FINANCE COMMITTEE RANKING MEMBER ORRIN G. HATCH:

PRINCIPLES FOR FUNDAMENTAL TAX REFORM

Preamble

Put into place about 100 years ago and last reformed 27 years ago, America's individual and corporate tax systems are in need of a significant overhaul that promotes economic growth, fairness and simplicity, and meets the challenges of today's increasingly competitive global economy. America needs a tax system that:

- helps to create a strong, robust, dynamic, job-producing economy;
- recognizes that the vast majority of small businesses are conducted as flow-through business entities, such as S corporations, partnerships, limited liability companies and sole proprietorships;
- recognizes that only 22 percent of all business income is earned by traditional C corporations;
- allows worldwide American companies to be competitive in our global economy; and
- recognizes that economic growth is of paramount importance.

The following guiding principles constitute the comprehensive tax reform plan.

Principles

The tax reform plan has seven guiding principles:

1. Economic Growth: The tax plan would significantly reduce much of the economic distortions that are present under the current income tax system. It would eliminate the anticompetitive nature of the current tax system, such as the highest corporate tax rate in the developed world, which stifles job growth and hinders the creation of a strong economy.
2. Fairness: The income tax base, which has become riddled with exclusions, exemptions, deductions, and credits, should be as broad as possible. Individual income tax expenditures currently total approximately $1.1 trillion per year. If used for rate reduction alone, eliminating these tax expenditures could permit tax rates to be reduced by about 43 percent. The tax plan would eliminate or reduce a number of tax preferences, thereby broadening the tax base while simultaneously lowering tax rates. A broad tax base coupled with lower tax rates achieves one of the principal goals of tax reform: fairness.
3. Simplicity: The National Taxpayer Advocate, in its 2012 Annual Report to Congress, identifies the complexity of the tax code as the most serious problem facing taxpayers and the IRS. The tax code has grown to almost four million words. There have been approximately 4,680 changes to the tax code since 2001, an average of more than one a day. Approximately 59 percent of individual taxpayers use paid preparers and 30 percent use tax software to assist them. Taxpayers and businesses spend about 6.1 billion hours a year complying with tax-filing requirements. Compliance costs total $168 billion annually. The annual monetary compliance burden of the median individual taxpayer was $258 in 2007. The tax plan would greatly simplify the tax

code by eliminating or reducing many tax expenditures and eliminating the alternative minimum tax (AMT). Simplifying the tax code would reduce much of the complexity for Americans to comply with the tax laws.

4. Revenue Neutrality: Tax reform should be revenue neutral and not an occasion to raise taxes on Americans or U.S. businesses. From 1972 to 2011, federal revenues as a percentage of gross domestic product (GDP) have averaged 17.9 percent. Although revenues as a percentage of GDP have been below the historical average the last several years due to the poor economy, the Congressional Budget Office has projected that federal revenues will be 19.1 percent of GDP in 2015, which is well above the historical average for the last 40 years. Therefore, revenues are already heading higher than their historical average.
5. Permanence: The tax code needs certainty. The staff of the Joint Committee on Taxation (JCT) lists over 150 provisions expiring in the period of 2011-2022. Individuals and businesses need to be able to rely on provisions in the tax law as part of personal and business planning. For example, President Obama and the Congressional Democratic Leadership, after achieving over $800 billion in tax increases in ObamaCare in 2010, $617 billion in tax increases in early 2013, argue another $1 trillion in tax increases is necessary now. President Obama and Congressional Democrats target small business owners and investors, the sources of business expansion and capital, almost exclusively for offsets for record levels of spending and new spending initiatives. The lack of certainty in our tax laws hinders job creation at a time when unemployment is unacceptably high.
6. Competitiveness: The combination of the highest corporate tax rate in the developed world, worldwide taxation, two levels of taxation of C corporation profits, and the temporary nature of some tax incentives

make U.S. companies less competitive when compared to their foreign counterparts. In addition, worldwide American companies are discouraged or penalized from repatriating foreign earnings because of the U.S. corporate tax that applies at the time of repatriation. The tax plan would reduce the high U.S. corporate tax rate and also achieve neutrality through a competitive international tax system, thereby placing worldwide American companies on an equal footing to their foreign competitors when conducting business in a foreign country. The result would be more worldwide American companies establishing or retaining their corporate headquarters in the United States, the creation of more exports to global markets and the reinvestment of business profits in the United States rather than abroad, all resulting in the creation of jobs in the United States and a stronger U.S. economy. Lowering the individual and corporate tax rates to a maximum of 25 percent and eliminating the second level of taxation of C corporation profits will allow all U.S. businesses, regardless of organizational form, to be more competitive and enjoy the benefits of a simpler tax system.

7. Savings and Investment: Many aspects of the U.S. income tax system discourage savings and investment by individuals, thereby hindering long-term growth. The tax plan would result in a tax system that is more favorable to savings and investment than our current tax system.