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**Hearing Statement of Senator Max Baucus (D-Mont.)**  
**Regarding Fairness and the Tax Code**  
*As prepared for delivery*

Anne-Robert-Jacques Turgot, the noted 18th century French economist, said:

“...the more a man enjoys the advantages of society, the more he ought to hold himself honored in contributing to those expenses.”

Turgot laid out a key measure for evaluating a tax system – determining whether the country’s citizens are paying their fair share.

Americans want to see a fairer and more equitable tax system. In a recent, independent poll, most taxpayers said they believe the taxes they currently pay are fair. But an article by the Associated Press detailing this new study also revealed a perception among average Americans that the wealthy don’t pay their fair share.

The perception is that tax loopholes and benefits exist that average Americans don’t know about and can’t access. The wealthy folks can hire attorneys and accountants to find every credit and deduction, while average Americans can’t afford that time and that expertise.

One factor behind this perception may be the way changes to the code have affected people differently. Since 1986, Congress has made over 15,000 changes to the tax code. In most cases, these changes haven’t benefited all taxpayers.

According to IRS data, the 400 taxpayers with the highest adjusted gross incomes had an effective tax rate of just below 17 percent for the 2007 tax year. The average income for those taxpayers was \$345 million per household. But the effective tax rate of folks earning between \$1 million and \$1.5 million was much higher at 24 percent.

How is that possible?

The U.S. has a fairly progressive income tax system. The tax brackets rise with income.

But we also must consider the tax incentives that affect a person’s tax liability and bring down tax rates.

Two prime examples of this inequality are deductions and exclusions. Many of these incentives only benefit people who earn higher incomes, and the size of the benefit they receive is also often dependent on income.

Look, for example, at the charitable deduction. Only families who itemize their tax returns are able to take advantage of this deduction, and only one-third of taxpayers itemize their returns. That leaves two-thirds of all Americans unable to receive a tax benefit for charitable deductions.

Among those who do receive the deduction there is also a disparity. A taxpayer with a 35 percent tax rate saves 35 cents in taxes for every dollar given to charity, while a taxpayer with a 10 percent tax rate only saves 10 cents for every dollar they give.

Take, for example, two taxpayers making \$1,000 donations for the Alabama tornado relief efforts. This donation would cost a taxpayer with \$35,000 in income \$1,000 after taxes because they almost certainly would not itemize. But this same donation would cost a taxpayer with \$435,000 in income much less; \$650 after the benefit.

We should also consider that the Tax Policy Center estimates that 47 percent of Americans didn't pay income taxes in 2009. But that doesn't mean they didn't pay any taxes at all. Many of these same folks paid payroll and excise taxes. A large share of them are seniors and the remainder are families living in poverty.

The general perception of inequity in the tax code may also stem from the fact that economic prosperity is not shared as widely as it once was.

Over the last 30 years, households with incomes in the highest one percent have seen their before-tax income grow by 240 percent. But over the same period, 90 percent of Americans have seen essentially no increase at all, and this disparity is also apparent in after-tax income.

These past 30 years have been very different from the 30 years before that, when economic growth was widely shared.

As we focus on tax reform, we must ask whether our tax code has contributed to this disparity in income growth. We should consider whether our tax system should take these disparities into account in some way, and we must question whether our tax code can better promote economic mobility and opportunity.

So let us remember that taxpayers are more likely to willingly pay taxes that they perceive as fair. And let us make our tax system work for all Americans, not just those that can afford to pay high priced attorneys and accountants.

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