

DISTRICT OFFICES:

4434 AMBOY ROAD, 2ND FLOOR
STATEN ISLAND, NY 10312
(718) 356-8400
(718) 356-1928 (FAX)

9818 FOURTH AVENUE
BROOKLYN, NY 11209
(718) 630-5277
(718) 630-5388 (FAX)

Congress of the United States
House of Representatives
Vito Fossella
13th District, New York

CAPITOL OFFICE:

1239 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-3213
(202) 225-3371
(202) 226-1272 (FAX)

E-MAIL ADDRESS:
vito.fossella@mail.house.gov

February 18, 2005

The Honorable Connie Mack
Chairman

The Honorable John Breaux
Vice-Chairman

The President's Advisory Panel on Federal Tax Reform
1440 New York Avenue, NW
Suite 2100
Washington, DC 20220

Dear Senators Mack and Breaux:

First, let me thank you both for agreeing to sit on this important commission. Reform of the tax code is a long-delayed project of critical importance to the economy. However, it will certainly not be an easy task, and it is good that you have agreed to undertake it. Tax reform will only work with cool heads thoughtfully considering ways to reduce the burden on taxpayers.

With this goal in mind, I write today to counsel strongly against any suggestion that the deduction for state and local taxes should be eliminated. The deduction is an important one exercised, in 2002, by over 37 million US taxpayers and more than 3 million people from my home state, New York. It is a major factor in alleviating the crushing tax burden that imposes at the federal as well as the state and local levels.

The amounts claimed are similarly impressive: again in 2002, over \$184 billion (and over \$24 billion by New Yorkers) was saved from the maw of the tax code by the exercise of this provision.

We are all familiar with the basic problem of the tax code - it is a bizarre mess that forces taxpayers to waste billions of hours (6.4B in 2004) and hundreds of billions of dollars every year (\$203.4B in 2004) on tax preparation. Not even experts truly understand the tax code - different preparers, including different IRS professionals, provide different answers.

This is on top of tax rates that consume, on average, half of a person's income. When the income tax was established a century ago, arguments raged over single-digit tax rates. During congressional debate over the 16th Amendment, a proposal to cap the income tax at 6% was rejected because, it was generally agreed, such a provision would encourage Congress to raise the rate all the way up to 6%! Sadly, Congress did not want for encouragement.

We now find ourselves in serious straits. While we were struggling our way out of a recession in this very decade, additional productivity was being lost on literally trillions of dollars of excessive tax liabilities, tax preparation costs and lost man-hours.

The deduction for state and local taxes has substantially eased this burden. The relief from state and local taxes, many of whose codes are nearly as Byzantine as that of the federal, is of major importance. Speaking as a New Yorker, recovery from the twin economic punches of 9-11 and the recession was difficult enough, but fortunately the deduction provided some cushion.

The deduction has existed since the first implementation of the federal income tax in 1913. It has been a crucial point of balance as the income tax rates were steadily hiked throughout the twentieth century.

At various points, I have been enthusiastic to support proposals to slash the burden, both that of overall taxes and of tax preparation. Taxes at the state and federal level need to be cut. What does not need to be cut, I firmly believe, is this provision that serves as a release valve for the system.

I thank you both very much for your attention to this important matter and look forward to hearing from you soon.

Sincerely,

A handwritten signature in black ink, appearing to read "Vito J. Fossella". The signature is fluid and cursive, with the first name "Vito" being particularly prominent.

Vito J. Fossella
Member of Congress