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July 26, 2013

The Honorable Max Baucus
Chairman
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510-6200

The Honorable Orrin G. Hatch
Ranking Member
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510-6200

Dear Chairman Baucus and Ranking Member Hatch:

I write this letter in response to your request for input on comprehensive tax reform legislation.

Given the fact that my suggestions represent the interests of the middle class of this country and not powerful corporate special interests, I have no problem with making them public.

Everyone understands that our current tax code is too complex and must be simplified. But at a time when the American population is aging and investments in our crumbling infrastructure are desperately needed, we must not provide more tax breaks to profitable corporations and the wealthiest Americans who already are doing phenomenally well and in some cases pay nothing in federal income taxes.

Since 2010, Congress and the President have agreed to reduce the deficit by more than \$2.5 trillion over the next decade. Less than one-third of deficit reduction agreed to so far is the result of increased taxes on the top two percent of Americans. More than two-thirds of deficit reduction is a result of cuts to federal programs that mainly help working families, the elderly, the children, the sick, and the most vulnerable.

Meanwhile, the largest and most profitable corporations have not been asked to contribute one penny to deficit reduction so far. At a time when corporate profits are at an all-time high while corporate income tax revenue as a percentage of GDP is near a record low, corporate America must contribute significantly to deficit reduction.

Reforming the tax code should include the following components:

1. At a time when the U.S. has the most unequal distribution of wealth and income of any major country in the world, we need a tax code that reflects the needs of the middle class and working families, not the interests of multinational corporations and the rich.
2. At a time when one out of four profitable corporations pays nothing in federal income taxes, it is time for corporate America to pay their fair share in taxes.
3. At a time when large corporations and the wealthy are avoiding over \$100 billion each and every year by stashing their cash in the Cayman Islands and other offshore tax havens, we need a tax code that eliminates offshore tax evasion.
4. At a time when income and wealth inequality is soaring, we need a tax code that makes sure that middle class families do not continue to pay a higher percentage of income in taxes than many millionaires and billionaires.
5. We need a tax code that holds Wall Street responsible for causing the worst recession since the 1930s by making sure that huge financial institutions substantially contribute to deficit reduction.

Last March, the Senate passed a Budget Resolution that called for \$975 billion in new revenue over the next decade by closing tax loopholes that benefit the wealthy and large corporations.

That was a good start. I would go further.

Therefore, I urge you to consider the following recommendations:

- A. **S.250, the Corporate Tax Dodging Prevention Act.** This is the first piece of legislation that I introduced in the 113th Congress. S.250 will stop profitable Wall Street banks and corporations from sheltering profits in the Cayman Islands and other tax havens to avoid paying U.S. taxes.

Under current law, U.S. corporations are allowed to defer or delay paying U.S. income taxes on overseas profits until this money is brought back into the United States. This offshore tax scheme has provided two perverse incentives for American corporations. First, it motivates corporations to shift as much of their profits as possible overseas by setting up subsidiaries in tax haven countries. Second, it allows corporations to receive huge tax breaks for establishing manufacturing facilities in countries with very low or no corporate tax rates. Closing these tax loopholes would reduce the deficit and create jobs that millions of Americans need.

S.250 would reform the tax code by:

- ending the deferral of foreign source income that allows corporations to avoid paying taxes on overseas profits;
- closing loopholes that allow U.S. corporations to artificially inflate or accelerate foreign tax credits;
- preventing corporations from avoiding U.S. taxes by setting up a post office box in a tax haven country; and
- eliminating tax loopholes for big oil companies that allow them to disguise royalty payments to foreign governments as foreign taxes.

B. **S.410, the Wall Street Trading and Speculators Tax Act.** This legislation would establish a Wall Street speculation fee to ensure that large financial institutions pay their fair share in taxes. Both the economic crisis and the deficit crisis are a direct result of the greed and recklessness on Wall Street.

A speculation fee of 0.03 percent on the sale of credit default swaps, derivatives, options, futures, and large amounts of stock would reduce gambling on Wall Street, encourage the financial sector to invest in the productive economy, and reduce the deficit by \$352 billion over 10 years, according to the Joint Committee on Taxation.

C. **S.3080, the End Polluter Welfare Act from the 112th Congress.** This legislation would end tax breaks and subsidies for big oil, gas and coal companies to reduce the deficit by more than \$113 billion over the next 10 years. The five largest oil companies in the United States have made more than \$1 trillion in profits over the past decade. Exxon Mobil is now the most profitable corporation in the world. Large, profitable fossil fuel companies do not need a tax break.

D. **Tax capital gains and dividends of the wealthiest 2 percent at the same rate as ordinary income.** Taxing the capital gains and dividends of the richest 2 percent the same way that we tax work would raise about \$500 billion over the next decade. Warren Buffet has often said that he pays a lower effective tax rate than his secretary. The reason for this is that the wealthy obtain most of their income from capital gains and dividends, which is taxed at a much lower rate than work. The top marginal income tax for working is 39.6 percent, but the top tax rate on corporate dividends and capital gains is only 20 percent. That is not fair.

Enacting all of these proposals would raise more than \$1.5 trillion in new revenue over the next decade. This revenue would allow us to completely repeal sequestration and provide the

resources necessary to put millions of Americans back to work repairing our crumbling infrastructure.

I look forward to working with you to reform the tax code in a way that protects the middle class, working families, and the most vulnerable while making sure that the wealthiest Americans and most profitable corporations pay their fair share.

Sincerely,



Bernard Sanders
United States Senator