Center for American Progress Action Fund

April 15, 2013

The Honorable Kenny Marchant
Chair
Debt, Equity and Capital
Tax Reform Working Group
United States House of Representatives
Washington, D.C. 20515

The Honorable Jim McDermott
Vice Chair
Debt, Equity and Capital
Tax Reform Working Group
United States House of Representatives
Washington, D.C. 20515

Dear Representatives Marchant and McDermott:

The Center for American Progress Action Fund is pleased to submit our comments in support of progressive, revenue-enhancing, and simplifying tax reform. We propose a federal tax reform plan that raises adequate revenue progressively while making the tax system more efficient, simple, fair, and comprehensible.

Our current tax system falls short in three key ways. First, federal revenue levels today are at their lowest level since the 1950s, and our tax system does not raise sufficient funds to pay for critical public investments or to protect our most vulnerable citizens. Second, our tax system has become less progressive over the past several decades, with the highest-income households enjoying substantial tax cuts even as their incomes have risen. Third, our tax code is too complex and contains too many narrowly targeted special-interest breaks.

The Center for American Progress Action Fund recommends a tax reform plan that addresses these failings. Our plan redesigns the income tax code so that it will generate adequate levels of revenue to meet our crucial goals, raises this revenue in a progressive way by asking those in the top income brackets to pay more, simplifies the filing process, and streamlines the code. Specifically, we support the top marginal tax rate on personal income of 39.6 percent, a top marginal tax rate of 28 percent on capital gains as it was under President Ronald Reagan, converting tax deductions to tax credits, closing tax loopholes, simplifying the tax system by reducing the number of filers who itemize, and repealing the alternative minimum tax.

While a specific set of policy proposals for your consideration is outlined below, our principal view is that today's low rates on dividends and capital gains provide no economic benefit, enable high-income taxpayers to pay very low tax rates, and have contributed to the rapid rise in income and wealth inequality.

We offer the following recommendation to you as the chair and vice chair of the Debt, Equity and Capital Tax Reform Working Group:

- Capital gains and dividends: The top rates for dividends and capital gains income have been cut substantially in recent years, but these lower rates have not produced their promised economic benefits and have enabled many of the highest-income Americans to pay extremely low overall tax rates—lower than what the people far below them on the income ladder pay. We would tax capital gains at a maximum 28 percent rate—including the Medicare tax that went into effect in 2013—and dividends as ordinary income.

For more information on our tax reform plan, please read our report: “Reforming Our Tax System, Reducing Our Deficit” by Roger Altman, William Daley, John Podesta, Robert Rubin, Lawrence Summers, Neera Tanden, and Antonio Weiss, with Michael Ettlinger, Seth Hanlon, and Michael Linden.

Any plan for balanced and realistic deficit reduction must include progressive tax reform. We urge the committee to embrace a tax reform plan that asks those who can most afford it to bear their fair share of the burden while protecting seniors, the middle class, and those striving to get into the middle class.

The Center for American Progress Action Fund thanks you for your consideration of our views on tax reform. We welcome the opportunity to provide additional information or to discuss our recommendations in greater detail.

Sincerely,

Michael Linden
Managing Director for Economic Policy
Center for American Progress Action Fund