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Sent: 3/3/2012 5:39:14 PM +00:00

To: Oscar Flores

Subject: Fw: Tax Reform: The Perfect Purple Issue

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From: Lanny Davis [mailto:
Sent: Saturday, March 03, 2012 10:06 AM
To: H
Subject: Tax Reform: The Perfect Purple Issue

Purple Nation

March 3, 2012

Tax Reform: The Perfect Purple Issue

By Lanny J. Davis

<http://thehill.com/opinion/columnists/lanny-davis/213901-your-move-mr-president>

<http://dailycaller.com/2012/03/03/tax-reform-the-perfect-purple-issue/>

<http://www.thejakartaglobe.com/globebeyond/tax-reform-the-perfect-purple-issue/501702>

<http://www.huffingtonpost.com/la-nny-davis/tax-reform-the-perfect-pub-1311669.html>

The definition of tax reform, in today's polarized politics, goes something like this:

Don't tax you, don't tax me,

Tax the other guy behind the tree.

Let's face it — Republicans believe in tax reform if it means reducing taxes on the wealthy. Democrats believe in tax reform if it means increasing taxes on the wealthy.

And both parties believe in tax reform if it means cutting taxes on the middle class, even if that means endangering the solvency of Social Security — exactly what Democrats and Republicans agreed to do, with the urging of President Obama, when they cut the payroll tax by 2 percent for 160 million Americans, which would slow the revenue stream into the Social Security trust fund.

"I never thought I would live to see the day when a Democratic president and a Democratic vice president would agree to put Social Security in this kind of jeopardy," liberal Iowa Sen. Tom Harkin said on the Senate floor. "Never did I imagine a Democratic president beginning the unraveling of Social Security."

So is real tax reform possible? Is this the one issue that can bring the hyper-partisan Congress together even while they seem unable to agree on a deficit-reduction plan — even when they face \$1.2 trillion in across-the-board cuts in defense and domestic programs?

It is possible if a 2012 tax reform effort follows the four basic principles that led to the last great bipartisan tax reform bill, the Tax Reform Act of 1986, enacted with leadership by President Reagan, every Republican's conservative hero, and a bipartisan coalition in a Republican Senate and a Democratic House.

The first principle is equity, which both conservatives and liberals can embrace — i.e., equal incomes should pay equal taxes. The 1986 act reduced the top tax rate from 50 percent to 28, and increased capital gains from 20 percent to 28. That's right — your eyes aren't seeing things. President Reagan and leading GOP conservatives supported increasing capital gains taxes and liberals in Congress supported reducing tax rates, producing equal taxes on both ordinary income and capital gains.

The second principle is private market efficiency — i.e., the private market is a more efficient allocator of capital than Congress. That meant in 1986 President Reagan led Republican congressional conservatives to support eliminating \$30 billion

annually in loopholes, including such GOP sacred cows as oil and gas industry loopholes and large corporate tax breaks. But it also meant liberals accepting a reduction in the corporate tax rate.

And the third principle is revenue neutrality — and, I would argue, the principle that creates the “purple” incentive of bipartisanship and compromise between left and right. As then-New Jersey Democratic Sen. Bill Bradley, one of the key authors and sponsors of the 1986 Tax Reform Act, put it, “Once the discipline of revenue neutrality was adopted, the trade-off between loophole elimination [supported by Democratic liberals] and a lower top rate [supported by Republican conservatives] became obvious — the lower the rate, the more loopholes had to be closed to pay for it and the deficit was not increased.”

The fourth most important principle is bipartisan commitment to solutions — not to obstructionism and assuring failure to hurt the incumbent president.

There was Reagan taking a rare trip to Capitol Hill to put direct pressure on fellow conservative Republicans, who had earlier blocked the measure in the House. Reagan called the measure “a sweeping victory for fairness” where “vanishing loopholes and a minimum tax will mean that everybody and every corporation pay their fair share.” Sound familiar?

I have written many times in this space that, while I strongly support most of President Obama’s policies and his reelection, I have been disappointed at his failure to lead on the frightening growing \$15 trillion national debt and on supporting his own Bowles-Simpson Deficit Commission recommendations.

Now President Obama has an opportunity to lead on tax reform — and fight for comprehensive tax reform, based on Bowles-Simpson recommendations, that challenges equally liberal and conservative sacred cows and creates a tax system more equitable, more efficient, and fiscally responsible.

Will he?

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Mr. Davis is the principal in the Washington D.C. law firm of Lanny J. Davis & Associates, which specializes in strategic legal crisis management. He served as President Clinton’s Special Counsel in 1996-98 and as a member of President Bush’s Privacy and Civil Liberties Oversight Board in 2006-07. He is the author of the forthcoming book to be published by Simon & Schuster, “Crisis Tales -- Five Rules for Handling Scandals in Business, Politics and Life.” He can be found on Facebook and Twitter (@LannyDavis).

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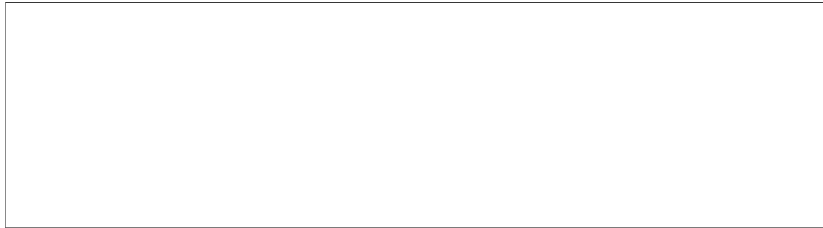
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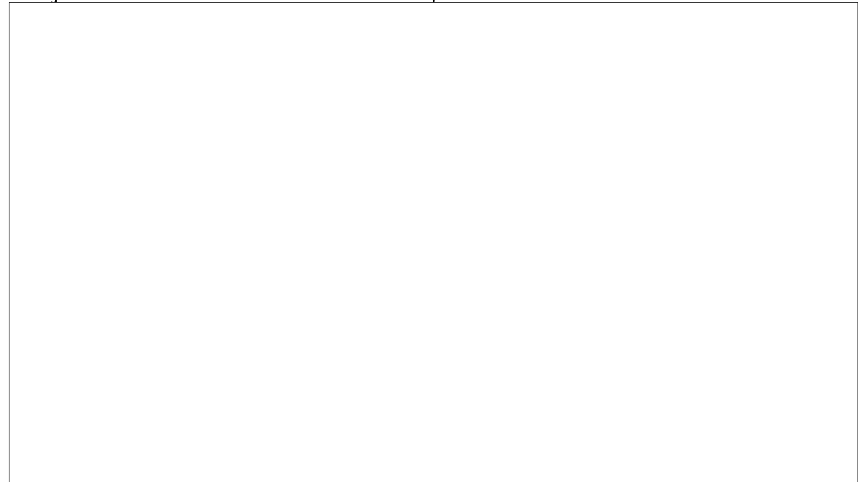
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Date: Sat, 3 Mar 2012 12:39:14 -0500

Subject: Fw: Tax Reform: The Perfect Purple Issue



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