Committee On Finance

Max Baucus, Ranking Member

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Floor Statement of Senator Max Baucus
on Roth IRA Provision in Tax Reconciliation Conference Report

Mr. President, a few days ago, at Lincoln Center in New York City, illusionist David Blaine completed a week in a water-filled bubble. He then got himself chained up, got rid of his air hose, and tried to escape from the chains, while setting a world record for holding one's breath underwater. His goal was to hold his breath for nine minutes.

His feat was impressive. But he failed. After seven minutes, he had to be let out of the remaining chains. He had to be rescued.

This bill also contains an illusion. This bill's illusion is paying for tax cuts with further tax cuts. Like Mr. Blaine's illusion, this bill's illusion also fails.

I give Mr. Blaine a lot of credit. He does his illusions in full view of the public — an open water bubble in the middle of New York City.

The tax bill does its illusions in the dark — outside the budget window.

Some of those viewing Mr. Blaine in New York City thought he had a lot of chutzpah to try his feat. The sponsors of this tax bill also have a lot of chutzpah if they think they can balance one set of tax cuts with another set of tax cuts — and call that fiscal responsibility.

Mr. Blaine called his stunt "Drowned Alive." That is also a fitting name for what this bill would do to the American taxpayer.

I am talking about section 512 of this bill. That section would remove the income limits on conversions from traditional IRAs to Roth IRAs, effective in 2010. Under this provision, all who convert their IRA accounts in 2010 get a tax break — two-year averaging of the taxable amount of the conversion, with payments to be made in 2011 and 2012.

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Why does the bill contort these changes into 2010 through 2012? There is an easy explanation. The Conferees wanted to raise money in 2011 through 2013. They needed money on those years to help cover the cost of extending capital gains and dividends cuts. And they needed to cover those costs to avoid a point of order under the Byrd Rule. So a 2010 effective date and the funneling of transfers into 2010 serve a clear purpose.

The sleight of hand is that a provision that loses money — billions of dollars a year — in years beyond the budget window are made to pass muster as a revenue offset provision. The illusion is to call this provision a revenue raiser.

How does this provision raise revenue? It encourages taxpayers who earn more than $100,000 a year to transfer traditional IRA balances into a Roth account. These taxpayers would pay taxes in the short run on traditional IRA balances and get tax-free investment income later.

Take for example a taxpayer with an IRA holder who makes $120,000 and is covered by an employer-sponsored retirement plan. Say that this taxpayer contributes to a traditional IRA. Under current law, the contributions would not be deductible. At retirement, the taxpayer would pay ordinary income taxes on the investment earnings — what tax advisers call “the inside buildup.” But the original contributions would be returned tax-free. They would be what tax advisers call “basis” in the account.

In 2010, say that the taxpayer takes advantage of the new law we create today and converted the traditional IRA to a Roth IRA. In 2011 and 2012, the taxpayer would pay taxes on 50 percent of the investment earnings that were in the account. At retirement, the taxpayer could withdraw any additional buildup in the account tax free.

So the provision would raise revenue by taxing the conversion in 2011 and 2012. Then the provision would lose revenue when withdrawals were made from the account in the future.

The provision would thus borrow from our children. The Conferees felt a need for revenue in 2011 and 2012 to pay for a two-year extension of the capital gains and dividends cuts. So this bill would take the revenues from the future and claim them now.

The philosophy of this bill is: Let’s just spend it now. Let our children figure out how to replace the revenue that would have been collected ten or 20 or 30 years from now.

How much revenue would this provision take from our children? The Joint Tax Committee’s revenue estimates show losses of more than $1 billion in 2014, $1.2 billion in 2015. To get a good idea of the longer-term losses, we asked the Joint Tax Committee to provide us with an estimate for the same provision, but effective in 2006 instead of 2010, so we could confirm that there will be revenue losses further down the road.

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Mr. President, I ask unanimous consent that the Joint Tax Committee's response appear at this point in the Record.

The Joint Tax Committee estimated that the pattern of increasing revenue losses continues, growing about $200 million a year. So by 2020, the loss would be over $2 billion a year. That extrapolates to $3 billion a year by 2030. In other words, this bill would take $2 to $3 billion from our children, every year, to pay for a two-year extension of capital gains and dividends rate tax cuts.

That troubles me. And it should trouble all my Colleagues.

The Conferees made bad choices in putting this conference report together. American workers need an extension of the Saver's Credit that expires after 2006, but get an extension of a capital gains and dividends cut that does not expire until 2009. And the bill purports to pay for those tax cuts for with a Roth IRA conversion provision that starts losing revenue by 2014 and has losses that balloon outside the budget window.

There are so many reasons to vote against this report. The use of a tax cut to allegedly pay for another tax cut is just one symptom of a seemingly irresistible urge to put wants before needs. I encourage my Colleagues to join me in voting for setting the right priorities. I urge them to vote against this conference report.

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