



<http://finance.senate.gov>
Press_Office@finance-rep.senate.gov

Floor Statement of Senator Chuck Grassley:
More hits on the American Family Budget From Planned Tax Increases
Delivered Wednesday, June 11, 2008

Last night I discussed the spike in gas prices. These increased costs are hammering most Americans, including too many Iowans. This Iowan has seen it first hand at the gas station in New Hartford. I read reports that the stimulus rebate checks are being eaten at the pump. In addition to this hit from gas price hikes, America's families are facing a big hit from a planned tax hike. I'd like to take a few minutes today to talk about that additional hit on the family budget. You'd think no one would increase taxes in a time of economic distress. Record tax hikes, in an era of higher gas prices, would seem to be a recipe for economic disaster.

Believe it, though. The other side, including their presidential candidate, proudly and passionately, wants to raise taxes. How, you might ask? By increasing tax rates and taxing investment income. So if the other side prevails in the November elections, we'll be on the path to a tax hike. Taxes should rise by almost 10 percent -- with virtually every American paying more.

I'd ask folks in the media to take a serious look. It's in the Congressional Budget Office reports. It's the effect of letting the bipartisan tax relief expire.

How much more taxes would we have to pay? A lot more, say folks on the other side. Especially those Americans who are defined by the other side as making a lot of money. But what's a lot money?

The Democrats say that if you're a family making at least \$250,000 a year, you make a lot of money and don't pay enough taxes. That puts you in the current 33% tax bracket. But can Americans making less than \$250,000 a year be sure they won't pay more taxes? What's to say the other side won't tax Americans making say, \$100,000 a year? Or even \$50,000 a year? The bipartisan tax relief made sure that all Americans are paying less in taxes. In 2001 and 2003, Congress did the right thing and reduced the tax liability for all hard-working Americans.

This tax relief should NOT be labeled the BUSH TAX CUTS. Yes, President Bush had a great deal of involvement and deserves some credit. But I want to remind people, that Congress passed the 2001 and 2003 tax relief. The Finance Committee, divided 50% Republican and 50% Democrat at the time, completely re-wrote President Bush's plan. Max Baucus, the current chairman, was my

partner on the 2001 bill. We overcame the White House's desire to write a Republican-only bill and skip the Committee process. So stop calling the tax relief the "BUSH TAX CUTS." This label is politically motivated to confuse the American taxpayer about bipartisan tax relief.

This label is repeated over and over again. The head of the Senate Democrats' campaign outfit beats his partisan drum with this phrase. You know he relies on polls to drive his partisan message. The label is likewise parroted over and over and over again in press reports. The Sunday political talk show hosts are even getting into the act.

If I had a nickel for every time I heard "BUSH TAX CUTS" – especially from the political pundits – I'd single-handedly be able to pay-off the national debt. Colleagues and friends in the media, please lay off the false label of BUSH TAX CUTS. Instead, look at the substance.

Here's the substance. The 2001 and 2003 tax relief put more money into the pockets of hard-working Americans. How? By lowering the tax rates, providing marriage penalty relief, and providing the child tax credit. I don't hear much press discussion about how much money hard-working Americans are going to have to pay if the 2001 and 2003 tax relief expires. I ask media folks take a look at this data. It is real. It means dollars and cents to virtually every American taxpayer. That cushion in the family budget will be critical to deal with the burden from higher gas prices.

Here's the data – If the 2001 and 2003 tax relief expires, a family of four with household income of \$50,000 will pay \$2,300 more in taxes. That's A LOT of money for a family earning \$50,000. Here's a chart that shows it.

These families have hit a brick wall of higher gas prices. If the other side prevails, these families will run smack dab into a tax brick wall.

Here's more data – a single mother with two children earning \$30,000 will pay \$1,100 more in taxes if the tax relief expires. This single mom with two kids will be crushed by a brick wall of higher taxes.

There's a lot of talk about the need for change in economic policy. Seems like change, no matter what it means, is good on its face.

Many in the media and Beltway punditry fawn over the soaring rhetoric of the eloquent Democratic presidential candidate. Indeed, there is almost a cult of personality surrounding the charismatic junior senator from Illinois. These folks in the media and Beltway punditry need to cut through the fog. They need to look at what the Democratic notion of changed economic policy will mean to folks beyond the Beltway. Look at this change, not from the perspective of high-paid latte liberal crowds in the bluest areas of the bluest states. Look at what this change means in the offices, factories and farms in the Heartland. That's what I ask of many in the media and the punditry.

Now, gas prices are also squeezing the country's main job creators. I'm referring to small business. Small business has a tax hike to worry about as well. This tax hike piles on top of higher energy costs that are slamming small business. According to the Treasury Department, about 70% of

taxpayers who are “flow-through” business owners are in the top 5% of taxpayers. So my friends on the other side of aisle – along with their presidential candidate – are effectively saying that they want small business owners to pay at least 13 percent more in taxes.

Small business owners aren't Bill Gates or Warren Buffett. Small business owners are hard-working Americans who live on Main Street. They are vital to our economic well-being. Small business employs a vast majority of America's workers. If small business owners have to pay more money to the government, that's less money they can use to hire someone. If that person is not hired, what happens? The individual is unemployed. Has no income. Has no health care. Instead, that worker stands in the unemployment line and collects an unemployment check. Like I said, all of these tax hikes on small business would pile on top of the gas price hikes already crippling small business. Why should they pay more taxes? Is this change good because they can afford it? That's what the other side will say.

But it makes no sense. What they're saying is because these taxpayers can quote-unquote, afford it, these taxpayers should be paying an even greater percentage of the federal government's taxes. But what does “afford it” mean? Don't we want all taxpayers, not just those making \$250,000 or more, to pump their disposable income back into our economy? Do we want to steer taxpayers – including upper-income taxpayers – toward lower-return, tax-favored investments?

Do we want to steer their money away from re-investing in small businesses or start-up companies? By the way, I want to compliment one of Senator Obama's surrogates. I'm referring to Governor Tim Kaine of Virginia. On Fox New Sunday, Governor Kaine indicated that Senator Obama would propose a 0% capital gains rate for small start-up companies.

Under current law, a 7.5% rate applies. Now, we Republicans could look at this proposal. But unfortunately for the American people, Governor Kaine said Senator Obama would substitute this rate with a 33% increase in capital rates for other investments. The substitution would be bad for other investors, so let's focus on the pro-growth side of the proposal and consider dropping the rate for start-ups from 7.5% to 0%.

But the political talking point that we hear again and again, raise taxes on the country's top taxpayers to generate “needed” revenue, is communicated to the American public. It is said enough times and repeated by the press, so many times, that many Americans believe it. It is not the fault of that portion of the American public that believes it. It's refreshing that a vast majority of Americans think the general idea of a tax increase is a bad idea – especially in these economic times.

But the notion that there are no downsides for taxpayers – or for economic growth – if income taxes go up by 10% is a notion that the other side believes. Many in the media seem to accept this notion without further examination. If middle- and upper-income taxpayers see a bigger tax bill, do they believe that our economy will be better off?

It is clear lower tax rates have generated record tax revenues. I challenge some of the media who are skeptical about tax relief to take a look. Here is a chart that illustrates that lower taxes have generated record tax revenues.

This chart illustrates that federal tax revenues have been – and generally continue to be – coming into the federal Treasury at or above the historical average of 18.2 percent of GDP. Now what the heck does that mean? It means that lowering the tax rates has not gutted federal tax revenues. So don't believe the Chicken Littles who say the sky will fall if we keep taxes low. It means that keeping taxes low -- even for Americans earning \$250,000 a year – has brought in record-breaking revenue. It also means that the government doesn't need to raise taxes in order to generate revenue.

Now I can't let my colleagues on the other side– and some of the skeptics in the press, for that matter – say to the American public that if you earn less than \$250,000 a year, you won't see higher taxes. Why? There are millions of investors earning less than \$250,000. They earn dividends and capital gains. Let's take a closer look. In 2003, Congress reduced the top tax rate on capital gains from 20% to 15%. Congress also tied dividend income to the capital gains tax rate – that is, 15%. For low-income taxpayers, the tax rate on capital gains and dividends is currently zero. That's ZERO, with a capital Z. Millions of low-income taxpayers receive dividends and capital gains. All of these taxpayers were not making over \$250,000. I'll shed light on this fact with a chart.

Nationally, over 24 million tax returns reported dividend income. In Iowa, for instance, over 299,000 families and individuals claimed dividend income on their returns. Here's another chart dealing with capital gains. Nationally, 9 million families and individuals claimed capital gains. Over 127,000 of them were folks from Iowa. I have fought both Democrats AND Republicans to ensure that our country is set on the right course. That course is economic prosperity. I'd like to see a real discussion of the negative implications of changing current economic policy. With high gas prices squeezing taxpayers, it's more compelling than ever. Let's clear away the fog about the expiring bipartisan tax relief. Broad-based tax increases aren't gauzy “feel good” economic policy changes. Let's examine the benefits of keeping taxes low.