Committee On Finance

Max Baucus, Ranking Member

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Statement of U.S. Senator Max Baucus
United States Senate Finance Subcommittee on Taxation and IRS Oversight
Hearing: "Encouraging Savings and Investment: Stay the Course or Change Direction?"

(WASHINGTON, D.C.) U.S. Senator Max Baucus submitted the following statement for the record at today's United States Senate Finance Subcommittee on Taxation and IRS Oversight's hearing titled "Encouraging Savings and Investment: Stay the Course or Change Direction?".

The statement follows:

Mr. Chairman and Mr. Jeffords, thank you for calling this hearing today on the potential extension of certain expiring tax provisions and ways to encourage savings and investment. I think we can find common ground on many of these ideas, starting with the Saver's Credit.

Today, we will hear from a representative of H&R Block, a company which has seen first-hand how millions of low-income taxpayers have started these retirement savings accounts with a matching contribution in the form of a tax credit. As Congress debates ways to get more Americans saving for the future, this is surely one success story we should study.

We will also hear testimony today from a small business owner who has utilized the enhanced incentives for investment in business equipment and machinery. I look forward to hearing his testimony about how this additional expensing for investments has helped his business become more competitive and more successful.

Our subcommittee will also hear testimony on a potential extension of the capital gains and dividends tax cuts. On this issue, we will hear divided opinions of the efficacy of these cuts, the distribution of the benefits, and the negative impact on some forms of qualified pension plans.

Mr. Chairman, the pamphlet prepared by the Joint Tax Committee for this hearing shows that 84% of capital gains are reaped by taxpayers making over $200,000, while taxpayers earning less than $50,000 only have 1% of all capital gains for calendar year 2005. The total amount of capital gains earned in 2005 by those making over $200,000 was $275 billion, while those earning less than $50,000 saw only $4 billion. Further, almost half of all dividends are received by those making over $200,000, while only 12% of the total goes to those earning less than $50,000. From these statistics, it does not appear that the 2003 incentives have done much to change what we thought the distribution of these benefits would be.

Even putting aside the distribution, only 7% of all American households filing returns show any capital gains and only 14% have dividends, with a significant crossover between the two groups. The numbers are little better in my home state of Montana, with 22% of returns with capital gains income and 26% with dividend income, but still not what I would have thought given the promises that these cuts would raise savings and investment across the board.

Now, what can we learn from these facts? This Committee will be faced with some hard choices on priorities this year and this hearing today provides just such a comparison. Joint Tax has estimated a permanent extension of the Saver's Credit will cost only $10 billion. However, a permanent extension of the dividends and capital gains cuts would cost almost $160 billion over the next decade even though the current cuts do not even expire until 2009. It is my hope that our experts today can help us answer these questions of how best to allocate our scarce resources for tax incentives.

I would also like to add another concern as we debate the appropriate level of tax for savings and capital. I understand that a proposal being considered by the President's tax reform panel is one that would shift our tax system to a wage-based tax. One step towards such a system would be a zero rate of tax on capital gains and dividend income. I would hope that this Committee would consider any such proposal by not only looking at the static revenue impact, but also at what such change means for our economy and for the American worker.

I believe that one of the most important things to keep in mind in any tax reform effort is fairness. I will not raise taxes on working families in Montana – or across the nation – under the guise of tax simplification. I believe in our progressive tax system. And any proposal that would shift the lion's share of the tax burden onto the backs of the American worker would not be a welcomed change. The farmers and ranchers in my home state of Montana already struggle under significant tax burdens. Shifting more of the burden onto working families simply because they receive a paycheck is the wrong way to go.

Thank you, Mr. Chairman and Mr. Jeffords. I look forward to the testimony.

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