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United States Senate
WASHINGTON, DC 20510–4802

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

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

Baucus Hatch,
Chairman Baucus and Ranking Member Hatch:

Over the past two and a half years, I have personally shared tax reform priorities with you in areas including income inequality, health care, pensions, education, housing, job creation, domestic energy production, manufacturing promotion, infrastructure investment, small business growth, and retirement security. Our staffs have also met countless times over this period to discuss these priorities and continue to do so.

Rather than reiterating these individual positions, I will use this letter instead to once again remind you that my highest priority for tax reform is to reduce income inequality. This has been my top priority for each of the 28 years I have served in the United States Senate, and I will use every day that I have left as a member of this committee to continue the fight to reduce poverty by reducing income inequality.

I was reassured to read that you both agreed, as a fundamental tenet of the "blank slate" process, that we should at a minimum maintain the progressivity of our current tax code as part of any tax reform legislation. It would be irresponsible of us to do otherwise. However, I believe that we must go further, by requiring the wealthiest individuals and businesses to contribute more.

Combating Income Inequality

The current tax code is unquestionably tilted towards the wealthiest Americans. While incomes for the top one percent soared over the past two decades, effective tax rates for these same individuals declined dramatically. Too many giant corporations pay no tax, while many small businesses and start-ups waste valuable resources trying to make sense of an outdated and overly complex tax code – one that was written for, and is protected by, those companies with the ability to hire an army of tax lawyers and lobbyists to advocate for their bottom lines.

The striking backdrop to this story is the status of our poorest Americans who find themselves worse off than in recent decades. And the statistics are truly alarming. A recent study by the Pew Charitable Trusts found that while the current generation of working Americans is earning more than prior generations, the poorest 20 percent are doing much worse. In fact, 70 percent of those Americans in the bottom 20 percent of the income ladder will not rise out of poverty, climbing no more than one quintile on the economic ladder during their lifetimes.

This finding was reinforced by a recent study by the Organization for Economic Cooperation and Development (OECD), which found that the United States ranks 31 out of 34 developed countries in income inequality, ahead of only Turkey, Mexico, and Chile. This should be wholly unacceptable to our committee and provide a guidepost for whether we are meeting our responsibilities to the American people. There are tools available to us to make our tax code more progressive in terms of the opportunities it creates.

We must do more to allow people to grow their incomes, reap the benefits of education and their hard work, and secure a foothold in the middle class. We should use tax reform as an opportunity to refocus tax expenditures away from benefiting activities that lack value, or will occur regardless of whether we incentivize them or not.

Refundable Credits

Our current tax code provides us a solid foundation for increasing opportunity and upward mobility for people who are low-income, but we clearly must build on these provisions and the successes they create. For example, we know that the Earned Income Tax Credit has numerous benefits, both for the parents who claim it and for their children - the next generation.

It reduces poverty and promotes work among adults, ultimately allowing them to secure higher wages and earn higher Social Security benefits for retirement. In children from families who claim the Earned Income Tax Credit, it improves achievement in school, makes them more likely to attend college, and even improves their health. Indeed, these benefits continue even once these families are no longer claiming the credit.

We should be looking at the Earned Income Tax Credit, as well as other areas like the refundable Child Tax Credit, the American Opportunity Tax Credit, and the Saver's Credit, to determine how we can improve and expand them to increase opportunities and economic security for low-income families. Sound preferences for charities can allow for added resources for those who need help most.

The Need For Revenue

Income inequality is also reduced by enacting tax reform legislation that raises significant revenue, from both the business and individual sides of the tax code. Thus, I was alarmed when I read media reports of an agreement that tax reform would raise no revenue, and it was important to see your subsequent statements that no such deal is in place. I can assure you that I will not support tax reform that does not raise real, sustainable revenue. Frankly, I would rather the tax reform process be delayed for another Congress than pass a bad bill this year that raises inadequate revenue.

The Senate budget for fiscal year 2014 would raise $975 billion in new revenues. This is a worthy goal and there are a number of ways to get there. I offered my own revenue plan in June of 2011 that would have raised $1 trillion and there are several proposals in that plan that I hope you will consider. These revenues are necessary to protect vital discretionary programs in areas such as health care, education, and job training from further harmful cuts. Medicaid, Medicare, and Social Security, core programs that hundreds of thousands of my constituents rely on to preserve their well-being, also face debilitating cuts if sustainable revenue is not raised.

We have already cut more than $1.7 trillion of discretionary spending in the last two years, while raising less than $700 billion of revenue. That is not a balanced approach. Tax reform is a necessary opportunity to restore priorities and move closer to the one-to-one revenues to spending cuts approach to deficit reduction that I support.

The revenue is not hard to find. While the poor remain stagnant in their ability to climb out of poverty, the wealthiest Americans continue to prosper to an unprecedented degree. USA Today recently reported that according to public disclosures, for the last three years, median CEO pay has risen, with the average chief executive of a large public company making $9.7 million in 2012. Despite this success, in recent years, the wealthiest one-in-1,000 taxpayers have paid barely a quarter of their income in federal income and payroll taxes—half of what they would have contributed in 1960. I am not calling for a return to Eisenhower-era rates, but I believe the historical record is clear. We can prosper as a country while raising revenue.

If you will recall, in the early 1990s, during the first half of the Clinton Administration, revenue as a percentage of GDP was 7.7 percent. During the second half of the Clinton Administration when the economy was booming, revenues as a percentage of GDP were regularly 9 percent or more. This clearly shows that our government can collect a healthy amount of revenue without threatening the long-term health of the economy.

Tax reform gives us an opportunity to do enormous good if we can remain focused on what our real priorities should be. Too many Americans are living in poverty. Through responsible tax policies that reduce inequality and raise the revenue necessary to protect the programs they rely upon every day to care for their families, we can improve the lives of these families and help them climb the economic ladder.

Thank you both for your continued leadership on the issue of tax reform. If you have any questions on the issues covered in this letter, or the many other improvements I believe can be made to the code through tax reform, please do not hesitate to contact me.

Sincerely,

Jay Rockefeller

John D. Rockefeller IV