October 30, 2007

Dear Colleague,

I just wanted to call your attention to the following op-ed by former House Majority Leader Dick Armey in yesterday's *Wall Street Journal*, regarding Chairman Rangel's "Mother of All Tax Hikes" and the RSC's alternative.

Sincerely,

Rep. Jeb Hensarling

THE WALL STREET JOURNAL.

The Mother of All Tax Hikes

By DICK ARMEY
October 29, 2007; Page A19

The great philosopher Waylon Jennings once said, "There ain't no right way to do the wrong thing." Congress should take this to heart when it comes to fixing the Alternative Minimum Tax (AMT).

Both Republicans and Democrats agree that the exploding AMT is bad news for taxpayers and the economy, and its growing burden creates a political constituency for tax reform. This is especially true in high-tax blue states like California and Connecticut, where a growing number of Democrats have a serious AMT problem. That's a bit of irony, since the AMT was their 1969 scheme to raise taxes on a handful of "super-wealthy" by creating a parallel tax system. Because the AMT was not indexed to inflation then, this year it will raise taxes for 24 million Americans unless Congress acts quickly.

That's the leverage House Ways and Means Chairman Charlie Rangel (D., N.Y.) wants to use to force a sweeping tax increase and income redistribution plan through Congress. The legislation is misleadingly titled the "Tax Reduction and Reform Act of 2007." Its informal moniker, "the mother of all tax reform," gives us a better sense of the profound impact it will have on American taxpayers and the economy.

Mr. Rangel's bill starts simply enough with a one-year extension of AMT relief provisions. However, the Democrats have sown the seeds for additional taxes with their "paygo" rules, which require all tax cuts to be offset by revenue increases elsewhere. For a temporary $40 billion AMT fix, Mr. Rangel has targeted one of the more productive and dynamic sectors of our economy -- the financial-services industry -- with several new provisions that will increase taxes, including higher taxes on so-called "carried interest," which will affect hedge funds and possibly other partnerships.

Beyond this year's temporary AMT patch, Mr. Rangel's bill would permanently end the AMT in 2008. That's a good idea, but the static price tag for this "relief" is where the trouble starts. Mr. Rangel's bill increases tax rates by 4% on individuals earning above $150,000 and couples earning over $200,000. This increase will come on top of the rollback of the 2001 and 2003 Bush tax cuts. The combined result: America's top income-tax rate will skyrocket from the current 35% rate to a top rate of 44%. Let's be clear -- that's a 25% tax hike.

So much for low-tax America and high-tax Europe; this would put the nation's top rates among the highest of all developed nations. This is an especially heavy burden for American farmers and small businessmen who pay taxes as individuals. According to an Oct. 25 memo from Ways and Means Committee Ranking Member Jim McCrery (R., La.), the net result will be the biggest tax increase in U.S. history, totaling $3.5 trillion in higher taxes over the next 10 years.

Mr. Rangel does shuffle the corporate-tax code, dropping the top rate to 30.5% from the current 35%. It's rather refreshing to see that he recognizes that America's corporate-tax rate is too high and hurts our competitiveness. But this glimmer of progress is swamped by the plan's range of new taxes on capital investment and punitive measures towards American companies that operate globally.

Contrary to its deceptive name, Mr. Rangel's bill is not tax relief, but a breathtaking tax increase. And it is not tax reform, but just another round of new complexity layered on top of the existing tax code, with tweaked provisions, changed definitions and redistributed income to favored groups through carefully crafted new subsections. Compliance with the 60,000-page tax code costs Americans seven billion man-hours and over $140 billion in fees to accountants and consultants, all before a single check is cut to the government. While the AMT may be repealed by this bill, the inefficiencies and burdens that keep Washington lobbyists employed full time remain.

Thankfully, there's an alternative to Mr. Rangel's redistributive approach, and it's being offered by a group of pro-growth tax reformers in the House of Representatives. "The Taxpayer Choice Act," is being offered by Reps. Paul Ryan (R., Wis.), Michele Bachmann (R., Minn.), Jeb Hensarling (R., Texas), and John Campbell (R., Calif.) that repeals the AMT while fundamentally reforming the tax code.

These young Republican legislative entrepreneurs offer taxpayers the choice of remaining in the current system with its itemized deductions, charts and schedules, or moving into a greatly simplified system that eliminates all deductions and loopholes while offering only two simple rates. All taxpayers would have a standard individual deduction of $12,500, and individuals earning below $100,000 would pay a flat 10% of income, while individuals earning above that would pay 25%. Calculating taxes would take less time than brewing a pot of coffee.

Last year I observed on this page that, on fiscal policy, voters could not see a dime's worth of difference between the two political parties. How things have changed. Mr. Rangel's mother-of-all tax increases is another of the same, tired, "tax-the-rich" revenue-raising schemes of past Democratic Congresses. It focuses on redistributing income through the tax code at the expense of economic growth and tax simplicity. Such tax schemes have a high political-demagogy coefficient that can temporarily satisfy liberal constituencies, but they always backfire in practice.

In the early 1990s, I remember watching Sen. George Mitchell sing the praises of a new luxury tax that would "tax the rich." But as any Economics 101 student might have predicted, the immediate effect of this luxury tax was a sharp decline in sales of "luxuries," particularly new boats, and a dramatic loss of boat-related manufacturing and service jobs. It was less than a year before Sen. Mitchell was working to lift the tax so his constituents in boatyards in Maine could get back to work.

The Taxpayer Choice Act, on the other hand, is based on the belief that the only legitimate purpose of the tax code is to raise the revenue necessary to fund the legitimate expense of government; it is not a place for social engineering or rewarding favored political constituencies. It treats taxpayers with dignity, and moves us in the direction of eliminating double taxation, which encourages capital formation, savings and investment.

I have long advocated a tax code that is simple, fair, flat and honest. Income should be taxed once, and only once, thereby promoting economic growth through increased savings and investment. Sadly, Mr. Rangel's Democratic vision for tax policy takes giant steps away from that ideal. Republicans have a competing vision that offers taxpayers an escape from both the AMT and many of the heavy compliance costs of today's tax code.

This small step may still be too big for the income redistributors in our nation's capital. Until American citizens beat Washington bureaucrats and special interests, taxpayers will remain trapped in a tax code built by and for special interests. Finally, at least, they have a choice between two fundamentally different visions. Let's hope the taxpayer wins this debate.

Mr. Armey, Republican majority leader of the U.S. House of Representatives from 1995 to 2001, is chairman of FreedomWorks Foundation.

URL for this article:
http://online.wsj.com/article/SB119362450709074517.html