

TAX RELIEF COALITION

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November 6, 2007

AN OPEN LETTER TO THE U.S. SENATE AND HOUSE OF REPRESENTATIVES

Despite several years of consistently strong U.S. economic performance, many Americans today feel very insecure about the future of our economy. This economic anxiety is driven by rising personal debt; ever-increasing costs of health care, energy, education, and mortgages; and rising state and local taxes. Americans also have a pervasive and accurate belief that government wastes too much of the tax revenue it collects. They also have the very good sense to know that it is simply wrong for government to raise taxes during uncertain economic times.

It is in the context of these realities that we — the Tax Relief Coalition (TRC), a coalition of more than 1,000 trade associations, taxpayer advocacy groups, business organizations, and corporations representing 1.8 million businesses — are writing to you.

The Effect of Expiring Tax Law in 2011

The budgets adopted by each House of Congress this year assume the expiration in 2011 of current tax rates, resulting in tax increases estimated to raise over two trillion dollars in new revenue. Specifically, under current law, in 2011:

- Marginal personal income tax rates will increase across all income levels;
- Dividends will again be taxed as ordinary income, instead of at 15 percent;
- The top tax rate on capital gains will rise to 20 percent from 15 percent; and
- The “death tax” will rise from zero to 55 percent, and the size of estate exempt from taxation will fall to its 2002 level of one million dollars.

On top of the massive tax increase of more than two trillion dollars resulting from allowing existing tax rates to rise in 2011, the 110th Congressional Majority has put forth new proposals to raise additional taxes in excess of another trillion dollars.

The real cost of these proposals is three times the revenue estimates of the current draft legislation when combined with more than two trillion dollars in tax increases that will result if current rates are allowed to expire in 2010.

The “Mother-Of-All-Tax-Reforms”

The current proposals represent a tax change and a tax shift; they are neither a tax cut nor tax reform.

The Mother-of-All-Tax-Reforms legislation sacrifices one taxpayer for the sake of another. Repealing the AMT and shifting the “pay-fors” from one group of taxpayers to another does not promote tax fairness.

We have succeeded as a country because we reward success rather than punish it. The Mother-of-All-Tax-Reforms punishes success and flies in the face of our nation’s values and the economic policies which have fostered our overall current prosperity.

The Mother-of-All-Tax-Reforms, when combined with tax increases which will result from the expiration of reduced tax rates in 2011, is in fact the Mother-of-All-Tax-Hikes – a tax hike of more than three trillion dollars, the largest contemplated in American history.

Impact on Small Businesses

As representatives of well over a million small businesses, TRC’s members are particularly concerned about the potential impact of this bill on small business owners. Recent Tax Foundation data show that three out of four taxpayers in the highest income tax bracket are small business owners and farmers, and more than 90 percent of all businesses – and the majority of small business owners – organize as pass through entities and therefore pay their tax at the individual level. These small businesses – the acknowledged job-creating engine of our economy – would be adversely impacted in several ways, including:

- **Higher Tax Rates:** Absent an extension of the current lower tax rates, the top tax rate for businesses that pay taxes at the individual rate would increase from 35 percent to 39.6 percent in 2011;
- **Surcharge:** the proposed surcharge in the proposal, added to a top rate of 39.6 percent, would raise the top tax rate for many small business owners to 44.2 percent;
- **LIFO Repeal:** Many small businesses, including manufacturers, wholesaler-distributor and retailers, use the Last-In-First-Out (LIFO) method of accounting for inventory. The elimination of LIFO would result in both retroactive and prospective tax increases on LIFO users. Moreover, this tax – over one hundred billion dollars – would fall on the “phantom income” in LIFO reserves, a tax that could bankrupt some businesses.

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- **Inequality of Tax Rates:** Recent previous tax reforms have deliberately kept corporate and the top personal income tax rates equal precisely to avoid “tax gaming.” Small business entrepreneurs will be forced at significant cost to restructure their companies to “incorporate” so they can pay the lower corporate tax rate proposed in the Mother-of-all-Tax-Reforms of 30.5 percent.

Impact on Competitiveness

The United States now has the second highest corporate tax rate among our trading partners. While many countries in the world have moved to lower tax rates in order to enable their businesses to compete in world markets and to grow and create jobs, the Congressional Majority is considering only a modest corporate rate cut which is more than offset by other changes which will actually raise the corporate tax burden and make the U.S. companies even less competitive in the global marketplace.

The loss of foreign tax credits benefits and deferral will offset the advantages of a lower corporate tax rate. It is important to remember that the U.S. is one of only a few countries that have a worldwide tax regime, whereas the majority of the other countries with which the U.S. competes have a territorial-based tax regime.

The Majority proposal fails to address the fact that our corporate tax structure is a major obstacle to our world competitiveness because of the Congressional mandate that tax increases or "pay-fors" be enacted to offset any change.

The Artificial World of “Pay-Go”

In adopting so called “pay-go” rules, the 110th Congress put in place a requirement that every tax cut must be “paid for” with an equivalent spending cut or tax increase. Unfortunately, PAYGO as it is applied – tax cuts are “paid for” only with tax increases, not with spending reductions – fails to prioritize spending proposals and suggests instead that any spending is appropriate as long as the budget implication is neutral.

These artificial rules completely ignore the overall size of the government, and the tax revenue needed to finance it, as a policy goal. The rules, which are applied within an arbitrary and artificial time horizon of either five or ten years, also ignore the dynamic response of the economy to changes in the tax code. Rigid adherence to PAYGO virtually ensures that every discussion of tax policy becomes mired in the rhetoric of class warfare. Moreover, rigid adherence to PAYGO may ultimately lead the economy into recession by allowing the 2001 and 2003 tax cuts to expire.

AMT and “Pay-Go”

TRC is on record already advocating reform/repeal of AMT without offsets. Everyone agrees that the government is collecting tax revenues from this tax that it was never intended to collect. The government should not be “kept whole” in reforming AMT; the taxpayers should be protected from its ever-deeper reach.

Retirement Security

The 2003 reduction of the double-taxation of corporate dividends has proven an important engine generating greater value to anyone who has a defined-benefit pension, 401(k), or IRA. Raising this tax will harm all Americans’ retirement savings. The impact of this tax increase would be magnified if dividends are again taxed as ordinary income not only at pre-2001 rates, but potentially subject to a punishing surcharge on Adjusted Gross Income.

Conclusion

The Tax Relief Coalition was formed in 2001 to advocate for pro-growth, pro-competitiveness tax policy. These efforts contributed to enactment of significant tax relief for businesses and individuals that helped lift the economy out of recession and promoted a durable economy that has been able to withstand unprecedented external challenges. Consequently, we will actively oppose the tax reform proposal put forth by the Democratic Majority that would impose several trillion dollars of tax increases which would have a significant negative impact on the economy and our global competitiveness.

Moreover, TRC members believe strongly that the proposed plan is neither a tax cut nor tax reform but rather a tax change and a tax shift. Shifting the “pay-fors” from one group of taxpayers to another does not promote tax fairness and we strongly urge you to reject this approach.

Very sincerely yours,

TRC Management Committee, on behalf of the Coalition:



Grover Norquist
President
Americans for Tax Reform



Stephen E. Sandherr
Chief Executive Officer
Associated General Contractors

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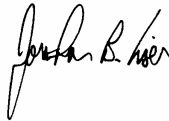
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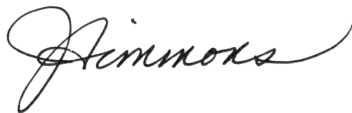
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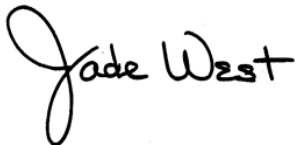
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*For a complete list of the members of the Tax Relief Coalition, go to:
<http://www.naw.org/tmp/trclist.pdf>*