



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

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October 3, 2011

The Honorable Charles E. Grassley  
United States Senate  
Washington, DC 20510

Dear Senator Grassley:

Thank you for your letter expressing your concerns about the President's approach toward tax reform. Because your letter raises issues of tax policy, it was referred to me.

The Treasury Department and the Administration share your interest in reforming the Tax Code so that it reflects the economic realities of the 21<sup>st</sup> century and encourages investment and job creation. To achieve these objectives, comprehensive tax reform should aim to broaden the tax base and, to the extent possible in the current fiscal climate, lower marginal tax rates. We agree with you that tax expenditures are, in many cases, incentives that reflect intentional government policy. In this respect, they differ from pure tax loopholes, which are unintentional benefits derived by taxpayers who may have found a way to game the system. Any broadening of the tax base, however, is likely to require a reevaluation of many tax expenditures in order to assess their effectiveness, efficiency and appropriateness in the current fiscal environment.

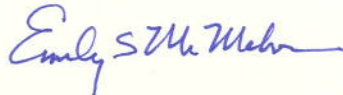
As the President has pointed out, "revenue increases are going to be required to close our deficit and deal with our debt over the long term." Tax reform must take place in this context of long term deficit reduction. To that end, the bipartisan National Commission on Fiscal Responsibility and Reform recommended a tax reform plan intended to raise substantial amounts of revenue in future years, while also reducing the top marginal income tax rates on individuals and on corporations. Thus, it is possible to have a broader tax base and lower tax rates, yet still raise sufficient revenue to make a meaningful contribution to deficit reduction.

Like you, we recognize the challenges faced by the new Joint Select Committee on Deficit Reduction that has been charged with addressing our nation's fiscal problems. That said, we have every hope that the Joint Select Committee on Deficit Reduction will be able to complete its task. To assist the Committee in its work, the President sent to Congress on September 19, 2011, his Plan for Economic Growth and Deficit Reduction, a comprehensive plan to reduce the deficit by \$4.4 trillion and spur economic growth and job creation. A key element of the President's Plan is a call on the Joint Select Committee to undertake comprehensive tax reform that achieves five principles: (1) lower tax rates, (2) cut inefficient and unfair tax breaks, (3) cut the deficit by \$1.5 trillion over the next decade, (4) increase job creation and growth in the United States, and (5) observe the "Buffett Rule" that no household making over \$1 million annually should pay a smaller share of its income in taxes than middle-class families pay.

The President's Plan includes a detailed set of specific tax loophole closers and measures to broaden the tax base that, together with the expiration of the high-income tax cuts, would be more than sufficient to meet the \$1.5 trillion target. Tax reform should draw on these specific proposals, together with the elimination of additional inefficient tax preferences. If the Joint Select Committee is unable to undertake comprehensive tax reform in the time allotted for its work, the President believes that the discrete measures included in the Plan should be enacted on a standalone basis. Their enactment as a standalone package still would significantly improve the country's fiscal standing, represent an important step towards more fundamentally transforming our tax code, and serve as a strong foundation for economic growth and job creation.

Thank you again for your letter. We look forward to working with you and other members of Congress to reform our tax system in the context of long-term deficit reduction.

Sincerely,



Emily S. McMahon  
Acting Assistant Secretary (Tax Policy)