

Prepared Statement of Eric Solomon
Nominee for Treasury Assistant Secretary for Tax Policy
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Mr. Chairman, Senator Baucus, and Members of the Senate Finance Committee, I am honored to appear before the Committee as President Bush's nominee to serve as Assistant Secretary of the Treasury for Tax Policy. It is truly an honor for me to have the opportunity to serve our country in this role.

The collegial and cooperative manner in which the Chairman, Senator Baucus, and the other Members of the Committee work is well known. If confirmed, I hope to work with the Committee and your staff in the same way on the important and difficult issues that face our tax system.

I am pleased to come before this Committee at a time of sustained economic growth. The President's tax relief, including lower tax rates on individual income and lower tax rates on capital gains and dividends, among other provisions, has contributed to the strong performance of our Nation's economy.

Nevertheless, as we all know, there are great challenges before us. The foremost challenge is our tax code itself. It is complex, hard to understand and difficult to administer. It imposes enormous compliance costs on taxpayers and on the government. Its numerous intricate provisions often distort economic decisions. The tax code contains many provisions that were enacted decades ago and have not been updated to reflect changes in our dynamic and increasingly global economy. Its complexity breeds perceptions of unfairness and creates opportunities for avoidance.

A primary example of the difficulties caused by our tax code is the alternative minimum tax (AMT). The AMT is a parallel tax system that, for many taxpayers, requires a second computation of tax liability. It was enacted in 1969 to ensure that a small group of high-income individuals who paid no income tax would pay at least some tax. The reach of the AMT has expanded far beyond its original purpose.

We need a tax system that is simple, fair, and promotes economic growth. The Report of the President's Advisory Panel on Federal Tax Reform has provided a strong foundation for consideration of ways to ensure that our tax system better meets the needs of our society and economy. If confirmed, I look forward to working together with Secretary Paulson, the Administration, this Committee and the Congress to address the challenging issue of tax reform.

Another critical challenge before us is tax compliance. We are fortunate that the vast majority of Americans fulfill their tax obligations. However, some do not, either because they do not understand their obligations or because they choose to disregard their obligations. A critical role of the Office of Tax Policy at the Treasury Department is to work together with the IRS to provide timely and appropriate guidance so that taxpayers

trying to satisfy their tax obligations know how to do so. For these taxpayers, published guidance reduces uncertainty and prevents the burden on taxpayers and the IRS caused by audits and litigation.

In the years that I have served at the Treasury Department, I have spent an enormous amount of time participating in the effort to combat tax shelters. In my view, we have made significant progress. The combination of IRS enforcement efforts against taxpayers and promoters, listing notices, disclosure regulations, enactment of the Sarbanes-Oxley Act, press disclosures, and other events have contributed to the decline in improper mass-marketed tax products. In this regard, I particularly want to express my appreciation for the actions of Chairman Grassley, Senator Baucus and other members of this Committee, both in your public statements and in the leadership you have provided in Congress to give the Treasury Department and the IRS additional tools needed to address this problem.

An area in which we need to make more progress is the tax gap. The tax gap undermines confidence in the fairness of our tax system and fosters noncompliance. The tax gap also results in a de facto tax increase for compliant taxpayers who pay more because others fail to pay their share.

The IRS has made headway in its efforts to improve compliance. However, we need to do more to increase the level of compliance. At the same time, we need to maintain the proper balance between enforcement efforts, on the one hand, and compliance burdens and protection of taxpayer rights on the other hand.

The President's 2007 Budget includes several proposals to reduce the tax gap. These proposals are an important first step in the right direction. If confirmed, I look forward to working with the Secretary Paulson, the IRS, this Committee and the Congress to consider regulatory, administrative and legislative methods to reduce the tax gap.

In closing, I would like to thank a number of people. First, I want to recognize all the economists and lawyers on the staff of the Office of Tax Policy. I have never worked with such a talented group of people who give so much as part of a team dedicated to public service. I would also like to recognize Bob Carroll, our Deputy Assistant Secretary for Tax Analysis, with whom I have worked as a partner in heading the Office of Tax Policy for the last year and a half.

Finally, I want to recognize my parents, Bob and Elaine Solomon, and my brothers, Neal and Mark, to whom I owe so much. Most importantly, I want to thank my wife Amy and my daughter Sarah, for their support, patience and love during all these years that I have committed myself to public service.

Thank you again for the opportunity to appear before the Committee this morning. I would be pleased to answer any questions.