

Marginal Tax Rates, Family Tax Relief

Written by Sen. Charles Grassley
Monday, 21 June 2010 09:33

Floor Statement of Senator Chuck Grassley Unfinished Time-Sensitive Tax Legislative Business: Expiring Lower Marginal Rates and Family Tax Relief

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Last week, I discussed the unfinished tax legislative business. I used this chart. The legislation before the Senate deals with only one small, but important, piece of unfinished tax legislative business. These tax extenders are on their second Senate stop. As the chart shows, the tax extenders, which are overdue by almost half-a-year, are not alone. There are three other major areas of unfinished business.

One area is the one I discussed a couple of days ago. It's the Alternative Minimum Tax ("AMT") patch.

Another area is the death tax. That's the area I talked about yesterday.

The third area is the 2001-2003 tax rate cuts and family tax relief package. I'm going to discuss that policy today.

As important as the AMT patch and the death tax are, they are dwarfed by the impact of this third package of expiring tax provisions. I'm referring to the marginal rate cuts and the family tax relief of the bipartisan tax relief that was enacted in 2001 and 2003.

Efforts to make these tax relief packages permanent were rebuffed. The resistance was the result of a hard and determined Minority, marshaled by the Senate Democratic Leadership. It was reflected in the budget resolutions offered and filibusters. Even more inexplicable than the Democratic Leadership's failure to extend popular and bipartisan tax relief enacted in 2001 and 2003, were some of the reasons given. It was basically said that since Republicans wrote the law, it is our, meaning Republicans', problem. The left wing of the blog-o-sphere echoed the Democratic Leadership.

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Some of those reflections in the blog-o-sphere even alleged that the sunset was a Republican conspiracy.

I came across a 2007 posting on the Daily Kos blog. The poster reviewed the provisions of the Tax Increase Prevention and Reconciliation Act of 2005, which was enacted in May 2006. That legislation contained two basic pieces. One was an extension of lower rates for capital gains and dividends. Another was an extension of the Alternative Minimum Tax (“AMT”) patch. The poster’s analysis concluded that that the bill was a “poison pill” designed to sabotage the economy to increase the prospects of Republican candidates in 2012. The argument seems to be that having popular and bipartisan tax relief from 2001 and 2003 all sunset at the end of 2010 would cause such an economic mess that the Democrats, assumed by the poster to be in power at the time, will take the blame and suffer at the polls.

In a posting titled “The Monster Republican Tax Hike,” the poster stated that “Republican Congresses chose not to make their tax cuts...permanent.” The argument seems to be that Republicans put sunset clauses in the bill solely to improve long term budget projections and that responsibility for the expiration of tax relief rests completely with Republicans. The implication is that by lowering taxes, Republicans are responsible for a tax increase that would occur when the Democratic majorities control both houses of Congress.

The commentaries I just referred to are available to everyone in the April 12, 2007, edition of the Congressional Record. I’ve heard that some Members on the other side, as well as key staff, have made similar assertions.

As one who was involved in the writing of these tax relief plans, I can tell the Senate, without reservation, that these assertions are untrue. To begin with, it is completely ridiculous to suggest that President Bush and Republicans in general did not intend or desire the permanence of tax relief. President Bush and Republicans in general have favored tax relief permanence.

You need look no further than the budgets I’ve referred to. The Administration and Republican Congress budgeted for an extension of the bipartisan tax relief provisions. That action affected the bottom lines of those budgets. We heard, over and over and over and over again, the criticisms of those budgets. We heard it from the Democratic Leadership, liberal think tanks,

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and some sympathetic East Coast media.

As a matter of fact, after three and one-half years of Congressional control, we still hear the Democratic Leadership's criticisms every day. Just recently, the Speaker of the House was asked when the Democratic Leadership would cease laying the blame for all fiscal problems on Republican budgets for the years 2001-2006. MSNBC's Chuck Todd recently interviewed the highest-ranking Democrat in the House. Mr. Todd asked if there was a statute of limitations on placing responsibility on President Bush. "At what point do you think the public says, 'You know what, yes, we were unhappy with the Bush administration ... [but] stop blaming the Bush administration.' When does that run out?" Mr. Todd asked. "Well, it runs out when the problems go away," the Speaker replied.

The blame game is no substitute for doing the job you've been hired on to do. People elect folks to public office to govern. Governing isn't just about enjoying the benefits of public office. Part of governing is also about making choices. Some of those choices are tough. And those of us in public life need to be accountable for those choices. The Democratic Leadership can't have it both ways. They can't continue the bipartisan tax relief and not be responsible for deficit impact those policies carry. No family can make decisions about its budget and evade the consequences by blaming their next-door neighbors. No business can make decisions about its budget and evade the consequences by blaming a competing business.

The fiscal consequences are an important part of that decision. The statutory pay-go regime was enacted as part of the last debt limit increase. It covers only part of the revenue loss of making permanent the bipartisan tax relief plans of 2001 and 2003. For instance, the alternative minimum tax ("AMT") patch is extended for two years only. Death tax policy is extended at 2009 levels only through 2011. Even with those limitations, the Joint Committee on Taxation [states](#) complying with the pay-go rule means a revenue loss of over \$1.5 trillion over 10 years. I ask unanimous consent to insert in the record a copy of a Joint Committee on Taxation [estimate](#) of the tax relief covered by statutory pay-go.

The expiring tax relief I'm talking about today includes the marginal rate cuts and family tax relief. Under statutory pay-go, the amount permitted in this area is about \$1.4 trillion. It covers about 80% of extending all of the marginal rate cuts and family tax relief from the 2001 and 2003 bipartisan plans.

That number makes sense because the bipartisan tax relief plans cut taxes for virtually every

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American family that pays income tax. How significant and widespread is this tax relief? This [chart](#), drawn from Congressional Budget Office (“CBO”) data, may shed some light.

The line measures the effective tax rate paid by the top 5% of taxpayers.

This group roughly represents those taxpaying families with incomes over \$250,000. Under the Democratic Leadership’s budget, this line will go back up to where it was in 2000. That is also where the President’s budget and the statutory pay-go regime would take the rates.

Republicans believe this significant tax increase will be a mistake. We hope that we will be able to debate this policy in the House and Senate in committee and on the floor. That was, after all, the process we followed when the bipartisan tax relief plans were passed in 2001, 2003, and 2005. We will point out that about half the heavy tax increases will fall on small business owners. The top marginal rate on small business owners will rise by almost 17%. Democrats and Republicans agree small businesses are the key job creators of the future. President Obama correctly pointed out that small businesses create 70% of new jobs. The rest will also hit investment hard. The top capital gains rate will rise by 33%. The top dividend rate could rise by almost 275%. All of this is set to occur not at some far distant future point. It occurs in a little over half a year from now. We all hope the economy is on a path to recovery, but does this heavy tax increase on small business owners and investment ever make sense? Even the most liberal member on the other side might wonder whether it makes sense now. Do we really think the private sector will grow if we hit small business and investors this hard 6 months from now?

You can see that the bipartisan tax relief brought the effective rate down with respect to the bottom 95% of taxpayers. That’s the red line. Here it is.

Some of my colleagues on the other side of the aisle may be thinking to themselves, sure this is true for income taxes, but what about other federal taxes like Social Security, which make up a large percentage of taxes paid by middle and low-income individuals? Well, this chart is not just a depiction of federal income taxes, but includes all federal taxes. This includes Social Security, other payroll taxes, and excise taxes frequently referred to by my colleagues on the other side of the aisle as regressive taxes.

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Even including all federal taxes, over the last 30 years, the top five percent have paid a lot higher effective tax rate than the bottom 95%. It's been that way no matter which party has controlled the White House, Congress, or both. It shows something you would never know if you listen to the rhetoric of some on the other side, the punditry on the left, and some in the media. Here's what it shows: a progressive income tax system is deeply embedded in our culture. The bipartisan tax relief plans of 2001 and 2003 made the system more progressive. Those plans brought the rates down for the bottom 95% of taxpayers.

The 2001-2003 tax relief plans dropped the effective tax rates for taxpaying families under \$250,000 to their lowest levels in a generation. This is the current law level of taxation. In a little over half a year, these rates will pop back up for all these taxpayers.

I have a couple of charts that illustrate how significant the tax hits will be. Middle income families will run right into these tax walls. For a family of four with income of \$50,000, that's a [tax wall](#) of \$2,300. For a single mom with two kids earning \$30,000, that [tax wall](#) means \$1,100.

The President, as powerful as he is, cannot unilaterally hike or cut taxes. He needs a bill from Congress to do that.

On our side, we want all the tax relief made permanent. We want the opportunity to debate and amend a bill that deals with this basic level of taxation. As has been made clear for the last three and one-half years, Republicans do not control this Congress. We cannot decide the fate of the marginal rate cuts and family tax relief. This is unfinished business. It's unfinished tax legislative business that affects virtually every American taxpayer.

It will have fiscal consequences. They are pretty significant fiscal consequences. But, if the Democratic Leadership wants to keep these levels of taxation low, then they have to deal with the fiscal consequences. Alternatively, the Democratic Leadership can raise taxes and claim the revenue. Not changing the law, by failing to act, is the same as raising rates on virtually every American taxpayer. But they will have to explain to taxpayers why they raised taxes by almost 10% on average.

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In the 2006 election, almost 4 years ago, the American People provided the Democratic Leadership with control of the Congress. In the 2008 election, over 18 months ago, the American People provided the Democratic Leadership with the largest majorities in more than a generation.

They also provided the Democratic Leadership with a President of their party.

The Democratic Leadership spent the period of 2001-2006 thwarting efforts to make the bipartisan tax relief of 2001 and 2003 permanent. Upon assuming control, they have spent three and one-half years with no legislation to make permanent or even extend the marginal rate cuts and family tax relief packages. My friends in the Democratic Leadership need to step up to the plate. We've had budgets and statutory pay-go. We've debated and voted on the breadth and composition of the marginal rate cuts and family tax relief in those contexts. No legislative action. No House committee and floor action. No Senate committee and floor action.

The Democratic Leadership needs to step up to the plate. Blaming Former President George W. Bush and Republican Congresses of many sessions ago is no substitute for running this time-sensitive tax legislative business through the process. Put forward proposals. Debate them. Allow for amendments. Allow votes on amendments. Do the People's Business. It's time to check these boxes.