United States Senate
Committee on Finance

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Floor Statement of Senator Chuck Grassley:
Offshore Deferred Compensation and Tax Extenders Bill
Delivered Thursday, July 10, 2008

A series of correspondence has gone back and forth between the Republican and Democratic leadership regarding the extension of expiring tax provisions and energy tax incentives.

On July 3, Leader McConnell sent a letter to the Majority Leader, urging that he work with us to find areas of bipartisan agreement in order to break the current impasse over extending these time sensitive provisions.

On that day, the Majority Leader responded in a sharp manner. Here's his quote: "While I am pleased that Republicans appear to have abandoned their fiscally irresponsible ways when it comes to the extenders bill, it is hard to comprehend why Senators McConnell and Grassley would choose to cut programs to help working families, seniors, and veterans in need of health care in Kentucky and Iowa in an effort to protect multinational corporations and hedge fund managers."

On a preliminary point, in all the back and forth on this, I have not criticized the Majority Leader by name. In the tension that comes in Senate debate in a political environment, I think it best to stick with that course. I'm disappointed the Majority Leader didn't keep the discussion on that level.

With all due respect to the Majority Leader, he seems to have misread this letter. I'd like to set the record straight on a couple of important points.

First, simple extensions of expiring tax relief, including an extension of the AMT patch, should not be offset with accompanying tax increases. This does not mean that we are opposed to offsetting the revenue lost from new tax relief policy with spending reductions or revenue raised from tax proposals that are grounded in good tax policy.

That brings me to the second point. The distinguished Majority Leader accused Leader McConnell and me of protecting hedge fund managers. This is simply not the case.

In fact, the House extenders bill contains an offshore deferred compensation proposal. This proposal that the Democrats actually support allows these same hedge fund managers a very generous tax break that is not available to the average taxpayer.

The House-passed hedge fund proposal allows these hedge fund managers to avoid paying tax on their offshore deferred compensation if they make a cash donation to charity equal to 100 percent of the amount of the offshore deferred compensation. Meanwhile, the average taxpayer is limited in how much they can deduct – even for contributions to charity. They can only deduct charitable contributions if those contributions don't exceed 50% of their adjusted gross income.

So, if a teacher donated his or her entire salary to a charity, he or she would only be able to claim about half of that as a deduction. Meanwhile, a hedge fund manager who sheltered income in the Grand Caymans would be allowed to claim a deduction for the entire amount of his or her sheltered income.

So I want to be clear. Not only do I support the policy of changing the tax treatment of off-shore deferred compensation for hedge fund managers, but I'd also make sure we corrected the giant loophole in the House bill that benefits hedge fund managers. We should make sure that if we're going to tax the deferred income, we don't leave an escape hatch in the future.

With respect to the spending cut allegation, the Majority Leader's comments, again with all due respect, imply he has not read the Republican Leader's letter correctly.

The Republican Leader's offer to break the stalemate does not pit spending cuts for benefits for working families, seniors, and veterans against expired tax relief provisions. The spending described in the letter is for unspecified and unwritten appropriations bills as far as 10 years in the future. The general spending account identified represents the excess of new future spending levels over current law levels for non-defense discretionary spending plus inflation. None of the current law levels of these categories of spending would be cut. What's more, the Republican Leader's offer would leave intact nearly all of the $350 billion in new extra spending. On its face, it is an extremely modest revision of this extra spending. I ask unanimous consent to place in the record copies of the Republican Leader's letter and the Majority Leader's response.

To put the matter in some perspective, I ask unanimous consent to place in the record an article containing a summary of an analysis by noted economist Kevin Hassett, a senior fellow and director of economic policy at the American Enterprise Institute ("AEI"). According to the analysis, if the last Clinton Administration budget were the baseline, Federal spending would be $400 billion less than it is this fiscal year. Dr. Hassett's analysis accounts for spending increases for the Global War on Terror and related matters that were anticipated at the end of the Clinton Administration. The analysis shows that other government spending is trending $400 billion above where it otherwise would be.

In essence, the Republican Leader's offered offset category is future undefined spending budget "room" that did not materialize until the conference report on the budget was adopted a few weeks ago. Keep in mind that this new, undefined future spending sits on top of a baseline that is, as Dr. Hassett's analysis shows, $400 billion higher than the trend-line from the last Clinton Administration.

If the Majority Leader does not engage us on this deficit neutral offer, then he is putting taxpayers in Nevada at risk for the loss of several deductions they used on tax returns for last year. Included are the state sales tax deduction, college tuition deduction, and teachers' classroom expense deduction. The latest IRS Statistics of Income data on the number of families and individuals claiming these benefits for the states of Nevada, Kentucky, and Iowa will appear in the record after my discussion.

The tradeoff is clear. Deal with these tax benefits which affect taxpayers now. Offset them with an undefined extra spending account for appropriations bills that won't be written for several years from now. All of that can be accomplished without adding a penny to the Federal deficit.

I yield the floor.

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