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November 1, 2007

The Honorable Henry M. Paulson, Jr.
Secretary of the Treasury
United States Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Mr. Secretary:

I noticed with great interest your recent statement on the introduction of the Tax Reduction and Reform Act of 2007 and welcome the opportunity to continue a dialogue on these issues with you.

As you noted in your statement, the President's budget proposal requested a one-year "patch" for the alternative minimum tax (AMT) without raising taxes. If we prevent the AMT from falling on 23 million additional taxpayers this year, this will result in an estimated \$50 billion in revenue that will not be collected by the Federal government. You have stated that we should not close existing loopholes or eliminate narrowly-targeted benefits in the tax code to recover that cost to the treasury, so I assume the Administration would propose a reduction in Federal programs to cover the cost of an AMT patch. Mr. Secretary, I ask you, which programs does the Administration recommend cutting to ensure that the cost of this patch does not add to our Federal deficit?

The President's budget also calls for a permanent repeal of the AMT in the context of a revenue-neutral reform of the tax code. I advanced legislation last week to achieve these goals, but have yet to see proposals from the Administration on how to remove this undue burden from middle-class taxpayers. Instead, the President's Commission on Tax Reform released a set of "recommendations" that would raise taxes on these families by limiting or repealing the current deductions for mortgage interest, charitable contributions and State and local income taxes. Since the President has not shown

leadership on tax reform by endorsing his Commission's plans or advancing another proposal to achieve his stated goal of permanently repealing the AMT without adding to the deficit, I ask you Mr. Secretary – what would you put forward to carry out the proposals in your own budget?

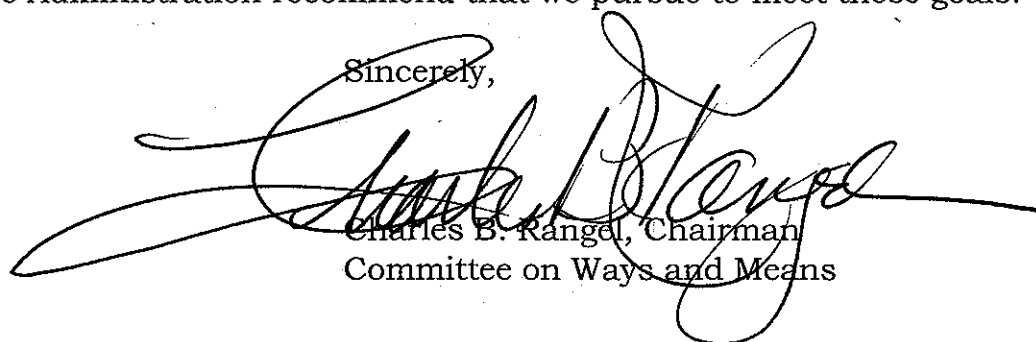
Further, your release states that my legislation would “burden millions of small businesses and undermine job creation.” Where in the tax bill do you see provisions that would burden small businesses? I believe, in fact, that an overwhelming majority of small businesses and their owners would benefit from repeal of the AMT and permanent extension of small business expensing as proposed under my legislation. If you believe there are additional areas where small businesses remain vulnerable, or can identify where we may work together to help small businesses better compete in the global economy, please share your views.

During a meeting before the Ways and Means Committee earlier this fall, you shared your view that our corporate taxes are much higher than those of other industrialized nations. That is a concern that Committee Members took seriously. I proposed a reduction in the corporate tax rate from 35 to 30.5 percent in my bill. You also shared with us the concern that many companies claim exemptions or loopholes that allow them to pay little or no taxes at all. To address this problem, my bill eliminates a number of narrowly-targeted provisions to crack down on corporations that have received favorable or unfair treatment at the expense of other taxpayers. In fact, many of the proposals included in my bill were specifically identified in a recent Treasury Department report.

Mr. Secretary, please share with me – if we are going to have a revenue-neutral corporate tax reform bill -- where would you raise the money to compensate for the revenue lost by a reduction in the corporate tax rate?

Finally, your statements suggest that tax reform requires more work, that it is part of a longer discussion. The Bush Administration has indicated that it wants to eliminate the AMT, reform and simplify the tax code and encourage economic growth, but when do you intend to do it? President Bush has been in office for nearly eight years and yet we have received no bill, no suggestions, and no direction. It is easy to be critical, but if not this bill, what would the Administration recommend that we pursue to meet these goals?

Sincerely,

A large, stylized handwritten signature in black ink, which appears to read "Charles B. Rangel". The signature is written over the printed name and title.

Charles B. Rangel, Chairman
Committee on Ways and Means