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## HATCH STATEMENT AT FINANCE COMMITTEE HEARING EXAMINING THE EFFECTIVENESS OF TAX INCENTIVES

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today delivered the following opening statement at a committee hearing examining the effectiveness of tax incentives:

As we continue our march through the potentials and pitfalls of tax reform, this hearing stood out. The tax code should send clear signals to taxpayers. This way individuals and corporations can make rational decisions about what they do with their money.

Unfortunately, as several of our witnesses will explain today, the Internal Revenue Code has become so complex that it is colliding with human nature. On balance, taxpayers are inclined to behave according to the political economic theory of Rod Tidwell, the star wide receiver in the film *Jerry Maguire*.

Tidwell operated by a simple philosophy — *Show...Me...the...Money*.

In some ways, that is the philosophy of the American taxpayer. Families and businesses, when considered in the aggregate, would prefer to allocate their capital based on the tax treatment of various activities.

If the code taxes capital, capital formation will become more difficult.

If the code taxes consumption, saving will go up.

What this hearing addresses is how inefficiencies in the Internal Revenue Code impact the otherwise rational responses of taxpayers.

In short, the code has become so complex that even when lawmakers attempt to extend preferences for certain activities, businesses and families do not respond.

It is critical then that we restructure the code to provide a more rational and less complex system for American taxpayers. I would like to reiterate a few key principles for this reform.

First, I believe that our entire tax system, not just the corporate tax system, needs to be reformed. We can't simply raise taxes on flow-through businesses, a large proportion of which are small businesses, by taking tax incentives away without lowering tax rates in return.

This is both just and politically necessary. Can you imagine if someone told you:

*I am going to reform the law in a way that directly impacts your life and livelihood. Now here's what I am going to do. I'm going to take something away from you, and you're not going to get anything in return.*

You won't find many people willing to accept a terrible deal like that one. Yet that is the offer that some would like to extend to these businesses.

Second, tax reformers need to take into account the shrinking of the base on the individual side. Considering that even the liberal Tax Policy Center found that 47 percent of households in 2009 did not pay any income taxes, we can't ignore the individual income tax system when we look at tax reform.

And we need to keep in mind that this 47 percent figure will go significantly higher in 2014 when the health insurance premium refundable income tax credit goes into effect.

Again, as a matter of fairness, wouldn't it make more sense if all citizens paid at least something in income taxes? We hear a lot about shared responsibility from the other side. Well, this would be a start.

And I am convinced that it would help us in our fight against excessive federal spending. You get a lot of takers when you ask people if they want more of something and you tell them it's free.

Third, we cannot ignore the pending tax increases at the individual level that will go into effect if Congress does not act. The bottom line is that if Congress does not intervene, taxes are scheduled to go up significantly on January 1, 2013. If President Obama and the Congressional Democratic Leadership had their way, the top two tax rates would already be at 36 percent and 39.6 percent.

It might be a convenient talking point to suggest that these are cost free tax increases on the rich. But in reality, the nonpartisan Joint Committee on Taxation tells us that 50 percent of all flow-through income is subject to these proposed tax rate hikes. These tax rate increases would be especially harmful to small businesses, because most small businesses are organized as flow-through business entities, such as partnerships, S corporations or limited liability companies.

Since we all seem to agree that we need to provide certainty to businesses and other taxpayers so that they can go ahead and plan their affairs, including hiring new workers, it would make a lot more sense to go ahead and prevent these tax rate hikes now, rather than waiting until 2012 — a presidential election year — to act.

Finally, we need to be careful about what we are identifying as tax incentives. Are we talking about a true tax incentive or are we really talking about spending being done through the Internal Revenue Code?

If a provision results in an outlay by the federal government, the amount of the outlay is actually spending under the Congressional Budget Act. It is not a tax cut.

For example, almost three-fourths of the refundable income tax credit from the health spending bill is not a tax cut, but is actually spending done through the tax code, according to the nonpartisan Joint Committee on Taxation.

As we continue down the road of tax reform, these principles will continue to inform my analysis of the challenges that we face. With respect to tax incentives, and whether they introduce inefficiencies into the tax code and counterproductively distort economic behavior, it is important that we not lose sight of what should be our ultimate goal — the need for comprehensive reform that lowers the burden of taxation on individuals and businesses.

Thank you Mr. Chairman.

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