

Senate Finance Committee leaders announce next steps on tax reform

June 27, 2013

In brief

Senate Finance Committee Chairman Max Baucus (D-MT) and Ranking Member Orrin Hatch (R-UT) today issued a “Dear Colleague” letter to all Senators setting forth next steps as the Finance Committee “moves forward with comprehensive tax reform.”

In the letter, Chairman Baucus and Senator Hatch state that they are starting with a “blank slate,” a tax code without the current business and individual tax expenditures that are listed annually by the Joint Committee on Taxation (JCT) staff.

Senators are asked by July 26, 2013 to submit legislative language or detailed proposals on which tax expenditures should be retained in part or in whole. The letter also invites Senators to consider other provisions that should be “added, repealed, or reformed” as part of tax reform.

In detail

In their letter, Chairman Baucus and Senator Hatch note that certain tax expenditures serve important policy objectives, and that they both “believe that some existing tax expenditures should be preserved in some form.” However, the Finance Committee leaders “plan to operate from an assumption that all special provisions are out unless there is clear evidence that they: (1) help grow the economy, (2) make the tax code fairer, or (3) effectively promote other important policy objectives.”

Tax expenditures are defined by the JCT staff as “revenue losses attributable to provisions of the

Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.” The JCT and the Administration annually publish separate, but very similar, lists of tax expenditures. Click [here](#) for the most recent JCT revenue estimates for corporate and individual tax expenditures.

Chairman Baucus and Senator Hatch comment in their letter that “many provisions of the income tax that are not considered tax expenditures could be greatly simplified.” They also note that almost half of federal tax revenue comes

from sources other than the income tax.

“Blank slate” trade-offs

Chairman Baucus and Senator Hatch do not set target corporate or individual tax rates in their letter, but caution that calls by Senators to add back certain tax expenditures will affect tax rates. The letter notes that Senators “have different views on whether the revenue raised from eliminating tax expenditures or other reforms should be used to lower rates, reduce the deficit, or some combination of the two,” but states that all Senators should understand the “trade-offs when adding tax expenditures back to the code.”

Chairman Baucus and Senator Hatch write that the “blank slate approach would allow significant deficit reduction or rate reduction, while maintaining the current level of progressivity” for individual taxpayers. The letter cites estimates by JCT staff that every \$200 billion of corporate tax expenditures added back to the “blank slate would, on average, raise the top corporate tax rate by 1.5 percentage points from what it would be without all current tax expenditures. JCT staff estimate that every \$2 trillion of individual tax expenditures added back “would, on average, raise each of the seven individual income tax brackets by between 1.3 and 2.2 percentage points from what they would be under the blank slate.”

A similar “blank slate” approach to tax reform was used in late 2010 by the National Commission on Fiscal Responsibility and Tax Reform chaired by former Clinton White House chief of staff Erskine Bowles and former Senator Alan Simpson (R-WY). For more information, see the November 2010 WNTS Insight [“Deficit Commission Co-Chairs Propose Options for Sweeping Tax Reform.”](#)

The takeaway

Senate Finance Committee Chairman Baucus and Ranking Member Hatch have signaled that they are preparing for future action on comprehensive business and individual tax reform. The invitation for all members of the

Senate to provide direct input to the Finance Committee on tax reform issues marks another step forward in the tax reform process. House Ways and Means Chairman Dave Camp (R-MI) also has noted his intent to have the Ways and Means Committee act on comprehensive business and individual tax reform before the end of this year. Thus, businesses and individuals should review tax reform options and continue to provide input to tax policymakers.

Click [here](#) for a copy of the Senate Finance letter.

Let's talk

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