United States Senate
Committee on Finance

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Statement of Senator Chuck Grassley
Finance Committee Hearing on Administration's Budget: Revenue Proposals
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Today, we focus on the revenue side of the budget. It is almost entirely in this committee's jurisdiction. The President's budget acknowledges that the bipartisan tax relief has not gutted the tax base. In fact, we've been and are projected to continue for the mid-term, on a revenue glide-path, that is above the historic average of revenue to gross domestic product ("GDP").

Now, some on the other side may argue that better than historic average taxation is not enough to fund the government. But, that is a different debate. That is a debate about higher taxation as a deficit reduction matter. It's a fair debate to have, but we ought to be intellectually honest about it.

That is a debate that should be fully engaged when the parties nominate their Presidential candidates. The debate ought to be about where the level of taxation ought to be. It implicates this budget over the short-term, mid-term, and long-term. For instance, my guess is that my friend from Oregon, Senator Wyden, might bring up tax reform and the plan he has worked on. A key question for tax reform is whether we assume all tax relief that expires at the end of 2010 is in place or not. If we assume current law, then the level of higher taxes American families will face, on average, is over $2,000. If we assume current law tax relief provisions are made permanent, then American families will get to keep what they have now. Again, for middle income families, we're talking about $2,000.
We'll see some on the other side focus on the next two fiscal years where the stimulus proposal takes effect. If you look back at the debates we had in 2002 and 2003, there was a lot of focus on fiscal year 2004. That was the year when a lot of the stimulus kicked in. Revenues dipped then, but they came roaring back in fiscal years 2005, 2006, and 2007.

Another point needs to be taken into account for the next two fiscal years. It is this. The stimulus package is bipartisan and Democrats control both bodies of Congress. So, my friends on the other side, you own the deficit effects of the economic stimulus just as the President does.

You can't take the credit for responding to the economic downturn and be critical of the deficit impact of the package we're legislating. So, as we look at the trend-line of the budget, let's bracket the impact of the stimulus package. What is clear today, with the stimulus package excepted, is that the bipartisan tax relief, with the alternative minimum tax accounted for, has a track record of

maintaining the Federal revenue base. That is good news that Democrats and Republicans should agree on. Democrats from the bluest of the so-called "Blue States" ought to be most appreciative because it is families in those high-income, high cost, and high tax areas that have benefited greatly from the bipartisan tax relief plans. I'm referring to the marginal rate relief, marriage tax relief, increased child tax credit, education tax relief, death tax relief, and yes, the alternative minimum tax ("AMT") relief.

While we're talking about AMT, I want to praise the Administration for being transparent about the so-called "patch." It is covered in the budget. It is not offset and affects the bottom line of the budget.

The last congressional budget was described as covering the AMT, but relied on unspecified and unscored offsets. I pointed out this defect as we went through the budget process. My prediction was proven true at the end of the year. I'll make the same prediction this year and my guess is I'll meet the same denials and the same result. So, Mr. Secretary, with respect to AMT, your budget is more transparent than I expect our budget to be.

With that said, Mr. Secretary, I don't think your budget or the Congressional budget should count AMT revenue for years beyond this fiscal year. Transparent budgets would eliminate this revenue that we will and should not collect.

Chairman Rangel in his "mother of all tax reforms" was transparent about the AMT. Chairman Rangel put on the table a repeal of the AMT. He substituted a new tax on upper-middle income and higher income taxpayers. Chairman Rangel's proposal also used revenue from the expiration of the bipartisan tax relief plans I referred to earlier.

I applaud Chairman Rangel for his leadership. He's taken heat for the proposal. I agree with him repeal is the only answer for the AMT. It is a tax that was never intended to pull in 25 million families. I disagree with Chairman Rangel that we need to keep revenues at historic highs, as a percentage of GDP, as a condition to repealing the AMT. Chairman Rangel is being transparent about the AMT and his viewpoint that a high revenue base needs to be maintained.

Mr. Secretary, though your budget counts AMT revenues beyond fiscal year 2009, like Chairman Rangel, the Administration's budget accounts for the bipartisan tax relief of 2001 and 2003. As he has for every year, the President proposes to make the tax relief that virtually every American taxpayer enjoys, permanent. It is there in the black and white. It affects the bottom line of the budget. It is transparent.

Unlike Chairman Rangel and the Administration's budget, the fiscal year 2008 Congressional budget is not transparent. It stated, by default, what Chairman Rangel and the Administration were transparent about. What I'm referring to is the fact that the Congressional budget basically assumed the post-2010 tax relief expired.

That budget did contain an allusion to $180 billion of tax relief. It was a small fraction of what is involved. That tax relief was subject to a trigger mechanism that would have made Rube Goldberg proud.

Mr. Chairman, we have a fiscal crisis coming. The baby boom generation will be retiring in big numbers in the next decade. That is an entitlement problem. It is not derived from the current or future state of the Federal revenue base. The revenue base is fine unless the predilection of a particular member is to solve the entitlement problem with record levels of federal taxation. As I said before, that's a separate debate. We can have it, but we ought to be transparent about it.

The President's budget continues this good news and keeps the burden of taxation in check. In addition, the President's budget contains a comprehensive set of initiatives on the tax gap. The President's budget also lays bare the defects in the tax treatment of health insurance. Finally, Mr. Secretary, I appreciate the tax gap initiatives in the budget.