for the middle class.

Tax expenditures are not "spending through the tax code." They are an opportunity for you to keep more of your own money.

And they are not, by and large, special interest benefits that disproportionately benefit wealthy taxpayers. The Democrats' rhetoric on expenditures does not jibe with the reality of our tax code. The data are clear. Tax expenditures tend to skew towards taxpayers below the President's definition of the rich.

Let's work through some examples of what concrete proposals to cutback tax expenditures would yield in revenue and what they will mean to middle income Americans .

I'm going to take a look at the budget outline presented by our friend and colleague the distinguished Chairman of the Senate Budget Committee. The Senate Democratic Caucus outline was discussed among the larger Democratic Caucus. Republican members, including long-standing Budget Committee members, were briefed by reading the details of the outline in the Washington Post. The Senate Democratic budget called for $2.38 trillion in tax increases when measured against the current policy baseline. The current policy baseline represents the level of taxation Americans are currently paying.

According to materials released by Senate Budget Committee Democrats, they are looking at three categories of tax increases.

The first category would raise marginal rates on single taxpayers with $500,000 and over in income and married couples with $1,000,000 and over in income. For those taxpayers, including many small business owners, the marginal rates would rise by 17 percent. According to the Tax Policy Center — or TPC — a think tank often cited by our friends on the other side, at least 38 percent of flow through income, much of it small business income, would be subject to that marginal rate hike.

The marginal rate on capital gain and dividend income would rise by 33 percent. Keep in mind that the IRS Statistics of Income group reports that 65 percent of capital gain income would be hit by this tax hike. Add in the tax increases from ObamaCare and, in less than 18 months, the marginal rates on capital gains and dividends will rise by 59 percent. Is that a positive signal for investors to move capital into projects? That tax hike represents $380 billion of the tax increases in the Democratic budget.

The second category of tax increases in the Democratic budget is a set of concepts we've heard about for years in Senate floor speeches. President Obama frequently refers to them as well. We also see these concepts mentioned in the vast left-of-center D.C. think tank establishment and by liberal pundits. They fall into two groups of proposals. The first group is closing corporate loopholes. The second group is curtailing offshore tax avoidance or evasion.

Finance Committee Republican staff compiled all known, specified and scored proposals in these two groups. Staff calculated the proposals as summing $262 billion over 10 years. The numbers are Joint Committee on Taxation scores.

I ask unanimous consent to insert in the record a summary of the staff calculations.

To President Obama's credit, he put his money where his rhetoric is. Most of the loophole closures and offshore measures were contained in his budget.

If you subtract the two categories of tax increases, then there remains $1.73 trillion in tax increases that the Senate Democratic budget must find by cutting back tax expenditures.

I'll remind everyone of something I mentioned in my first discussion of tax expenditures. The Joint Committee on Taxation warns us that the tax expenditure figures are not the same as revenue estimates for policy changes.

In March 2011, the CBO released a set of budget options for deficit reduction. On the revenue options, CBO and Joint Committee on Taxation estimated the proposals. There are a number of them that deal with cutbacks on tax expenditures.

If we start with the Senate Democratic budget's target of $1.73 trillion, we can see an illustration of some policy options that tax writers would have to consider. I have a chart that lists the revenue raised from some of these options.

The first one should cause some concern to my friends on the other side. It would eliminate the state and local income and sales tax deduction. The so-called Blue States generally have very high state and local tax burdens. Eliminating that deduction will mean that constituents of my friends representing those states will find themselves with an effective tax increase of up to 35 percent. Eliminating this deduction would yield revenue of $862 billion over 10 years.

The second one would reduce the after-tax value of Social Security benefits received by seniors. This CBO option would tax Social Security benefits like we do employer-provided defined benefit retirement plans. Funny how much fur has flown over Social Security reform, yet this cutback on Social Security benefits has flown under the radar. It appears that not all tax expenditures are about corporate jets and yachts. That proposal would raise $438 billion over 10 years.

The third tax expenditure cutback option would tax the inside buildup in life insurance. Here's an example. Under current law, if a father or mother buys a $100,000 life insurance policy and makes the surviving spouse or children beneficiaries, death will trigger a tax-free benefit of $100,000. Under this option, the difference between the face amount of the policy and premium payments would be taxable. According to the CBO option book, that new tax would raise $260 billion over 10 years.

The fourth one on the list is a tax benefit near and dear to many of my fellow Utah families. It is the itemized deduction for charitable donations. Under this option, only those deductions that exceed 2 percent of adjusted gross income would be deductible. For many Utahns who tithe 10 percent, this would mean an automatic cut of 20 percent of their deduction. This proposal would reduce the tax benefit of charitable giving by $219 billion over 10 years.

The fifth one is well known to tens of millions of our constituents. It is the home mortgage interest deduction. If a taxpayer saves up a down payment and borrows for a home, they can take the interest paid on the mortgage as an itemized deduction. This proposal would gradually eliminate the home mortgage interest deduction. In ten years, the deduction would be gone. This proposal would raise $215 billion over 10 years.

The sixth tax expenditure cutback option involves the current $1,000 per child tax credit. That credit drops to $500 per child in 18 months if the 2001/2003 tax relief plans are not extended. It is, by definition, limited to lower and middle income taxpaying families. CBO tells us that if we were to eliminate it, there would be $117 billion raised over 10 years.

The seventh tax expenditure cutback would partially eliminate the tax expenditure for the lower rate on capital gains and dividends. It would, in effect, eliminate 25 percent of that tax expenditure and significantly drive up capital gains and dividends rates. As I indicated earlier, the top marginal rate on capital gains and dividends is set to rise by 59 percent in less than 18 months. This option, though described as a cutback on a tax expenditure, would drive that rate up higher. The marginal rate on two thirds of capital gain income would be driven up 72 percent. It would raise $49 billion over 10 years.

The eighth tax expenditure cutback option would sharply curtail tax benefits for families who send their kids to college. It would eliminate the Hope Scholarship and Lifetime Learning credits and phase out the student loan interest deduction. For that half of the population that pays the freight in society, the 49 percent who pay income tax, our friends on the other side are telling them that their load is just going to get heavier. That would be their message to middle income American families who want to send their kids to college. This option would raise $48 billion over 10 years.

The ninth tax expenditure cutback option would reduce limits on contributions to retirement plans. About 50 percent of American workers participate in retirement plans. They save for their retirement. They don't look to rely only on Social Security. There is bipartisan consensus that for America to remain prosperous, families and individuals must save more during their working lives. Yet, this option would go in the other direction. It would mean less in retirement savings. CBO says it would raise $46 billion over 10 years.

The tenth tax expenditure cutback option is one we've heard much about here from my friends on the other side. It would tax partnership interests, known as carried interest, like ordinary income rather than capital gain. Interestingly enough, with a solidly Democratic Senate last year, this revenue raiser did not pass. There's a lot of speculation about that. I won't join it, but it is curious that when constituencies that favor Democrats decisively raised legitimate concerns about the possible negative effects on private equity and enterprise value, this proposal didn't quite make it past the finish line. That proposal would raise $21 billion over 10 years.

Mr. President, if you assume no interactive effects, the list of options I walked through adds up to $2.27 trillion in new tax hikes. That's a bit more than called for by the Senate Democratic budget outline. Recall that outline produced by Senate Democrats boiled down to $1.73 trillion in cutbacks on tax expenditures.

But look at how broad these tax hikes are. They hit big chunks of the 49 percent of American households who pay income taxes. Take a look at the chart again.

This is a chart that confirms what many of us have suspected.

Though they might not come clean about it, when you look at the code, and you look at our deficits, there is only one place for Democrats to go if they are going to close the deficit their way — with no meaningful spending reductions.

They are going to have to hit tax expenditures, and specifically those that benefit middle class itemizers.

They hit residents of blue states.

They hit seniors.

They hit everyone who owns a life insurance policy.

They hit everyone who takes an itemized deduction for giving to their church, local food kitchen, or other charity.

They hit everyone with a mortgage, and everyone who receives the child tax credit, and anyone with capital gains.

They hit middle income families and students who benefit from education tax benefits.

They hit those who save for retirement.

And they hit those folks who start-up businesses and take a future profits interest in the form of a capital gain.

But to hear the President talk, you would think we could get there by taxing corporate jets and yachts.

I am accustomed to the media carrying the water of liberal politicians, but there has been a real dereliction of duty in allowing President Obama to get away with this.

Even at this late date, he is still getting away with it.

He has no plan.

He talks about his plan.

But we have yet to see it.

The press ridiculed Richard Nixon for his secret plan to end the war in Vietnam.

But President Obama gets a pass when it comes to his secret plan to balance the budget.

To suggest that a debt crisis triggered by $14.3 trillion in debt can be fixed by taxing the luxuries of evil rich people is so childish and lacking in seriousness that the President should have been called out on it immediately.

But he wasn't.

He was allowed to get away with it.

Mr. President, President Obama's balanced approach — one that includes no meaningful reductions to his historic levels of spending — is a plan for economic stagnation and national ruin.

It is a plan to bankrupt our seniors.

The President knows this, as do his colleagues in Congress. He knows that his supposed plan does nothing to fix the long-term trajectory of his deficit spending.

So the question that folks need to ask is what is he hiding?

How does the left plan on closing the gap and balancing the budget their way?

The answer is the elimination or reduction of tax expenditures. And that means middle class tax increases.

Mr. President, to hear my friends on the other side, you'd think the only folks hit by Democratic tax increases will be corporate jet owners, yachtsmen, and millionaires. But when you peek behind the rhetorical curtain, you find that does not pan out. Most of the tax base is in the middle and upper middle income families who make up that 49 percent of Americans who shoulder the burden of the income tax. That's where the money is. And as I've shown with the CBO and Joint Committee on Taxation options, that's where you have to go. Without a counterbalancing rate cut, this version of tax reform means fewer resources for home ownership, retirement savings, and charitable giving.

But don't say I did not warn you. Those who want to treat tax expenditures as some abstract budgetary honey pot risk having the folks that make the honey — the taxpaying bees — to rightfully sting you. As one who hails from the Beehive State, I can tell you will feel the sting.