

THE TAXONOMIST

Bush's Tax Deform Panel***It's a hoax, but it may be an opportunity*****By Robert S. McIntyre**

President Bush's "Advisory Panel on Federal Tax Reform" is mouthing some surprisingly attractive lines about how we ought to change our tax system. A panel appointed by Mr. Big Deficits points out that "we have lost sight of the fact that the fundamental purpose of our tax system is to raise revenues to fund government." Mr. Loophole's appointees argue that "a rational system would favor a broad tax base, providing special treatment only where it can be persuasively" justified. Despite Bush's devotion to shifting taxes away from the rich, his panel insists that we need to "share the burdens and benefits of the tax system in an appropriately fair and progressive manner." And it solemnly pledges that its July 31 report will "recommend options that are revenue neutral"—that is, no more unaffordable tax cuts.

Wow! This sounds pretty good. But sadly, it's all a hoax.

You might begin to suspect as much by looking at the makeup of Bush's advisory panel. As is traditional with Bush, the two top posts are held by corporate lobbyists. The chairman is former Senator Connie Mack (R-Fla.), a man of firm beliefs about taxation. The first is that the rich pay too much, while the middle class and the poor pay too little. That's why, as a Senator, Mack co-sponsored the Dick Armey "flat tax" bill. His second strongly held principle is that two plus two equals some number much larger than four.

The panel's vice-chairman is former Senator John Breaux (D-La.), a man of no apparent principles other than that a bad deal is always attainable. In 2001, for instance, Breaux helped work out a "compromise" with Bush's initial tax cut plan that pretended to be slightly smaller than Bush had originally proposed, but turned out to be almost identical.

To top it off, Bush has detailed two officials from his Treasury Department to head the panel's staff, and assure that the panel doesn't deviate from Bush's irresponsible, regressive approach to tax policy. With these folks in charge, it's not hard to predict that despite its appealing rhetoric, the panel is not going to deliver true

tax reform. Tax *deform* is more accurate—as a close reading of what the panel has already said makes clear.

Without doubt the biggest travesty involves how the panel plans to define "revenue neutral." This term has been around for a long time, and it has a precise meaning: raise just as much revenue as current law.

To be sure, maintaining current-law revenues isn't anything to brag about, given our deficit mess. According to the Congressional Budget Office, sticking with current law means that for the rest of this decade, non-Social-Security federal revenues as a share of the economy will average 21 percent less than in fiscal 2000—the last time the regular budget was balanced. Such a huge shortfall calls out for raising taxes right now.

But after 2010, when Bush's tax cuts are scheduled to expire, things start looking up, even under current law. By fiscal 2012, non-Social-Security revenues are expected to be only 9 percent below their 2000 level as a share of the economy—and the gap will fall to 6 percent by 2015.

So a plan that maintains current-law revenues would at least offer some fiscal hope down the road. But Bush's panel almost offhandedly dashes that hope. It tells us that by its definition, "revenue neutral" won't mean "revenue neutral" at all. Instead, it will mean something completely different—specifically, revenues equal to the much lower amount that would be collected if most of Bush's tax cuts are made permanent. Although even our taxaphobic Republican Congress hasn't figured out how to afford such fiscal profligacy, the panel blithely plans to call for new tax cuts costing \$1.5 trillion (including interest) over their first 10 years and \$5.7 trillion more over the subsequent decade!

To be fair, Democratic presidential candidate John Kerry quietly took the same preposterous approach during his 2004 campaign, so he could pretend that his hugely expensive tax cut program was a deficit-busting tax increase. A blessedly little-noticed tax plan put forward earlier this year by John Podesta's Center for

American Progress employs the same trickery (hidden in footnotes). But whether it's Democrats or Republicans, pretending that Bush's tax-cut wish list is the status quo is entirely dishonest.

Meanwhile, the President's panel doesn't plan to honor its pious lines about closing loopholes and treating people fairly either. Our current tax system allows many of our biggest and most profitable corporations to pay little or no tax. It taxes investment income at less than half the rate workers pay. And it tolerates rampant upper-income tax sheltering. But rather than deal with these problems, the panel wants to make them worse.

The panel tips its hand when it says it opposes any tax system that "penalizes work, discourages saving and investment, [or] hinders the competitiveness of American businesses"—a tendentious right-wing phrase meant to imply that wages, investment income and profits shouldn't be taxed. But if they're all off-limits, then what's left? The panel's likely answer will be some variant on a consumption tax—i.e., a tax system that, the panel might say, punishes spending.

A full-blown national sales tax or value-added tax replacement for the income tax seems unlikely, given the public outcry that either of these would cause at the extraordinarily high tax rate they'd require. Indeed, Republicans who pushed a national sales tax in the 2004 elections found that voters detested the idea of paying the additional \$3,000 or so a year in taxes that all but the richest taxpayers would face. So despite the fact that ultra-rightists like House Majority Leader Tom Delay (R-Tex.) still promote the sales tax idea, Bush's panel will probably tilt instead towards a "stealth" consumption tax—by adding still more loopholes for investment income and profits, partially paid for by scaling back some middle-income tax breaks.

One way or another, Bush's panel will definitely call for shifting even more of the tax burden away from wealthy investors and onto workers (penalizing work

will turn out to be okay after all). Although such changes may seem "appropriately fair and progressive" to Bush and his panel, the result will be a tax code much less progressive than current law—if not an outright regressive tax system.

What are the options for those of us who really want a fairer, simpler tax code that raises enough money to pay for public services? Of course, we must do whatever it takes to defeat the panel's evil plans. But we should also see Bush's phony call for tax reform as an opportunity.

First and foremost, we need to stress that Bush's panel is flat out lying when it pretends that its recommendations are "revenue-neutral." Once we expose the fact that the panel is promoting a \$7 trillion tax cut plan designed to bankrupt our country in perpetuity, everyone who cares about the future of our nation and our children ought to be concerned.

Second, we need to condemn Bush's panel for proposing to further shift taxes away from the rich and onto everyone else. We'll have plenty of allies, since the public is decidedly against paying higher taxes for fewer public services.

Finally, if you asked most Americans what's wrong with the tax system, they'd say that it's unfair and complicated because it has too many loopholes for wealthy people and corporations. Most Americans are right. We need to make it clear that we agree, by calling for an end to the hundreds of billions of dollars a year in corporate and upper-income tax dodges. That way we can balance the budget, maintain our country, and stop treating honest ordinary citizens as tax chumps.

I'm reasonably confident that Bush's phony tax "reforms" will go down in flames. But if we can go beyond that and persuade Americans that we have a better way to fix the tax code, we can help set the stage to elect the political leaders we need to achieve that goal.

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