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United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

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January 29, 2015

The Honorable Orrin G. Hatch
Chairman
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Hatch:

We greatly appreciate your continued efforts to advance tax reform and are committed to working with you on reform that will grow the economy and expand the middle class. As the newly formed tax reform working groups get underway, this letter outlines core principles that Finance Committee Democrats believe must inform any consensus tax reform product.

By adhering to these principles, we are confident it is possible to modernize our tax system to boost middle class wages, savings, education and retirement security; promote domestic investment, job growth and international competitiveness; and set the stage for a fiscal policy that leads to balanced budgets well into the future. Modernizing the tax code to be more efficient, more progressive, and more supportive of the middle class are priorities that we can all agree on.

First, it is crucial that the tax reform process goes through regular order and not reconciliation. Reconciliation imposes tight limitations, such as the Byrd rule, that could inhibit our work by forcing us to focus on procedural intricacies rather than good tax policy. Using or even the implicit threat of using the reconciliation process for tax reform would destroy the necessary bipartisanship that made the 1986 reform effort so successful.

Second, we believe that any reforms to the tax system should make it more progressive than current policy and should make it easier for American families not just to make ends meet, but get ahead. This principle was shared by President Reagan when he praised the 1986 Tax Reform Act for removing millions of Americans from the tax rolls, allowing them to invest their earnings in education and family which in turn created opportunities for themselves and their children. He called the reform "a sweeping victory for fairness" and "perhaps the biggest anti-poverty program in our history."

Further, we believe the existing differential between capital and wage income is too large, and reform must be fair to both.

We also believe that businesses and middle class families require certainty. It is imperative that we in Congress permanently extend and improve important credits to help middle class families, as well as those trying to join the middle class, by, in part increasing the affordability of education and training, and enhancing opportunities to save, especially for retirement. When applying this principle, any reform package must take into account the varying cost of living differences among States and regions, and ensure all middle class families are protected regardless of where they live.

Third, any successful tax reform proposal must have a firm focus on supporting domestic jobs. To achieve this goal, the tax code must maintain or improve important tax benefits that support innovation, domestic production, and manufacturing.

Fourth, we firmly believe that tax reform should be focused on providing a revenue base that is adequate to meet our country's needs for investing in infrastructure, protecting retirement security for today's seniors and future generations, providing quality education and job training for our young people, and supporting our nation's children and families in meeting their most fundamental needs.

Fifth, we must achieve these goals while exercising fiscal prudence. Although we have made substantial progress over the past three years in stabilizing our deficits, our long-term debt trajectory remains quite troubling. We should not gamble with our fiscal health by relying on unproven revenue-estimating methods and budget gimmicks, such as one-time revenue or timing shifts. Accordingly, we believe that comprehensive tax reform should raise real and permanent revenue over the next 10 years and beyond to help reduce our national debt.

Sixth, we urge that in addition to the standard analytical tools, such as revenue estimates and distributional analyses, the Committee also secure the assistance of the Joint Committee on Taxation to determine how any tax reform proposal would affect different industries and geographic regions. That will increase transparency and allow us to write the best possible bill without inadvertently creating winners and losers.

Finally, we need to ensure that our corporate tax system is internationally competitive. While industrialized nations that invest more in education, infrastructure, and other programs are attracting new businesses, the U.S. is falling behind. There can be little debate that the current rules for taxing income earned abroad represent a competitive challenge to U.S. firms, and significant improvements can be made to put our companies on a level playing field in the global marketplace, including reducing our statutory corporate rate while ensuring that all corporations pay their fair share. However, the goal of any tax reform effort must be more jobs and growth here in the U.S., not more opportunities for tax planning and offshoring either of jobs or investment.

We appreciate your leadership on tax reform, and we believe that, working together, we can write tax reform legislation that meets these principles and achieves strong bipartisan support.

Sincerely,



RON WYDEN



CHARLES E. SCHUMER



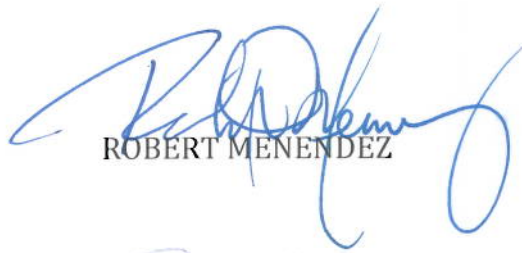
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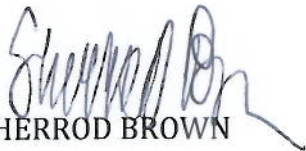
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