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Floor Statement of Sen. Chuck Grassley
Imminent Wall of Tax Increases
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We just went through that time of year where, for most people, the tax code transforms from an abstraction to a concrete reality. The same is true of tax relief. What may be an academic or policy discussion becomes something more when the men and women of our nation actually work out how much of what they have earned will be turned over to the government. Thanks to the popular and bipartisan tax relief enacted in 2001 and 2003, virtually all Americans paid less in taxes this year than they did last year. There seem to be several members of this body who view that as a bad thing, who would rather take what others have earned and stuff it into a pork barrel.

I think that American workers are the best people to decide how to spend their money, and that letting them keep as much of their own money as possible is a good thing. As I said, Americans generally paid less this year than they did last year because of bipartisan tax relief. Last week I talked about the slim majorities that have governed the Senate for the past several years. If tax relief hadn't been bipartisan, the 2001 tax relief bill would not have received the support of nearly a quarter of the Democratic Caucus when the conference report came up for a roll call vote. However, this popular and bipartisan tax relief has been put at risk by the Democratic majorities in the House and the Senate.

The Senate passed budget resolution only provides 44% of the revenue room need to made tax relief permanent, and the House passed budget resolution provides zero percent of the revenue room necessary, which means that taxpayers face a serious risk of being hit with a wall of tax increases in 2011, as illustrated by this chart. According to the U.S. Treasury, a family of four with an income of \$40,000 will be hit with a tax hike of \$2052 instantly. To see the consequences of this we need to look past academic seminars and working papers and wordy editorials to see what this tax hike will mean for real people. For a family of four at \$40,000, this tax wall of \$2052 is real.

Right now I want to walk through the specific components of the bipartisan tax relief that are at risk. This chart breaks down what could be a \$407 billion tax increase over 5 years.

Let's start with marginal tax rate cuts, which include the 10% bracket, and costs \$203 billion over 5 years according to the Joint Committee on Taxation. The 10% bracket costs \$78 billion over 5 years all by itself, but that proposal reduces the taxes of approximately 100 million families and

individuals across America as well. When considering the rest of the marginal rates, it appears some folks think 35% is too low a top rate. Well, guess what? Repealing the marginal rate cuts hits small business—the biggest source of new jobs—the hardest.

The Treasury Department estimates that 33 million small business owners who are taxed on their business income at individual rates benefit from the marginal rate cuts. Repealing these cuts would cause 33 million small business owners to pay a 13% penalty. We frequently hear how small businesses form the backbone of our economy, and this is true. Do the Democratic Leaders want to raise taxes on these taxpayers?

Treasury also projects that small business gets over 80% of the benefits of the cut in the top two rates. Do we really want to raise the tax rates of small business by 13%? Does that make any sense? Democratic Leadership, what do you say?

How about the death tax relief package? That package scores at \$102 billion over 5 years. Most of the revenue loss is attributable to increasing the exemption amount and dropping the rate to 45% on already taxed property. Is it unreasonable to provide relief from the death tax? Or, should we raise the death tax on small businesses and family farms? That's what will happen if the bipartisan tax relief package is not extended.

Next let's look at the Child Tax Credit. Do the Democrats want to repeal the proposal to double the child tax credit? 31.6 million families benefit from the child tax credit, according to the Joint Committee on Taxation. Or how about the refundable piece that helps 16 million kids and their families? That proposal loses \$41 billion over five years. I didn't think we'd have a lot of takers on letting that one expire, but the Democratic leadership is proving me wrong.

The next item on the list are the lower rates on capital gains and dividends. 33 million Americans, a good number of them low income seniors, benefit from the lower tax rates on capital gains and dividends. Some people try to portray this as a tax break for the idle rich, but the beneficiaries of this provision include working class Americans who have spent a lifetime building equity in property or in securities. Does the Democratic Leadership think we should raise taxes on these 33 million families and individuals?

Let's take a look at the marriage penalty piece. It's the first marriage penalty relief we've delivered in over 30 years. This proposal scores at \$13 billion over 5 years. The Treasury estimates that nearly 33 million married couples benefit from this tax relief. Again, I don't think many folks would want to raise taxes on folks because they decide to get married. Most of the folks that do want to raise taxes on married couples must be serving in the House and Senate.

Another proposal is expensing for small businesses. This is a common-sense bipartisan proposal. According to the IRS, 6.7 million small businesses benefitted from this provision in 2004. 2004 is the most recent year that data is available for. If we don't make this provision permanent, small businesses face a tax increase of \$12 billion over 5 years. Does the Democratic Leadership think small business expensing is unwise tax policy?

Continuing on through the bipartisan tax relief package, let's take a look at the education tax relief

provisions. This package, which helps Americans cope with college education costs, scores at \$2 billion over 5 years. 16 million families and students benefitted from this tax relief in 2004 according to the IRS. In this era of rising higher education costs, should we gut tax benefits for families to send their kids off to college? Especially in the run up for the last election, I heard a lot about the importance of higher education and helping to ensure that costs do not keep people out of college.

Well, these provisions put those ideas into action and help people afford a college education. Does the Democratic Leadership think scrapping them is the way to go?

Finally, families where both parents work have to deal with child care expenses. The tax relief package includes enhanced incentives for child care expenses. Five and nine tenths million families across America benefit according to the Joint Committee on Taxation. These provisions help working mothers and fathers remain in the workforce while having a family. Does the Democratic Leadership think we ought to take away these child care benefits?

Now, I've just taken you through about \$407 billion of tax relief. It sounds like a lot in abstraction, but it provides relief to almost every American that pays income tax. I'd ask any of those who want to "adjust" or "restructure" the bipartisan tax relief, where would you cut the package?

Would you hit the 10% bracket, or small business tax relief, or the now refundable child tax credit, or the death tax relief, or marriage penalty relief, dividends and capital gains relief, education tax relief, or child care tax relief?

In a smooth-running economy, with above average levels of individual income tax, as a percentage of the GDP, even with the tax relief package in place, which area would you "adjust" or "restructure"? Why undo a bipartisan tax cut that makes the tax code more progressive?

As things stand right now this bipartisan tax relief is in danger. The Democratic Senate has only provided for 44% percent of tax relief beyond 2010 and the Democratic House has not provided for any. I'm sure much will be said of the high cost of tax relief, but those comments are inherently misleading. My colleagues need to think about the high cost to American taxpayers when they are hit with the largest tax increase in history. Federal revenues are already at historically high levels, and if something is not done soon, Americans will be hit with an additional wall of tax increases. If what some have called tax cuts for the rich expire, a family of 4 with an income of \$40,000 will face an average tax increase of \$2052.

In order to protect the interests of working Americans, the Republican leadership introduced a bill yesterday, S.14, the "Invest in America Act," to ensure that this largest tax increase in history does not go into effect. This bill will help small businesses, it will help families afford college, it will help seniors who rely on capital gains and dividends for income, and it will help working parents take care of their children. Why doesn't the Democratic House want to do any of these things, and which 44% of tax relief does the Democratic Senate have in mind to keep?

I will end today as I did in a speech last week, by urging the Democratic Caucus to tear down this wall. The Republican Conference is eager to work with you in bipartisan cooperation to promote a progressive and fair tax code and to prevent a wall of tax increases from crushing the American

taxpayer.