Senator Maria Cantwell

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Cantwell Outlines Key Principles for Tax Reform

Cantwell in letter to Finance Committee: ‘America can’t afford to have a Betamax-era tax code in an Amazon Prime economy’

WASHINGTON, D.C. – In a new letter, U.S. Senator Maria Cantwell (D-WA) outlined her principles for tax reform as part of the U.S. Senate Committee on Finance’s effort to overhaul the nation’s tax code.

The letter, sent on Friday to Senate Finance Committee Chairman Max Baucus (D-MT) and Ranking Member Orrin Hatch (R-UT), highlights Cantwell’s priorities for tax reform that invests in growing America’s innovation economy. Cantwell, a member of the Finance Committee, highlighted the need for a tax code that supports retirement savings, education and workforce training, and reins in Wall Street’s reckless behavior.

“In the Information Age, we need a tax code that rewards efficiency and innovation,” wrote Cantwell. **“Our tax code should better reflect an innovation economy – and invest in educating and skilling the workforce needed for 21st century jobs. The tax code should reinforce the strength of America’s economy, incentivizing investments that support job creation on Main Streets across our country.”**

The Senate Finance Committee has set a goal to begin committee work on a tax reform proposal this fall. In preparation, the committee has held more than 30 hearings on reforming the tax code over the past three years. Since March 2013, Cantwell has attended the committee’s regular meetings to discuss options to reform the tax code.

“The world has evolved significantly since the Tax Reform Act of 1986,” said Cantwell. **“For example, 27 years ago, VCRs were just becoming common. Today, we can stream those videos online with the phones in our pockets – but our tax code is still stuck in the 20th century. America can’t afford to have a Betamax-era tax code in an Amazon Prime economy.”**

In the letter, Cantwell highlighted seven principles that should guide the committee’s work on tax reform:

1. Ending sequestration;
2. Preparing the nation’s workforce for the 21st century by providing incentives to educate and train American workers, such as tax credits for apprenticeship training programs;
3. Ensuring Americans can support themselves through retirement by promoting retirement savings and incentivize tools that offer retirees lifetime streams of income, such as annuities;
4. Returning the financial system back to everyday investors by installing a financial transaction tax to curb risky Wall Street high-frequency trading;
5. Prioritizing health care delivery system reform that supports better outcomes for health care services, community based care, and transparency in drug pricing;
6. Creating an innovation-based economy by incentivizing development of new technologies, investing in research and development, and promoting clean energy technology; and,
7. Supporting tax fairness, including ending the disparate treatment of the state sales tax deduction for residents of states without state income taxes.

Cantwell has been a Senate leader in fighting for tax reforms that promote fairness, innovation and economic growth. Her first bill introduction of the 113th Congress was bipartisan legislation to make the state and local sales tax deduction permanent. She has also consistently worked to pass legislation that extends key tax credits and deductions, including tax credits for hiring veterans, producing clean energy and investing in research and development.

The text of Cantwell's letter follows.

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 201510-6200

Chairman Baucus and Ranking Member Hatch:

I commend your efforts to move forward on the critical process of reforming the United States tax code. In order for American businesses and workers to succeed in an increasingly competitive global economy, we need a simpler, smarter tax code for the 21st century.

The world has evolved significantly since the Tax Reform Act of 1986. For example, 27 years ago, VCRs were just becoming common. Today, we can stream those videos online with the phones in our pockets – but our tax code is still stuck in the 20th century. America can't afford to have a Betamax-era tax code in an Amazon Prime economy.

In the Information Age, we need a tax code that rewards efficiency and innovation. Our tax code should better reflect an innovation economy – and invest in educating and skilling the workforce needed for 21st century jobs. The tax code should reinforce the strength of America's economy, incentivizing investments that support job creation on Main Streets across our country.

Tax reform provides us with an opportunity to rejuvenate our economy by correcting inefficiencies in the current tax code, as well as an opportunity to make investments in our nation's workforce and the companies that create American jobs. To that end, I believe there are certain fundamental principles that need to be adhered to in this process.

First, end sequestration. Sequestration is a tactless way to reduce the deficit and is damaging our economy. The Congressional Budget Office recently estimated that GDP growth in the absence of sequestration would be about 0.6 percentage points faster during this calendar year, and the equivalent of about 750,000 more full-time jobs would be created or retained by the fourth quarter. Growing our economy, reducing the deficit, and ending sequestration should be a primary goal for the tax reform process.

Second, invest in apprentices. In order to continue to be a global leader, the United States must invest in a workforce prepared to drive innovation. This means providing appropriate incentives to educate and train American workers for skilled 21st century jobs.

To keep these innovation jobs in America, we must make education and job training a top priority in our tax code. In the 2013 Global Manufacturing Competitiveness Index study by Deloitte, executives ranked talent-driven innovation as the top driver of a country's ability to compete globally.

A skilled workforce is a critical component of a productive economy. But, today U.S. companies are investing just half the amount in training as a share of GDP compared to a decade ago, according to a study by the Information Technology and Innovation Foundation. Much of this decline comes from cost pressures and the movement of workers between companies. However, the need for training is increasingly greater. In a 2011 survey of industrial companies by the National Association of Manufacturers, 67% of respondents reported a moderate to severe shortage of available, qualified workers and 56% anticipated the shortage to grow worse in the next three to five years.

This trend – of less job training investment and fewer qualified workers – presents a looming challenge for our economy. That's why I believe we should provide tax credits to promote apprentice programs and better train the American workforce. Apprentice programs that emphasize "learning-while-doing" are a proven way to incorporate specialized problem-solving skills, as well as workplace knowledge and understanding.

Third, ***promote annuities.*** We need to ensure that Americans have the ability to securely support themselves through retirement. According to the New America Foundation, 92 percent of Americans are not meeting retirement saving targets for retirement account balances, resulting in a savings shortfall of roughly 14 trillion dollars. A 2010 study by the Center for Retirement Research estimated that an average, healthy 65-year old couple will need $260,000 to pay for healthcare and long-term care costs for the remainder of their lives.

This lack of retirement savings will add additional strain to governmental programs from Social Security to Medicare to SNAP. According to the Social Security Administration in 2010, 65% of Social Security recipients depended on the program for half or more of their income.

Tax reform needs to include new ways to promote retirement savings. Our tax code must not only encourage savings, but we must look to incentivize tools that offer a lifetime stream of income, such as annuities. Annuities can provide a guaranteed income for retired individuals, and have the potential to reduce the total investments needed to fund future health expenses by more than 70%, according to the Insured Retirement Institute.

Fourth, install a financial transaction tax. Tax reform offers the opportunity to further reform our financial markets. Our tax code should incentivize innovations in cutting-edge technology or manufacturing techniques that create jobs – not innovations in cutting-edge financial instruments that harm our economic foundation.

The tax code is a means to set priorities and establish mechanisms to both encourage and deter behaviors that impact the public welfare. If one were to add up all of the financial assistance received by Wall Street – from the liquidity provided to banks and financial companies, investor guarantees, toxic asset purchases, and support for the housing market – there would still be an outstanding balance well over a trillion dollars even after repayment of TARP funds. Wall Street was the major source of the recent financial crash and the financial sector should have a larger role in repairing our economy.

Our tax code should return our financial system back to the basics: a system that works for everyday investors. New, creative ideas like a Financial Transaction Tax would temper the reckless behavior of those who caused the 2008 economic crisis. High-frequency automated trading has dramatically increased to more than half of daily trades. This 1,000-trade-per-second technology has come to dominate the market.

This tax of $1/100^{th}$ of a percent per trade would barely be noticeable for regular investors, but would curb dangerous short-term algorithm-based speculation that imperils our financial markets.

Fifth, prioritize health care delivery system reform. A report by the Lewin Group suggests that America could cut nearly $2.4 trillion in excess health care spending by enacting evidence-based policies including: modifying unhealthy behavior ($408 billion per year); improving care management and coordination ($111 billion per year); harnessing competition and reducing medical prices ($148 billion per year); and removing incentives that promote excessive use of care ($151 billion per year). To drive down the costs of health care, we should promote solutions that focus on better outcomes for health care services, community based care, and transparency in drug pricing. Simple improvements such as these will help our citizens be healthier and companies more competitive as a result of a healthy workforce at an overall lower cost.

Sixth, harness an innovation-based economy. This includes: focusing on research and development of new ideas; investing in the development and commercialization of cutting edge technologies, such as those in the clean energy sector; and restructuring taxation of the international operations of U.S. companies and investments.

To continue to lead on innovation, we must support more investment in emerging technologies. In 2012, the Pew Charitable Trust reported that China advanced to become the world leader in clean energy investment, attracting $65.1 billion in investment. In the United States, on the other hand, clean energy investment declined by 37 percent, to $35.6 billion. Creating an innovation-based economy will make America more competitive globally. This means providing both carrots and sticks to driving innovation; carrots through credits for new technologies and sticks through creating carbon auction systems that protect consumers while accelerating movement toward more innovative approaches to energy.

We need to think globally and grow locally. With 95% of the world's consumers outside U.S. borders, our companies – both large and small – need to be able to have access to these international consumers. There are legitimate business reasons for American companies to be operating abroad; however, this need for an international presence should not take away our focus on building a strong workforce here, which is why we need to encourage investments and innovation domestically.

Lastly, ***promote tax fairness***. We should encourage programs that work well, that effectively make up for market inefficiencies, and promote state and local economic growth. We need to end temporary provisions that put some Americans at a disadvantage to others. In particular, we need to end the disparate treatment of the state sales tax deduction and put the 11 million Americans who claim this credit on equal footing with taxpayers living in states with an income tax. Reform is about improving; it does not necessitate discarding every existing tax credit and deduction. Many work well and should be continued.

Overall, I believe tax reform can move our economy to a more innovative-based approach that is efficient and continues to allow the United States to be a world leader. It is essential that we design appropriate transition rules so that individuals and businesses can effectively adjust to a new way of thinking and ultimately comply with an updated tax code. Additionally, we must ensure that any reform can be properly administered – this means that we provide sufficient funds for the Internal Revenue Service (IRS) to implement these policies. This will be a deliberative process, but there are certain things we cannot trade-off such as innovation, promoting a skilled workforce, addressing the nation's retirement dilemma and improving the efficiencies of our health care delivery system. We must be creative and open to new ideas. I look forward to discussing these ideas further with you and the rest of the Senate Finance Committee.

Sincerely,

Senator Maria Cantwell

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