

To: Interested Parties  
From: Blue Dog Research Forum  
Re: A Framework for Tax Reform  
Date: October 2011

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Few issues are as fraught with both political peril and opportunity as taxes and tax reform.

As former moderate members of the House of Representatives and as veterans of past debates on taxes and the federal budget, we've witnessed firsthand the political price of an honest debate on this issue.

Nevertheless, we ask both Democrats and Republicans to call a truce on taxes and work sincerely toward a comprehensive, bipartisan agreement on tax reform by June 2012. The time for action is now.

More than anything, our economy cannot heal without some certainty and stability—which a deal on tax reform can bring. The political stalemates in recent months over government spending and the federal budget have both sapped consumer confidence and led to an increasingly unstable business climate.

While both parties fall into hyper-partisan trench warfare that delivers neither results nor benefits to American families, businesses are unable to make decisions about future investment, growth and hiring. In the meantime, unemployment remains at a stubborn 9%, and other countries across the world are seizing every advantage to challenge America's global economic leadership.

On the one hand, the ideological fault lines over taxes seem stark. For Democrats, it's millionaires versus the middle class and the fairness of the tax burden. For Republicans, taxes are a proxy fight for the size and scope of government.

On the other hand, both sides still share a common set of goals that should be driving the debate. In particular, we see three goals that can provide a pragmatic, non-ideological framework for a sensible debate on taxes:

## **1. Maintaining American global leadership**

Setting aside the question of whether companies pay “enough” in taxes, our federal tax code is simply too complex. Companies spend between \$40 billion to \$85 billion<sup>i</sup> a year on tax compliance: preparing taxes, complying with Internal Revenue Service regulations and combing the more than 9 million words<sup>ii</sup> that make up the federal tax code and regulations for loopholes. This is money that could otherwise go toward investing in new equipment, research to spur innovation or to workers' salaries, which have stagnated.

Moreover, the top U.S. corporate tax rate of 35% is higher than that any of the other “Group of Eight” major industrialized economies that are our principal competitors.<sup>iii</sup> Even if that’s just the “sticker” rate, the over-abundance of loopholes, rules and complexity are still a net drag on business and a black mark on America’s ability to attract and retain companies.

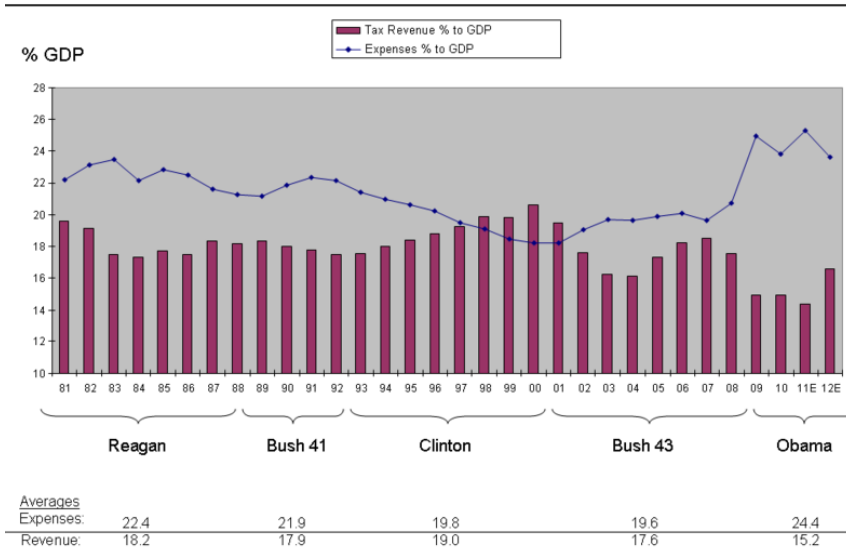
## 2. Investing in Future Growth

The current debate over the taxes that millionaires pay (the so-called “Buffet Rule”) misses the point on the real problem with taxes. The problem isn’t whom we’re collecting taxes from but how much and whether it’s sufficient to meet our nation’s needs and priorities.

On average, government spending made up 20.8% of our nation’s total economic output from 1970 to 2010. This includes not just spending on bridges, road and schools, but money spent on the military to keep our nation safe and vast amounts of spending on the critical safety net programs of Social Security, Medicare and Medicaid.

The federal government’s revenues over the same four decades, however, have averaged 18%, according to the Congressional Budget Office. This 2% average gap between revenues and spending is what accounts for the annual deficit in the federal budget and when added up year after year accounts for our mounting national debt.

Federal Tax Revenue & Expenses as % to GDP (FY 1981 – 2012)



Source Data: Congressional Budget Office; 2011 Budget

We could certainly cut our way to a place where federal spending matches the low rate of revenue collection, but that would also mean sacrificing the investments we need to make that will pay off in a stronger, richer country down the road. No country can prosper without an efficient physical infrastructure for moving people and goods, transmitting power and sharing data. No country can prosper without an educated and innovative workforce.

Both Republicans and Democrats agree on the need for more investment in the principal ingredients of economic growth, but progress can only happen if both sides let go of their rigid ideological stances and embrace a balanced approach to tax reform.

For Democrats, this means entitlement reform. Spending on Social Security, Medicare and Medicaid is spending on *consumption*, not investment. Smart reforms to end fraud and improper payments and make the delivery of health care more efficient can mean less spending without painful sacrifices. For Republicans, this means acknowledging that *some* new revenues are necessary and that spending cuts alone will result in crippling our nation's ability to grow.

### 3. Delivering Results

Only in Congress is "compromise" considered a four-letter word. In almost every opinion poll, people say they favor compromise and want results. We should listen.

Everyone knows by now that Congress' approval ratings are approaching single digits. But this is a problem that can't be solved by blaming someone else. Restoring public faith in Congress and in government can't happen through a protracted, bitter partisan battle where scoring points takes precedence over progress.

Not only is the current lack of action contributing to public disgust, it's having a damaging impact on America's ability to recover from the downturn. Political dysfunction was the principal reason America's credit rating was downgraded earlier this year, and the uncertainty created by gridlock is hobbling the ability of companies to make long-term decisions on investment and hiring.

Congress needs to deliver a set of tangible results that make it easier for people to pay their taxes, that raise the revenue the country needs to deliver better schools, roads and other investments that directly benefit taxpayers and that send clear signals to Americans that Congress cares about the ability of ordinary people to save for college, buy a home, start a business or retire in comfort and security.

Taxes are simply a mechanism for raising the money the government needs to fulfill its commitments to the American people. We need to get the tax debate behind us so we can get to the real business of helping middle-class Americans get ahead, helping

companies and small businesses create jobs and advocating for our nation's interests around the globe so that America continues to lead.

There is too much at stake to let ideology block progress. Do the right thing. Americans will see the difference, and they will reward it in 2012.

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<sup>i</sup> Written Statement of Nina E. Olson, National Taxpayer Advocate, before the Committee on Small Business, United States House Of Representatives, April 13, 2011, [http://www.irs.gov/pub/irs-utl/ntatestimony\\_housesmallbusiness\\_041311.pdf](http://www.irs.gov/pub/irs-utl/ntatestimony_housesmallbusiness_041311.pdf)

<sup>ii</sup> Tax Foundation, "Number of Words in Internal Revenue Code and Federal Tax Regulations, 1955-2005," October 26, 2006, <http://www.taxfoundation.org/taxdata/show/1961.html>

<sup>iii</sup> Congressional Budget Office, "Corporate Income Tax Rates: International Comparisons," November 2005, <http://www.cbo.gov/ftpdocs/69xx/doc6902/11-28-CorporateTax.pdf>