Press Release of Senator Murphy

MURPHY OUTLINES PRIORITIES FOR TAX REFORM IN LETTER TO BAUCUS, HATCH

Friday, July 26, 2013

HARTFORD—**U.S. Senator Chris Murphy (D-Conn.)** today sent a letter to **Senate Finance Committee Chairman Max Baucus (D-Mont.)** and **Ranking Member Orrin Hatch (R-Utah)** outlining his priorities for tax reform in the U.S. Senate. Senators Baucus and Hatch have solicited input from senators as part of their 'blank-slate' approach as a legislative starting point for tax reform.

Full text of Senator Murphy's letter:

July 26, 2013

The Honorable Max Baucus
Chairman, Committee on Finance
United States Senate

The Honorable Orrin Hatch
Ranking Member, Committee on Finance
United States Senate

Dear Chairman Baucus and Ranking Member Hatch,

Thank you for providing me the opportunity to aid the Finance Committee in its effort to reform the U.S. tax code in order to encourage more robust domestic economic growth. I applaud you for taking on this long overdue and vitally necessary task. I ran for the U.S. Senate to be a part of this effort, and I remain convinced that our nation can catapult past the rest of the world with respect to the global economic recovery if we reform our tax code to better align tax policy with beneficial economic behavior. As you begin this difficult task, I would urge you to hold to several basic principles that I believe are essential to any viable tax reform effort.

First, any changes in the code must protect poor families and the middle class. While I fully support the goal of broadening the tax base and lowering rates, it should go without saying that this process cannot result in an increase in the tax burden for lower and middle-income Americans. A "clean slate" tax code, as you suggest as a starting point in your letter, may in fact result in increased taxes due from millions of middle class and low income families who benefit from provisions such as the mortgage interest deduction, the state and local tax deduction, and the earned income tax credit. Separate and aside from the merits of those and other tax incentives, our end goal should be to ensure that tax reform does not result in big tax increases for middle and lower income families. I acknowledge that the phrase "middle class" is relatively vague, but for high-cost states like Connecticut, family incomes under $200,000 certainly qualify within this definition.

Second, tax reform must raise revenue. Many point to the landmark tax reform of 1986 – and its revenue neutrality – as a model we must emulate in 2013. This principle simply does not work in 2013. Today, our structural budget deficit is simply too large to be closed through spending cuts alone. Republicans and Democrats, liberals and conservatives, have acknowledged this fact. In fact, as former Republican Senator Judd Gregg recently testified before the Joint Economic Committee, the major bipartisan deficit reduction commissions recommend that a "grand bargain" deficit reduction proposal must enact rates sufficient to bring taxation as a percentage of gross domestic product well above twenty percent.

Raising revenue is never easy, in this or any Congress. But it is time to look at the major tax expenditures within our code and ask ourselves, "do these tax benefits continue to incentivize the behavior they were originally intended to encourage?" For instance, preferential treatment of capital gains income was enshrined in our tax code to expand American businesses' access to our capital markets. However, today it is has the principal effect of making it less expensive for wealthy Americans to glean income from their debt and equity investments. CBO estimates that fully 68 percent of capital gains benefits go to the top 1 percent of households, while just 7 percent go to the bottom 80 percent of households. Further, since we provide preferential tax treatment to investment income from both domestic and foreign investment, much of the tax benefit now goes to encourage foreign investment that provides little, if any, benefit to the American economy. I don't necessarily suggest eliminating the lower tax rate for capital gains and dividends, but it is time to assess whether there needs to be, or whether we can continue to afford, such separation between investment income and ordinary income within our tax code.

On the other hand, there are clearly behaviors that the tax code can properly encourage. At the top of this list is retirement savings and infrastructure investment. We are entering a retirement savings crisis in America, with more than half of 50-year-olds holding less than $25,000 in retirement savings. The current retirement income deficit – the gap between what Americans will need in retirement and what they will actually have – is well over $6 trillion. As employment-based defined benefit plans become rarer and we confront Social Security's long-term funding challenges, it's important that the tax code not penalize Americans for doing their best to build a nest egg that will carry them into retirement. From annuities and life insurance to 401(k) plans and individual retirement accounts, a strong foundation of tax incentives to encourage saving is absolutely essential.

But it's not enough to simply encourage savings through the tax code. Tax reform should look at nontraditional ideas to build a culture that encourages savings from a young age. We know that saving behavior strongly correlates with increased future earnings. That's why I would urge the Committee to seriously consider the child savings accounts model (sometimes referred to as "baby bonds") as a vehicle to encourage savings and drive financial literacy. Under this proposal, every child is deeded with a private savings account at birth, and each account is equipped with a small initial deposit. The account balance compounds over time, and the account holder (and his or her family) is encouraged to contribute as well. By the time the child reaches 18, the account matures and can be used to fund major life expenditures like funding a college education or helping to buy a home. As the account grows, the child learns about the value of saving, and is provided with a small (but meaningful) stake in his or her financial future. This concept has been supported by as diverse a group of members as former Senator Rick

Santorum and Finance Committee member Senator Chuck Schumer. Indeed, the Committee's own May 23rd tax reform option paper on "Economic Security" cites this very savings model.

Another worthy public policy goal that the tax code should fully protect is infrastructure investment. The sad state of our road, bridges, rail networks, and so much more has become tragically apparent in recent years, and a failure to invest in those crucial resources poses grave threats to our continued economic dynamism and vitality. Impairing cities and towns' abilities to finance such public improvements through the municipal bond market would do irreparable damage to our national effort to repair and modernize our infrastructure. Some 75 percent of total U.S. infrastructure investments are financed through tax-exempt bonds, having helped to provide $1.65 trillion of infrastructure investment over the last decade. And, unlike across-the-board tax expenditures on capital gains, tax incentives for municipal bonds ensure that the entirety of the tax benefit goes to promote domestic economic activity and growth.

In a more limited fashion than currently constructed, the tax code can incentivize good economic behavior – like saving for retirement and building roads and rail lines. But the tax code can also disincentive inefficient economic behavior. While the issue of climate change remains a partisan battleground here on Capitol Hill, the science has spoken. The reality of ever-more severe weather patterns here in the United States speaks to the deadly seriousness of the crisis that confronts us. Toward that end, I would urge the Committee to consider a strong, market-driven carbon fee to drive down pollution, pay down our debt, and encourage investment in renewables. This is a mechanism that been endorsed by numerous experts on both the right and left, and short-sighted political cowardice should not blind us to the wisdom of a policy that can protect low-income families and manufacturers, help make our nation energy independent, and drive job-creating innovation, all while raising revenue to help close the deficit.

A few simple rules: don't increase taxes on lower and middle income earners; raise revenue to help close the deficit and pay down the debt; and simplify the tax code by making hard decisions about what behavior we truly need to incentivize and what behavior we don't. I believe that these guidelines would form a useful foundation for an admittedly herculean endeavor. I applaud you for taking on this task, and looking forward to being of any assistance necessary.

Sincerely,

Christopher S. Murphy

United States Senator

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