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United States Senate

WASHINGTON, DC 20510

July 26, 2013

COMMITTEES:

FINANCE

BANKING, HOUSING, AND
URBAN AFFAIRS

ENVIRONMENT AND PUBLIC WORKS

BUDGET

INDIAN AFFAIRS

The Honorable Max Baucus
Chairman
Senate Committee on Finance
219 Dirksen Senate Office Building

The Honorable Orrin G. Hatch
Ranking Member
Senate Committee on Finance
219 Dirksen Senate Office Building

Dear Chairman Baucus and Senator Hatch:

As a long-time proponent of fiscal and tax policy reform, I applaud your interest in comprehensive tax reform. Despite the scope of the undertaking, I remain optimistic that the Senate Finance Committee can deliver to the American people an individual and corporate tax code system that meets the needs and challenges of our modern economy. Toward that goal, I share with you the benefits of my past work on tax reform proposals.

The gravity of the problems facing our nation requires serious tax reform as a part of a fundamental fiscal reform plan. Tax reform needs to be comprehensive to get us past the tired and failed arguments about raising and lowering rates. We need to move away from our simplistic attachment to the current tax code with all of its shortcomings, inefficiencies, and waste. The most efficient and simplified tax system would be to transition to a low unified flat tax. If this is not achievable, we should completely redesign the tax code with an emphasis on lower rates, broadening the base, reducing complexity, and eliminating anti-competitive provisions. In either approach, tax reform must be revenue-neutral.

In recent years, particularly through the Bowles-Simpson Commission, considerable public focus has centered on the proper structure of the individual and corporate tax codes. While some favor raising or lowering specific rates, these proposals fail to recognize the inherent failures of the tax code. Our tax code is far too long, complex and anti-competitive to serve as the long-term foundation for the economic growth our country needs. Without structural reform, our potential growth and revenues will be lost.

The Bowles-Simpson Commission outlined proposals that create fairness in the tax code, are pro-growth, and unleash the dynamic potential of our economy. Such comprehensive tax reform would eliminate much of the complexity in the current tax code and lower the tax rates for all individuals, families and businesses. Embracing this

new paradigm can help generate additional revenues and economic growth and put America's tax code in a more competitive posture for our future.

Building on these and other prominent tax reform proposals, my key principles for tax reform, which build on the "clean slate" approach I first endorsed as a member of the Bowles-Simpson Commission include:

- Simplify the tax code by eliminating deductions, credits, and exemptions that cannot be justified by sound tax policy
- Flatten the tax code by reducing the current six-tiered system to no more than three brackets with rates of 8-12%, 14-18% and 22-26%, determined on a revenue-neutral basis
- Comprehensive tax reform will stimulate significant economic growth, resulting in increased revenue. Revenue from dynamic growth in the economy must be scored and accounted for in the calculation of appropriate tax rates.
- Permanently repeal the Alternative Minimum Tax
- Reduce the tax rates on capital gains and dividends for all taxpayers in order to stimulate investment, capital formation, and additional revenue
- Establish a single corporate tax rate between 23 percent and 25 percent
- Move to a competitive territorial corporate tax system
- Include transition rules and make no retroactive changes to the tax code

As a precursor, we must reach agreement on the applicable baseline and progressivity standard. While significant additional revenue generated through the dynamic growth potential of tax reform is welcomed, the goal of this effort, as scored by conventional scoring, should be revenue neutrality compared to the current law baseline. Further, in order to allow sufficient flexibility to create a tax code that will maximize both economic growth and revenue generation, progressivity should be measured against the pre-EGTRRA/JGTRRA baseline, when both economic growth and revenues to the Treasury were at historic highs, while the tax code remained progressive. Finally, it is also critical that we have an accepted scoring on the individual deductions, credits, and exemptions we will be considering.

As was recognized in the bipartisan work of the Gang of Six, these basic framework principles must first be resolved before we can effectively evaluate each credit, deduction, and exemption in the current tax code to determine which provisions have a policy justification for being added back to the blank slate tax code, at the expense of proportionately higher rates for all taxpayers.

The American people have called on Congress for a tax reform process that ensures full evaluation of all tax provisions and their effect on tax rates. As the Senate Finance Committee moves forward with the tax reform, I remain committed to undertaking the

hard work of comprehensive fiscal reform, combining thoughtful tax reform with fundamental reforms to mandatory programs.

Thank you for your attention to this important work.

Sincerely,

A handwritten signature in black ink that reads "Mike Crapo". The signature is written in a cursive, flowing style.

Mike Crapo
United States Senator