The Honorable Orrin G. Hatch
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Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 201590

The Honorable Ron Wyden
Ranking Member
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219 Dirksen Senate Office Building
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April 14, 2015

Dear Chairman Hatch and Ranking Member Wyden,

We welcome the opportunity to provide feedback on how we can reform the tax code in order to raise the revenue that our country needs in a just and fair fashion.

As momentum builds towards a 1986-style tax deal, we urge you to focus on how to provide for the growing needs of the American public instead of being slavishly committed to revenue neutral reform. Simply put, the US remains a low tax country, both as a total percentage of gross domestic product and relative to other industrialized nations.[1] A revenue neutral approach implicitly accepts this low tax framework. It assumes that enough revenue is already being raised, and that the only real question is how to more equitably distribute the burden of paying it.

A related concern is base erosion. Unfortunately, base erosion would only be hastened by proposals to adopt a territorial as opposed to world-wide tax system. Having US corporate residence has real and tangible benefits overseas and US corporations should be taxed to maintain these benefits. Moving to a territorial system would do nothing to eliminate the problems caused by countries offshoring profits through transfer pricing and other means. Instead it would create further incentives for countries to find ways to shift their US income overseas to tax havens. While there is no doubt that multi-national corporations are using complex, and often questionable, planning schemes to defer taxation or avoid it altogether, the solution to deferral cannot be that we simply throw up our hands and decide that it is impossible to tax income that our companies generate abroad. Instead we should focus on ending deferral and stopping the existing incentives that US corporations have to keep capital overseas.

Similarly, a plan to lower overall rates by eliminating loopholes and other deductions is not the path forward. This is not because there are not many loopholes—installed in our tax code over the decades by well-connected special interests—that do not deserve to be eliminated; they do. It is because eliminating these loopholes should be part of a broader plan to raise much-needed revenue rather than to lower rates for already under-taxed wealthy individuals and corporations.

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[1] Citizens for Tax Justice. 2014. "The US is one of the least taxed of the developed countries." http://www.ctj.org/pdf/oecd2014.pdf, accessed 8 April 2015.

The challenges of the 21st century, ranging from climate disruption and income inequality to crumbling infrastructure and underfunded entitlements, cannot be solved without robust government policy and sufficient revenue to fund it. In that spirit, we urge you to start this discussion by figuring out how we can reform our tax system, including the corporate income tax, in a way that raises the revenue we need to build a resilient society that provides for all Americans in a more just and equitable fashion.

In particular, we encourage you to include the following proposals as revenue-raisers in the Finance Committee's final report:

Carbon Tax

A carbon tax is a practical solution to two of our most pressing problems: the ongoing threat of climate disruption and our long-term fiscal health. A per ton tax on carbon emissions would discourage a harmful activity (burning fossil fuels) while simultaneously encouraging climate solutions such as wind, solar, and energy efficiency. Levying a modest carbon tax of $16 per ton and increasing it at an annual rate of 4 percent would generate $1.1 trillion in revenue over the first decade and $2.7 trillion over two decades. Even more revenue could be raised if the tax were extended to non-carbon greenhouse gases such as methane and carbon pollution from non-energy sources.[2]

Research from the Energy Information Agency (EIA) confirms that carbon taxation could be the most powerful emissions-reducing tool at our disposal. A slightly steeper carbon tax of $25 per ton rising at an annual rate of 5 percent could cause electricity sector carbon emissions to drop over 80 percent in 2040 from a baseline scenario of 5,599 million metric tons.[3]

The double benefit of a carbon tax, as both a climate solution and a revenue solution, is clear. There is an economic cost of burning fossil fuels—a cost that is cumulative and not immediately reflected at the point of combustion. In fact, a recent estimate of the "social cost of carbon" in the journal *Nature* suggests that sending a ton carbon into the atmosphere is equivalent to $220 worth of damage, as extreme weather and other consequences of climate disruption take their toll on economic growth.[4] This means that a carbon tax is a simple mechanism that allows the government to price a currently un-priced externality.

This policy is neither novel nor untested. Across the world in countries such as Denmark, Sweden, Switzerland, Norway, Japan, Iceland, and Mexico, various versions of the carbon tax already exist.[5] In the Canadian province of British Columbia, a phased-in carbon tax of $30 garnered over $1.2 billion in

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[2] Morris, Adele and Mathur, Aparna. 2014. "A carbon tax in broader US fiscal reform." *Center for Climate and Energy Solutions*, p.iv.
[3] Energy Information Agency. 2014. "Annual Energy Outlook 2014." http://199.36.140.204/forecasts/aeo/executive_summary.cfm?src=Petroleum-b1, accessed 8 April 2015.
[4] Moore, Frances C. and Diaz, Delavane B. 2015. "Temperature impacts on economic growth warrant stringent mitigation policy." *Nature Climate Change* (5), 127–131.
[5] World Bank Group. 2014. "State and trends of carbon pricing." http://www.ecofys.com/files/files/world-bank-ecofys-2014-state-trends-carbon-pricing.pdf, accessed 8 April 2015.

revenue in the 2013-14 fiscal year, while reducing per capita fossil fuel use by 16.1 percent from 2008 levels.[6]

Fossil Fuel Subsidies

For over a century, our tax code has incentivized the exploration and production of oil, coal, and natural gas, thereby encouraging investors to risk capital, lowering overall costs, and increasing the competitiveness of fossil fuels relative to other energy sources. Ending these subsidies is one of the easiest steps the US can take towards reducing emissions and increasing revenue.

The oil and gas sector in particular remains one of the most under-taxed portions of our entire economy. This is due to a suite of deductions, many of them over a century old, that allow corporations to more quickly recover costs related to the exploration, drilling, transportation and refining of oil and gas.[7] The result is unfair to other taxpayers, who must shoulder the revenue burden when a historically profitable industry pays an artificially low rate; and the result is unfair to the environment, which suffers when the cost of destructive activities is made artificially cheap through tax code incentives.

Acting decisively to repeal fossil fuel subsidies could generate over $100 billion in revenue over the coming decade as well as reduce the competitiveness of dangerous energy supplies.[8] We encourage you to repeal the following provisions:

DEDUCTION	US CODE LOCATION
Intangible Drilling Costs	*26 USC §263, 291*
Depletion Allowance for Oil and Gas	*26 USC §613 A*
Amortization for Geological and Geophysical Expenditures	*26 USC §167*
Deductions for foreign tax – dual capacity tax deduction	*26 USC §901*
Domestic Manufacturing tax deduction for oil and gas	*26 USC §199*
Percentage depletion for hard mineral fossil fuels	*26 USC §613*
Royalty taxation of coal	*26 USC §631*
Passive loss exception for working interests in oil and gas properties	*USC §617*
Deduction for tertiary injections	*26 USC §193*
Last-in-first-out Accounting	*26 USC §472*
Domestic Manufacturing tax deduction for hard rock minerals	*26 USC §199*

[6] Pembina Institute. 2014. "The B.C. Carbon Tax: Backgrounder," p.1. http://www.pembina.org/reports/lessons-bc-carbon-tax-pembina-institute-112014.pdf, accessed 8 April 2015.
[7] Taxpayers for Common Sense. 2014. "Effective tax rates of oil and gas companies: cashing in on special treatment." http://www.taxpayer.net/images/uploads/downloads/TCS_ETR_Report.pdf, accessed 8 April 2015.
[8] Sanders, Bernie. 2013. "Legislation to End Fossil Fuel Tax Breaks Introduced by Sen. Sanders, Rep. Ellison." http://www.sanders.senate.gov/newsroom/press-releases/legislation-to-end-fossil-fuel-tax-breaks-introduced-by-sen-sanders-rep-ellison, accessed 8 April 2015.

Financial Transaction Tax

As austerity programs that hurt the vulnerable and the poor are debated, the record-profit-making financial sector remains undertaxed. The financial transaction tax would place a miniscule fee on Wall Street trading that could raise hundreds of billions of dollars of new revenue to pay for urgently-needed public goods and services. Popularly known as the Robin Hood tax or Wall Street Tax, the FTT would apply to financial transactions such as the trading of stocks, bonds, derivatives and other financial instruments -- most of which are traded not by people, but by computers in a matter of micro-seconds. In addition to generating desperately-needed new revenue, the FTT would tamp down on short-term speculation and volatility while shrinking the size of the bloated financial sector, all of which are harmful to the real economy. Instead, the FTT would lead to long-term, productive investments resulting in real goods and services.

Representative Keith Ellison (D-MN) has introduced legislation to establish an FTT, the Inclusive Prosperity Act, H.R. 1464, which is expected to generate up to $300 billion of new revenue annually to pay for urgently-needed public goods and services. Representative Chris Van Hollen (D-MD) also recently proposed an FTT as part of a tax action plan to address income inequality.[9] There is a tremendous need for Congress to enact legislation to establish an FTT with a rate adequate to make a down payment on the many billions of dollars desperately needed to help shore up funding for goods and services that keep communities healthy and whole, both at home and around the world. A portion of this revenue should be directed to help people in developing countries face a climate crisis that has already begun to wreak havoc on agriculture, food security, public health, infrastructure, transportation, livelihoods and lives.

Further, the FTT is not a new concept. More than 30 countries have an FTT, and the U.S. even had one from 1914 to 1966. Currently, 11 European nations – including Germany and France - are in the process of implementing a regional FTT.[10] They are joined by more than a thousand leading economists, including Nobel Prize winners, who support the FTT.

Conclusion

We are grateful to the Senate Finance Committee and its tax reform working groups for the opportunity to submit these comments. As the tax reform discussion continues, we look forward to working together to improve our tax system so that it better serves the needs of the American people in a just and equitable fashion.

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[9] Nichols, John. 2015. "As Top Democrats Embrace a Robin Hood Tax, It's Time for Activists to Go Big." *The Nation*. http://www.thenation.com/blog/194673/top-democrats-embrace-robin-hood-tax-its-time-activists-go-big#, accessed 14 April 2015.

[10] Ellison, Keith. 2015. "Rep. Ellison Introduces Inclusive Propserity." https://ellison.house.gov/media-center/press-releases/rep-ellison-introduces-inclusive-prosperity-act, accessed 14 April 2015.

Sincerely,

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