Mitch McConnell
REPUBLICAN LEADER – UNITED STATES SENATOR FOR KENTUCKY

PRESS RELEASES

McConnell Proposes Compromise to Extend Tax Relief, Energy Incentives

from the Office of Senator Mitch McConnell

Thursday, July 3, 2008

Compromise 'could be accomplished in a way that achieves your stated goal of being deficit neutral, but without the unstated and unwarranted result of increasing the size of the federal government'

Washington, D.C. – U.S. Senate Republican Leader Mitch McConnell sent the following letter to Speaker Nancy Pelosi and Majority Leader Harry Reid on Thursday calling on Democrats to forge a compromise with Republicans to extend expiring tax relief in a deficit-neutral manner, without permanently raising taxes.

July 3, 2008

The Honorable Nancy Pelosi The Honorable Harry Reid

Speaker Majority Leader

U.S. House of Representatives United States Senate

Room H-232, The Capitol Room S-221, The Capitol

Washington, D.C. 20515 Washington, D.C. 20510

Dear Madam Speaker and Mr. Leader:

This letter is in response to a letter from the House Democratic Leadership, dated June 12, 2008 and a letter from the Senate Leadership, dated June 13, 2008. Both letters deal with the legislation, H.R. 6049, which is designed to extend certain expiring tax relief provisions and energy tax incentives.

We object to some of the assertions in both letters about the position, record, and intentions of the Senate Republican Conference regarding tax increase proposals and the tax

relief extensions. However, rather than respond to overtly coordinated election-year letters in a partisan fashion, we would like to focus on areas of bipartisan agreement in order to break the impasse on these time-sensitive tax matters.

The Senate Republican Conference places the highest priority on fiscal responsibility. We believe that deficit reduction should be considered with respect to all tax and spending proposals. However, the first step toward mitigating current adverse fiscal patterns is to do no more harm to the fiscal situation.

New spending increases the deficit, whether it be the expansion of discretionary spending or the expansions of entitlement spending. New tax relief is scored as increasing the deficit, even in instances where the resulting economic growth raises far more revenue than is estimated to be "lost." Under Congressional budget accounting, however, the extension of expiring tax relief looks like it increases the deficit, while the extension of expiring entitlement spending does not. This does not make sense.

Legislation to extend expiring tax relief, including an extension of the alternative minimum tax (AMT) patch, and legislation to extend expiring energy tax incentives all enjoy overwhelming bipartisan support. Few would dispute the merits of continuing these tax relief provisions. Indeed, with these bipartisan tax relief provisions in place, aggregate Federal tax collections have yielded revenue above the post World War II average of 18.2 percent of gross domestic product. Since these tax policies have yielded revenue above the historic average, we see no reason to condition their extension on new tax increases.

The conference report on the 2009 budget resolution increases non-defense discretionary spending by $25 billion above the President's request in 2009. When these amounts are enacted, they will be perpetuated in the baseline and will result in $350 billion in higher deficits over the next ten years. The deficit effect of this new spending cannot be ignored. It is surely as much of a fiscal burden as $350 billion in tax policy extensions.

As a compromise, we suggest the following. The Senate Republican Conference will agree to offset the revenue lost

from new tax relief policy with spending reductions or revenue raised from appropriate tax policy proposals. In exchange, the House and Senate Democratic Leadership would revise the desired new non-defense discretionary spending in the 2009 Congressional budget downward to a level sufficient to offset the cost (relative to the Congressional Budget Office baseline) of extending expiring tax relief. If agreed to, extension of expiring tax relief, including extension of the AMT patch and expiring energy tax incentives, could be accomplished in a way that achieves your stated goal of being deficit neutral, but without the unstated and unwarranted result of increasing the size of the federal government.

The Senate Republican Conference is committed to, as the letter from the House Democratic Leadership states, "enacting legislation extending tax relief to businesses and families in a fiscally responsible manner." We look forward to working with our friends in the House and Senate Democratic Leadership on this time-sensitive legislation.

Sincerely,

Senator Mitch McConnell, U.S. Senate Republican Leader

###