United States Senate
Committee on Finance

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Statement of Senator Chuck Grassley:
Finance Committee Hearing, "The Middle Income Tax Relief Question: Extend, Modify, or Expire?
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The answers we eventually come to in responding to the questions we are asking in this hearing will in part determine whether the U.S. is able to continue to rely on the spirit and ingenuity of a dynamic middle-class, or if the middle-class is to be shredded by the tax code and parceled out to fund corporate welfare and benefits for people who don't pay income taxes. Under current law Americans will be subject to the largest tax increase in history in 2011 if Congress does nothing. This chart shows what will happen to a family of four with $50,000 in annual income. They will be subject to a tax increase of $2,300. This next chart shows the tax increase faced by a single parent household with two kids and $30,000 in income; which is $1,100. Keep in mind that these tax increases are only what is now built into current law. They do not include items in the President's budget like a cap-and-trade tax that would increase energy prices on these families as well.

For a long time now, I have been urging the Democratic leadership to "Tear down this wall!" And it seems my message has finally been heard. President Obama's budget makes most of the bipartisan tax relief from 2001 and 2003 permanent. We now have agreement on issues like the marriage penalty. Working families will be able to continue to count on lower rates. Low-income seniors who are counting on their capital gains and dividend income can sleep a little easier. The ravenous monster that is the Alternative Minimum Tax will be held back from the middle class. If Democrats in Congress share President Obama's commitment to tearing down at least part of this wall, they will find many allies on my side of the aisle.

As pleased as I am to find that the new President has come to agree with me on these issues, there is still more that we need to do, especially in these formidable economic times. President Obama intends to allow parts of the 2001 and 2003 tax relief to expire that, if extended, will continue to provide incentives for the creation of jobs and the resuscitation of our economy. These provisions are the marginal rate reductions in the top two income tax brackets, the repeal of phase-outs of personal exemptions and itemized deductions, and dividend and capital gains reductions for everyone. These provisions helped grow the economy when they were put into effect. These provisions could be a valuable tool in our recovery if we don't cast them aside.

Many of my colleagues are skeptical of any income source that isn't a check from the federal government, but the 2001 and 2003 tax relief packages did not benefit the rich, or didn't benefit just the rich. In fact, those packages are part of a broad trend where our tax system has become more progressive over the past several decades.

Recent tax relief has continued to shift more of the federal tax burden onto wealthy households while lowering rates, and in some cases eliminating federal income tax liability, for many middle and lower-income households. One of today's witnesses cites Congressional Budget Office data in showing that income taxes as a percentage of income have fallen more for low-income and middle-income households over the past several decades than they have fallen for wealthy households.

This indicates that as a percentage of federal income tax revenues, the tax burden on our wealthiest citizens has steadily increased over time, while it has decreased for lower and middle-income households.

This chart derived from CBO data shows how effective federal tax rates have changed for 1979 through 2005. It shows those changes for two groups. One group is Americans in the top 5% percent in terms of income and the other is everyone else. The blue line represents the top 5% and the red line represents the remaining 95%. The vertical line shows where rates were in 2000. According to an analysis of CBO data, the effective tax rate for the top 5% of earners was around 31% in 2000 and the effective rate was around 20% for everyone else. In 2005 the effective rate had decreased to around 29% for the highest earners and 17% for the remaining.

In a period where effective tax rates declined by roughly 2% for the top 5% of earners, rates decreased by 3% for the remaining 95% of Americans. The tax relief enacted in 2001 and 2003 decreased effective federal tax rates for the bottom 95% more than it did for the top 5%. What has been maligned as "tax cuts for the rich" increased the share of federal taxes paid by that category.

What we as a Committee take from this hearing will be very important. I hope my colleagues come away with a better understanding of what we need to do to drive our economy out of the hole we are in, and that we fully extend and make permanent the 2001 and 2003 bipartisan tax relief so that we are able to offer everyone a ladder to productivity and prosperity.