December 8, 2009

The Honorable _____
United States Senate/House of Representatives
Washington, DC

Dear Representative/Senator:

The undersigned organizations have come together to support passage of (H.R. 4213) which fairly and responsibly offsets the cost of the "tax extenders." To be sure, many of us question the efficacy and fairness of some of the "tax extenders," which are provisions that Congress enacts periodically to extend, for a year or so, various temporary tax breaks. But we nonetheless agree that the core revenue-raising provisions included in this legislation are important reforms to our tax system. We urge you to support this bill for the following reasons:

H.R. 4213 would reverse Congress's tradition of increasing the budget deficit every year by extending "temporary" tax breaks without paying for them.

Unlike many previous "tax extenders" bills, this legislation includes revenue-raising provisions that would offset the costs of extending these tax breaks. Enacting corporate tax breaks (which make up the bulk of the "tax extenders") without paying for them contributes to our federal budget deficits and our national debt, which is borne by all Americans. The revenue-raising provisions in this bill prevent an increase in the deficit while also making the tax code fairer and more efficient.

H.R. 4213 would finally close the loophole for what private equity fund managers call "carried interest."

A middle-income person typically pays income taxes as high as 25 percent plus payroll taxes. Private equity fund managers can receive millions of dollars (or even billions of dollars, during boom times) in compensation for their work, but by calling this income "carried interest," they pay only income taxes at a 15 percent rate.

The "carried interest" label essentially allows these fund managers to pretend that this income is a return on capital investments (and thus eligible for the exception in the income tax that subjects capital gains to an income tax rate of no more than 15 percent). This pretense clearly contradicts the will of Congress in creating the subsidy for capital gains, which was meant to reward those who invested their own money, not those who are simply being paid to manage other people's money.

H.R. 4213 also includes a proposal introduced by Finance Committee Chairman Max Baucus and Ways and Means Committee Chairman Charles Rangel to prevent wealthy Americans from cheating on their U.S. taxes by hiding their income in offshore tax havens.

While this proposal is not as strong as we would prefer, it would be an important step forward to ensure that all Americans pay their fair share in taxes. Middle-income Americans typically have few opportunities to hide their income from the IRS. But wealthy Americans have access to lawyers and accountants who help them hide their income in offshore tax havens. Tax havens are countries that have a very low income tax (or no income tax) and laws that prevent their banks from cooperating with IRS enforcement efforts.

While the vast majority of taxpayers at all income levels do the right thing and pay their fair share, a minority of wealthy Americans are engaging in these activities that are both illegal and unfair. The Baucus-Rangel proposal would create strong incentives for foreign banks to provide information that would help the IRS identify tax cheats without creating any significant burden on the banks or their honest customers.

H.R. 4213 requires that the Joint Committee on Taxation (JCT) conduct studies evaluating the "tax extenders" before the end of next year, when Congress is likely to act on them again.

Providing a special corporate tax break through the tax code has the exact same effect as providing a subsidy through direct spending. Unfortunately, lawmakers have made almost no attempt to evaluate or even think critically about the effectiveness of corporate tax breaks before extending them each year. This contrasts significantly with lawmakers' attitudes towards the discretionary spending that they grapple with annually.

JCT's reports of the effectiveness of tax breaks will at least provide Congress with a basis to judge whether or not these tax provisions are worth their costs. This is a common sense reform that is long overdue.

Sincerely,

AFL-CIO
American Federation of State, County and Municipal Employees (AFSCME)
Citizens for Tax Justice
Global Financial Integrity
National Women's Law Center
OMB Watch
Public Citizen
Tax Justice Network (U.S.A.)
United for a Fair Economy
U.S. Public Interest Research Group (PIRG)