



BLUE DOG COALITION

bold leadership. commonsense solutions.

OUR VISION FOR TAX REFORM

Pursue a Bipartisan Process | Address the Debt | Prioritize the Middle Class | Create Jobs | Invest in Infrastructure

October 4, 2017

THE BLUE DOG COALITION

The Blue Dog Coalition is an official caucus in the U.S. House of Representatives comprised of 18 fiscally-responsible Democrats, who are leading the way to find commonsense solutions. They represent the center of the political spectrum, appealing to the mainstream values of the American public. The Blue Dogs are dedicated to pursuing fiscally-responsible policies, ensuring a strong national defense, and transcending party lines to get things done for the American people.

[COALITION LEADERSHIP]

Rep. Jim Costa (CA-16)
Co-Chair for Administration

Rep. Henry Cuellar (TX-28)
Co-Chair for Communications

Rep. Daniel Lipinski (IL-3)
Co-Chair for Policy

[POLICY TASK FORCE LEADERSHIP]

Rep. Charlie Crist (FL-13)
Co-Chair, Task Force on Economic Growth

Rep. Lou Correa (CA-46)
Co-Chair, Task Force on Economic Growth

Rep. Josh Gottheimer (NJ-5)
Co-Chair, Task Force on Fiscal Responsibility

Rep. Stephanie Murphy (FL-7)
Co-Chair, Task Force on Fiscal Responsibility

Rep. Tom O'Halleran (AZ-1)
Co-Chair, Task Force on Government Reform and Accountability

Rep. Kurt Schrader (OR-5)
Co-Chair, Task Force on Government Reform and Accountability

Rep. Vicente Gonzalez (TX-15)
Co-Chair, Task Force on National Defense

Rep. Brad Schneider (IL-10)
Co-Chair, Task Force on National Defense

[MEMBERS]

Rep. Sanford Bishop (GA-2)

Rep. Jim Cooper (TN-5)

Rep. Collin Peterson (MN-7)

Rep. David Scott (GA-13)

Rep. Kyrsten Sinema (AZ-9)

Rep. Mike Thompson (CA-5)

Rep. Filemon Vela (TX-34)

BLUE DOG COALITION CALLS FOR BIPARTISAN TAX REFORM

The last time Congress passed a comprehensive, bipartisan overhaul of our tax system was over three decades ago. The 1986 tax reform package was successfully enacted because it was a bipartisan effort, and that made long-lasting reform possible and durable. Since that time, our economy has seen tremendous change, from increased global interconnectivity, to the use of automation and radical restructuring of work. Today, it is widely recognized that our tax code must be updated to reflect the current economic landscape.

While our economy continues to stabilize and improve from the Great Recession, we must recognize that too many American families are not benefiting from the recovery and are still struggling to get by. The reality is that too many communities across the country feel as though Washington has fallen out of touch with the struggles they face, particularly communities that have seen local companies shut down and move jobs elsewhere. We have to create incentives for companies to create jobs, increase wages and bring production back to the communities that feel left behind. It is our job in Congress to work together to develop policies that create good-paying jobs, strengthen the middle class, and allow small businesses and companies to thrive, spurring economic growth.

Our tax code did not become as complex as it is today overnight. Improving the tax code will require sustained effort to examine real life, practical impacts of our laws on day-to-day individual and business decisions. Tax reform will only succeed in the long-term if Congress does the work to examine how different parts of the code interact with each other and addresses the trade-offs inherent in making changes.

We must remember that tax reform is not just about raising or reducing tax rates, it's about an opportunity for Americans to attain the American Dream. If done right, tax reform can provide relief to middle-class families, encourage long-term savings and investment, spur job creation and investment in the United States, and promote economic growth and innovation. The Blue Dogs believe tax reform proposals must be considered in the context of overall budget decisions and congressional decision-making on national priorities. Tax reform must not come at the expense of breaking commitments to the American people or worsening our national debt.

The American people want a long-term, sustainable solution on tax reform, and that requires a bipartisan approach. Without a bipartisan solution, the American people, small businesses, and larger employers will have to deal with potential uncertainty and, in turn, will have trouble planning finances and making key business decisions. A partisan solution is not a sustainable solution for tax reform.

Since its founding in 1995, the Blue Dog Coalition has served as a bridge from Democrats to Republicans on important legislation. In a time when the American people worry about extreme partisanship and whether Congress can get things done on their behalf, the Blue Dogs stand ready to help move our country forward. Today, we call on congressional Republicans to stop catering to the extremes of their party and to give the Blue Dog Coalition a real seat at the negotiating table on tax reform. Because at the end of the day, what the American people want is for Democrats and Republicans to stop the partisan bickering and to do our job—to govern.

As the first step in any negotiation process, you must know your principles. Our process for developing principles on tax reform was informed by the trade-offs of certain policy decisions and the potential opportunities with reforming our tax code. The Blue Dogs have spent this year discussing tax reform with our constituents, congressional Democrats and Republicans, various stakeholders including representatives of the business community, labor unions, think tanks, consumer advocates, bipartisan policy experts, and the White House. We have received input from a broad range of groups that altogether touch nearly every aspect of the lives of the American people. And our strong connection with our districts informs us about what the most vital policies are with respect to tax reform and the Main Street impacts in our communities.

Ultimately, our hope is that our tax reform principles are a first step in a larger negotiation process with congressional Republicans to make good on our promise to come together and work on behalf of the American people to create a long-term, sustainable solution.

Here is where we stand.

A LONG-TERM, SUSTAINABLE SOLUTION IS A BIPARTISAN SOLUTION

Tax reform must be done in the most responsible and sustainable way—and that means it must be bipartisan. Every day, hardworking Americans have to plan for their financial futures, small business owners have to make payroll, and companies have to decide if they are going to be able to afford to expand their operations and create more good-paying jobs. When it comes to making long-term decisions, individual Americans and companies need to have the certainty of a long-term solution. If Republicans decide to use a partisan process, like reconciliation, the American people, the small business community, and American companies will see a temporary band aid for a complex, long-term problem at best. As we have seen throughout this Congress, when it comes to major reform, partisan processes simply don't work. Without a long-term, sustainable solution, Americans will have a tougher time planning their finances and companies will refrain from expanding in American communities.

[OUR PRINCIPLES]

We are opposed to using partisan processes, such as reconciliation, that make real and permanent reform to our tax code difficult.

We urge that leadership pursue tax reform using a bipartisan, inclusive approach.

TAX REFORM MUST BE FISCALLY RESPONSIBLE

With a national debt that has surpassed \$20 trillion, the American people can't afford tax reform that adds to the deficit and worsens our debt. If reform worsens the deficit and the debt, we will see reduced economic growth, fewer jobs, slower wage growth, and higher interest rates—all of which would counter the benefits of enacting tax reform in the first place. Determining how to offset the costs of tax reform will not be easy, and it must be done through an informed, deliberative process. That's why it's important for any tax reform legislation to undergo independent, non-partisan analysis of its cost, and its impact on the economy, job creation, and the federal budget. Congress should not break its promises to the American people by slashing domestic programs, important safety nets like Medicare, Social Security, or Medicaid, or by harming job growth to pay for tax reform.

[OUR PRINCIPLES]

Tax reform must be credibly revenue neutral.

Unrealistic, rosy economic growth projections should not be used to offset the costs of tax reform or tax relief.

The tax reform package must be scored by the Joint Committee on Taxation (JCT) and the Congressional Budget Office (CBO) using standard scoring rules.

Congress should not pay for tax reform by breaking its promises to the American people by slashing domestic programs, cutting important safety nets like Medicare, Social Security, or Medicaid, or by harming job growth.

A SIMPLER TAX CODE THAT PRIORITIZES THE MIDDLE CLASS

It's no secret that the majority of Americans feel as though the middle class pays too much in taxes and the wealthy pay too little. An average middle-class family with one child making \$50,000 annually in the 15 percent marginal income tax bracket pays \$2,682.50 per year in federal income tax alone. Tax reform must prioritize the needs of individual Americans and middle-class families. We must reduce the burden on middle-income families by simplifying the tax code. We must protect and simplify tax incentives for vital necessities such as retirement, medical care, and education. As we work toward simplifying the tax code, we also must recognize that certain deductions and credits benefit American families, including the Earned Income Tax Credit (EITC), the child tax credit, the mortgage interest deduction, and the state and local tax deduction.

[OUR PRINCIPLES]

Middle-class families need to be the focus of tax reform. Tax reform should not shift the distributional balance to the wealthy.

We must not burden the middle class as an offset to lower the corporate tax rate.

Congress must recognize that certain tax deductions and credits are vital to achieving the goals of the American Dream, including raising children, buying a home, paying for college tuition, obtaining medical care, making charitable contributions to their community, and reaching a financially secure retirement. The Blue Dogs believe that we must protect these important benefits.

Tax reform must incentivize work, and we should consider expansion of refundable tax credits for lower-income earners such as the Earned Income Tax Credit (EITC).

A TAX CODE THAT PROMOTES ENTREPRENEURSHIP, JOB CREATION, AND PRIVATE INVESTMENT

Today, the statutory federal corporate tax rate is 35 percent, one of the highest in the world. At the same time, corporations contribute to only about 9 percent of total U.S. tax revenue. Accounting for additional tax provisions and loopholes, many corporations pay an effective tax rate that is closer to 24 percent. Nonetheless, under the current tax code, American companies face complex incentives when deciding whether to invest domestically or overseas, where to locate their workforce, and how to structure themselves. We must move toward an international tax policy that is fair, efficient and makes American companies more competitive in the global market. Tax reform is an opportunity to create more good-paying jobs and increase private investment at home. The Blue Dogs are open to proposals that level the playing field between domestic and multinational companies, strengthen anti-base erosion rules, and include other provisions to ensure tax reform does not lose revenue. While lowering the corporate tax rate, we must incentivize companies to increase private investment in the United States and disincentivize actions such as stock buybacks that benefit stockholders and do not represent real investment needed for long-term economic growth. We recognize that companies have developed business plans based on certain tax provisions, and if Congress decides to alter those provisions, companies should be afforded time to transition to the new tax structure. We are open to repatriation policies that bring corporate profits from overseas back home, ensuring America can compete globally, while also ensuring an adequate taxation rate for the cash and working assets held overseas.

A growing share of the business community consists of pass-throughs, including small businesses, which face different treatment under the current tax code from corporations. As we reduce the burden on middle-class families, we must also ensure tax reform meets the needs of small businesses and the Blue Dogs are open to proposals that would provide relief to them. To successfully do so, we must remember the lessons learned at the state level in Kansas, where poorly-written laws intended to help businesses were abused by other taxpayers and caused extensive budget shortfalls. We must also ensure that benefits are targeted to Main Street businesses instead of entities like Wall Street hedge funds or partnerships.

Tax reform must ensure our companies remain at the cutting edge of innovation and continue to be major global competitors. That's why we should retain and strengthen important credits, like the research and development credit, to ensure America can maximize its return on important private sector innovation. We should prioritize the credit toward smaller startups. We should also consider measures to encourage hiring by start-ups and reduce burdens for nascent entrepreneurs.

[OUR PRINCIPLES]

In order to maintain our ability to compete globally, American companies need a more competitive corporate tax rate and structure.

If we move toward a territorial tax system, we must take steps to prevent companies from shifting income and jobs to offshore tax havens. We can do so by implementing low-level taxation on foreign earnings, strong anti-base erosion rules, or other methods to keep sufficient revenue. Congress needs to be cognizant that not all U.S. firms operate globally, so tax reform must balance foreign tax regime changes with the needs of all domestic firms, especially small and medium enterprises.

We should incentivize American companies to reinvest the benefits of tax reform into new jobs, increased wages, worker training, and facilities in the U.S. instead of profiting stockholders in ways that do not represent real investment needed for long-term economic growth.

We recognize that companies have developed business plans based on existing tax rules, such as certain accounting or expensing provisions. If reform of these business provisions is pursued, companies must be provided clear transition rules and sufficient time to adjust to new tax structures to avoid disruptive shocks.

We must reduce the tax burden on small businesses, which are often structured as pass-throughs. Based on the lessons from Kansas, we agree that we must develop strong rules to prevent taxpayers from mischaracterizing wages as pass-through business income. These tax rules should also be structured so that benefits target Main Street businesses instead of entities like Wall Street hedge funds or partnerships.

The tax code should incentivize innovation, expanded research and development, and commercialization, and set a foundation for the manufacturing of those goods in the United States.

A TAX CODE THAT SUPPORTS PUBLIC INVESTMENT IN OUR INFRASTRUCTURE

On its current path, the Highway Trust Fund (HTF) will be exhausted by 2021, and tax reform provides a clear opportunity to address this issue. The HTF is only liquid now because of intergovernmental transfers outside the user fee funding regime. The last time the gas tax was increased was in 1993, and inflation and changes in transportation continue to depress the purchasing power of this revenue. A lack of certainty about infrastructure funding impedes all stakeholders from making long-term investment, and has resulted in the deteriorating state of American roads, bridges and transit systems.

Additionally, infrastructure investment creates jobs and leads to new investments, and has a strong spillover effect into other industries and local economies. Studies from the U.S. Treasury, the Federal Reserve, and both liberal and conservative economists have all indicated that the net, direct economic benefits from expenditures on capital projects well exceed their costs, and include substantial private sector gains. As such, we must make critical changes to invest in our nation's infrastructure. We can do so by enacting changes to user fees, broadening the current air cargo tax to trucking services, or by allocating one-time revenue from repatriation policies, in addition to other revenue sources.

[OUR PRINCIPLES]

We should use tax reform as an opportunity to address funding challenges for the Highway Trust Fund and infrastructure investment.

WHAT THEY ARE SAYING ABOUT THE BLUE DOG VISION FOR TAX REFORM

"I commend the Members of the Blue Dog Coalition for their hard work toward real, bipartisan tax reform. In order to be successful, tax reform must be permanent and bipartisan, and the Blue Dogs' framework recognizes this. American businesses and families want changes to the tax code that do not advantage the wealthy over the middle class, balloon the deficit, or pay for tax cuts by raiding Medicare, Medicaid, or Social Security. It should be possible for Congress to reach agreement on needed reforms, and the concrete steps put forward by the Blue Dogs represent the kind of commonsense principles we should embrace."

— Rep. Steny Hoyer, Minority Whip, U.S. House of Representatives

"Reducing taxes to unleash economic growth should not be a partisan issue. We applaud the willingness of Blue Dogs to get to work on this effort. We look forward to cooperating with members of Congress from across the political spectrum to advance tax reform."

**— Neil Bradley, Senior Vice President and Chief Policy Officer,
U.S. Chamber of Commerce**

"Done right, tax reform can grow the economy, ensure long-term fiscal responsibility, lift up the working and middle class, and expand the opportunity to earn for all American workers. We commend the Blue Dog Coalition for leading the call for this principles-based approach to tax reform and opening the door to a constructive, bipartisan process."

— Gabe Horwitz, Vice President, Third Way Economic Program

"The Blue Dog Coalition tax reform principles—if adhered to—would create the type of tax system Americans deserve. It would make the tax code simpler, fairer, and more pro-growth without passing the financial obligation onto future generations of America."

— Paul Weinstein, Jr., Senior Fellow, Progressive Policy Institute

"The Concord Coalition congratulates the Blue Dog Coalition for including two elements in its tax reform principles that we have long advocated: Fiscal responsibility and bipartisan solutions. In Concord's view, these are the hallmarks of achieving a sustainable path for our nation's debt, whether applied to reforms on either the spending or tax side of the budget. It's important to remember that for a plan to be fiscally responsible; at the very least it should not add to the debt. With the tax reform debate gearing up, the Blue Dogs' call for a fiscally responsible, bipartisan solution is a very timely reminder."

— Robert Bixby, Executive Director, The Concord Coalition

"For over two decades—throughout Democratic and Republican majorities—the Blue Dogs have consistently led efforts to work across party lines to develop policies that benefit all Americans. The Blue Dog tax principles provide an opportunity for members of both parties to come together to pass comprehensive reform that provides much-needed relief for both American workers and businesses, while ensuring our country's fiscal sustainability over the long term."

— Cori Kramer, Executive Director, Center Forward

WHAT THE AMERICAN PEOPLE ARE SAYING

[HARVARD-HARRIS POLL: SEPTEMBER 2017]

89 percent of Americans think that we need tax reform in our country.

84 percent of Americans think the country needs an investment in infrastructure today.

68 percent of Americans think taxes in the United States are too high.

58 percent of Americans favor lowering the corporate tax rate and creating an incentive for companies to bring foreign profits overseas back to the United States. That same percentage believes these actions will stimulate economic growth and jobs.

48 percent of Americans think that any tax reform should raise more revenue.

45 percent of Americans think the primary goal of tax reform should be to simplify the tax code.

[MORNING CONSULT/POLITICO: AUGUST 31-SEPTEMBER 3, 2017]

74 percent of Americans do not think the tax system in the United States is fair to individuals.

74 percent of Americans think a tax reform bill should reduce rates on middle-income Americans.

72 percent of Americans think the tax system in the United States is too complex.

60 percent of Americans think that middle-income people have to pay too much in taxes.

51 percent of Americans think that small businesses have to pay too much in taxes.

49 percent of Americans do not think that the tax system in the United States is fair to businesses.

45 percent of Americans would support reducing corporate tax rates only if middle-income tax rates were also reduced.

[PETER G. PETERSON FOUNDATION'S FISCAL CONFIDENCE INDEX: SEPTEMBER 2017]

70 percent of Americans believe that addressing the national debt should be among the President and Congress' top three priorities.

54 percent of Americans believe that the United States is on the wrong track when it comes to addressing our national debt.

[NO LABELS/HUDSON PACIFIC: JANUARY 2017]

86 percent of Americans prefer to see Democrats work with Republicans to find common ground rather than seeing Democrats fight Republicans.

83 percent of Americans think laws are more effective when parties compromise and arrive at a bipartisan solution.