CTJ Director Bob McIntyre's 4-Minute Testimony Before The National Commission on Fiscal Responsibility and Reform June 30, 2010

For the past 30 years, Citizens for Tax Justice has fought to make our tax system fairer, at the federal, state and local levels. Over that time, we've also strenuously argued that the government should pay for what it spends. After all, deficits today just mean higher taxes tomorrow, and thus unfairly shift the cost of current public programs onto our children.

So what do we think you should propose to reduce the federal budget deficit? Primarily, we need to fix the tax system.

A. Income tax reform, along the lines of the 1986 Tax Reform Act, is long overdue. But this time, because we need to address our long-term budget deficit problem, tax reform should not and cannot be revenue neutral.

1. Revenue goals:

a. One goal should be to get the personal income tax back to at least 10 percent of the GDP, as compared to the 7-8 percent that we've seen over the past decade.

b. Likewise, the corporate income tax should be restored to at least 3-4 percent of the GDP, as compare to about 2 percent currently.

2. How can we best achieve these revenue goals?

a. Get rid of more of the Bush tax cuts, as opposed to keeping 80 percent of them as President Obama wants to do, at a cost in excess of $3½ trillion over 10 years, counting interest. The Obama "rule" that no taxpayers making less than $250,000 should lose any of their Bush tax cuts is unwise and unsustainable.

b. Close tax loopholes, with a focus on the gross undertaxation of income from capital. Right now our taxation of business and investment income is a mess. As one of my high-powered tax-lawyer friends said to me recently, "while many naive economists seem to think that capital is overtaxed, the tax lawyers all know that it's hardly taxed at all."

- Corporations and wealthy individuals are shifting huge amounts of their profits and investment income offshore.
- Our depreciation rules for business investment, coupled with interest deductions, produce negative tax rates on the income from these investments in most cases. In fact, what's left of the corporate income tax is mostly a partial return on the part of that investment paid for by government through tax breaks.
- Effective tax rates on retirement savings are also less than zero in most cases (as the government generally subsidizes such savings at higher tax rates than it eventually gets back in taxes later).
- Industry-specific tax breaks further undermine our tax base.

Adopting the business tax reforms in the Ron Wyden – Judd Gregg tax reform bill, without, of course, their proposed corporate tax rate reduction, would be a good start in this area — although much more could be done.

Closing loopholes that distort investment decisions would not only raise a lot of revenue to cut the deficit, but it would also be good for our economy, by letting market forces drive investment choices rather than having the government do so through foolish tax breaks.

B. Finally, say no to a value-added tax. A VAT would be hugely regressive, it would be very hard to administer (it could require doubling the size of the IRS), and, contrary to the false claims of some, it would provide absolutely no benefit to U.S. trade.

You can find much more about our views about tax reform and deficit reduction on our website, at www.ctj.org.