

United States Senate

WASHINGTON, DC 20510

July 26, 2013

The Honorable Max Baucus
Chairman
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Orrin G. Hatch
Ranking Member
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Baucus and Ranking Member Hatch,

I appreciate the opportunity to share my priorities on comprehensive tax reform. As Congress begins deliberations on how best to reform our tax code, I am very supportive of your efforts to wipe our tax code clean and start from scratch. In order to succeed in the 21st century, we need a tax code that respects and rewards hard work and not just wealth, grows the middle class and strengthens their economic security, increases American competitiveness, and reduces the nation's deficit and debt.

As I've traveled the state, Wisconsinites have told me that the powerful and well-connected still seem to get to write their own rules, while the concerns and struggles of middle-class families go unnoticed in Washington. They feel like our economic system is tilted towards those at the top, and that our political system exists to protect those unfair advantages instead of to make sure that everybody gets a fair shot.

At the heart of any comprehensive tax reform package there needs to be recognition that the biggest gap facing America is the gap between the economic security Americans work so hard to achieve, and the economic uncertainty that they are asked to settle for. Because if we can't close that gap, we might someday talk about the middle class as something we used to have, not something each generation can aspire to.

Today, Americans feel like the current tax system is rigged in favor of the wealthy and big corporations - quite frankly, they are right. I believe that our economy works best when everyone plays by the same rules and when everyone has a fair shot. As such, below are my top priorities for comprehensive tax reform.

Responsibly Replace the Sequester, Close Tax Loopholes and Reduce the Deficit

We are now beginning to see the impact of sequestration and it is anything but balanced. We are cutting away at education, scientific research and innovation, which have previously provided a strong foundation for future economic growth and global competitiveness. Without a balanced mix of targeted spending cuts and reductions in tax expenditures, the sequester will continue to harm future economic growth. As a prerequisite for lowering any tax rates, we must first responsibly replace the sequester.

In addition, it is important to note the vast difference between the statutory corporate tax rates and the effective corporate tax rates. While the highest statutory corporate tax rate is 35 percent, the Government Accountability Office estimates the average effective tax rate on large U.S.

corporations with positive income is around 25 percent. This discrepancy is a direct result of hundreds of deductions and exclusions that corporations have lobbied Congress for over the years. These loopholes have caused revenue from corporations to decrease from six percent of GDP in the 1950s to below two percent in 2012. As the Committee continues this process, these expenditures should be limited, effective and far less complex. By reducing the amount of tax expenditures in the code we can focus on raising the revenue needed to replace the sequester and reduce the deficit.

Lastly, I strongly support the inclusion legislation I have cosponsored with Senator Debbie Stabenow, the Bring Jobs Home Act (S. 337). This legislation would finally end perverse incentives that reward companies that ship jobs overseas and would provide a 20 percent tax credit for expenses incurred when businesses relocate to the United States.

Rewarding Hard Work, Growing the Middle Class and Creating Shared Prosperity

Over the past few decades, the link between higher worker productivity and rising wages has broken down. Gains in worker productivity once led to increased wages and helped lift an entire generation of Americans into the middle class. However this is no longer the case. While globalization and advances in technology played a significant role in this trend, so too did our nation's tax policy. The wealthy and corporations saw their taxes go down, while the minimum wage stayed flat. Stagnant wages and increasing income inequality require that comprehensive tax reform maintains a strict progressivity standard. I was encouraged to see your commitment to enacting the same level of progressivity scheduled to exist in 2017 in comprehensive tax reform. Central to maintaining this standard is making the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC) permanent. Both the EITC and CTC have lifted an estimated 136,000 Wisconsinites out of poverty, including 71,000 children.

As was the case after 1986 comprehensive tax reform, over time, more special deductions and loopholes were added back into the tax code, reducing revenues and increasing the deficit. To protect against this same occurrence, I strongly support including legislation sponsored by myself and Senator Sheldon Whitehouse, the Paying a Fair Share Act (S. 321), commonly referred to as the Buffett Rule. The Buffett Rule will act as a safeguard to ensure that the highest-earning Americans cannot subvert the progressivity of the tax code through loopholes and special rates not available to middle-class families. It will also ensure that basic fairness will be maintained in our future tax code.

Strengthening American Manufacturing and Global Competitiveness

Over the course of the last decade, the manufacturing sector experienced a net loss of 5.5 million jobs. These are jobs that support families, sustain communities and grow the middle class. No other industry creates more patents, spends more on research and development (R&D) or employs more scientists and engineers than the manufacturing sector. In addition, manufacturing's multiplier effect is greater than every other major sector of our economy. To fill this jobs deficit, we have to lay a strong foundation for future growth, and that begins with a tax code that rewards firms that manufacture here in the U.S. and not overseas. As companies begin to restore their manufacturing facilities to the U.S., sustaining them will require a tax code that allows manufacturers to compete in the global marketplace.

For too long, policymakers failed to recognize the vital role that manufacturers play in the U.S. economy and the conditions that they require to succeed. Because manufacturing is such a complex industry, simply lowering overall tax rates by eliminating all targeted tax credits that benefit manufacturers could actually raise their current effective tax rates. Therefore, I am strongly supportive of maintaining certain tax expenditures which recognize manufacturing's capital intensive nature. These include maintaining the section 199 Domestic Production Deduction, Accelerated Cost Recovery, R&D Tax Credit, and the Existing Tax Treatment of Employee Health Care and Pension Contributions. In regard to the R&D Tax Credit, I believe that it should be made permanent and expanded to reward companies that co-locate their R&D and manufacturing facilities in the U.S. We will not be able to fill our manufacturing jobs deficit if we only focus on doing R&D activities in the U.S. and then outsourcing the final product to countries like China.

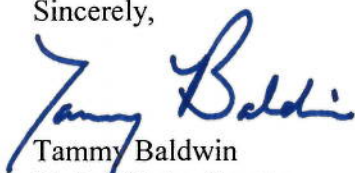
In addition to traditional manufacturing jobs, we have to ensure we are cultivating the next generation of entrepreneurs and innovators. When our startup small businesses grow, American families get ahead and the economic security of the middle class is strengthened. Early-stage innovation companies often take years before they are profitable. If tax reform only lowers rates and broadens the tax base, it will do nothing to help these startups. Therefore, the committee should specifically recognize the unique nature of these pre-revenue startups and take appropriate measures to help them thrive.

Today, we face serious challenges; the large and growing gaps between the rich and the poor; between rising costs and stagnant incomes; between our nation and our competitors when it comes to education and innovation. In order to meet these challenges we need to invest in creating an economy built to last. We need to make a strong commitment to supporting investments in education, advanced manufacturing, innovation, science, research and technology. We need to build long-term economic growth and shared prosperity.

I believe that we have it in us to confront the challenges we face and we can look no farther than to the American people for inspiration. In the face of the worst recession since the Great Depression, hard-working Americans have helped our country fight its way back and move our economic recovery forward. Now they need both parties in Congress working together to partner with their grit and determination. The American people need Congress to join their commitment to advancing the common good.

I look forward to working with the Finance Committee to make progress on these challenges and help move this great country forward.

Sincerely,



Tammy Baldwin
United States Senator