Hearing on
The 2017 Tax Law and Who It Left Behind

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTEENTH CONGRESS

FIRST SESSION

March 27, 2019

Serial No. 116-15

COMMITTEE ON WAYS AND MEANS RICHARD E. NEAL, Massachusetts, Chairman	
JOHN LEWIS, Georgia LLOYD DOGGETT, Texas MIKE THOMPSON, California JOHN B. LARSON, Connecticut EARL BLUMENAUER, Oregon RON KIND, Wisconsin BILL PASCRELL, JR., New Jersey JOSEPH CROWLEY, New York DANNY K. DAVIS, Illinois LINDA SÁNCHEZ, California BRIAN HIGGINS, New York TERRI A. SEWELL, Alabama SUZAN DELBENE, Washington JUDY CHU, California GWEN MOORE, Wisconsin DAN KILDEE, Michigan BRENDAN BOYLE, Pennsylvania DON BEYER, Virginia DWIGHT EVANS, Pennsylvania BRAD SCHNEIDER, Illinois TOM SUOZZI, New York JIMMY PANETTA, California STEPHANIE MURPHY, Florida JIMMY GOMEZ, California STEVEN HORSFORD, Nevada	KEVIN BRADY, Texas, Ranking Member DEVIN NUNES, California VERN BUCHANAN, Florida ADRIAN SMITH, Nebraska KENNY MARCHANT, Texas TOM REED, New York MIKE KELLY, Pennsylvania GEORGE HOLDING, North Carolina JASON SMITH, Missouri TOM RICE, South Carolina DAVID SCHWEIKERT, Arizona JACKIE WALORSKI, Indiana DARIN LAHOOD, Illinois BRAD R. WENSTRUP, Ohio JODEY ARRINGTON, Texas DREW FERGUSON, Georgia RON ESTES, Kansas
BRANDON CASEY, *Staff Director* GARY J. ANDRES, *Minority Chief Counsel*	

Hearing on The 2017 Tax Law and Who It Left Behind
U.S. House of Representatives,
Committee on Ways and Means,
Washington, D.C

<u>WITNESSES</u>

Elise Gould, Ph.D, Senior Economist
Economic Policy Institute

Jason Oh, Professor of Law
University of California Los Angeles School of Law

Christopher M. Shelton, President
Communication Workers of America

Nancy Abramowitz, Professor of Law and Director of the Janet R. Spragens Federal Tax Clinic
American University Washington College of Law

Douglas Hotlz-Eakin, Ph.D, President
American Action Forum

HOUSE COMMITTEE ON WAYS & MEANS
CHAIRMAN RICHARD E. NEAL

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE CONTACT: (202) 225-3625
March 20, 2019
No. FC-8

Chairman Neal Announces a Hearing on The 2017 Tax Law and Who It Left Behind

House Ways and Means Chairman Richard E. Neal announced today that the Committee will hold a hearing, entitled "**The 2017 Tax Law and Who It Left Behind**," on Wednesday, March 27, 2019 at 10:00 a.m. in room 1100 Longworth House Office Building.

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record can do so here: WMdem.submission@mail.house.gov.

Please ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, by the close of business on Wednesday, April 10, 2019.

For questions, or if you encounter technical problems, please call (202) 225-3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but reserves the right to format it according to guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

The Committee seeks to make its facilities accessible to persons with disabilities. If you require special accommodations, please call (202) 225-3625 in advance of the event (four business days' notice is requested). Questions regarding special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories are available [here].

###

The committee met, pursuant to call, at 10:00 a.m., in Room 1100, Longworth House Office Building, Hon. Richard E. Neal [chairman of the committee] presiding.

Chairman Neal. The committee will come to order. Good morning, and I want to welcome our witnesses and the audience members, and I want to thank everyone for being here today. Today, the committee begins its long overdue examination of the 2017 tax law that passed in a mere 51 days without any hearings or expert witness testimony.

More than a year after passage of a $2.3 trillion tax giveaway, this will be the first time we will have a thorough review of the new law and its impact on American families and the economy.

So today we begin with some big picture questions about fairness and who the tax law left behind. We already know it does not treat all taxpayers alike. Instead, the law's proponents made choices about what and whom to prioritize and what and whom, unfortunately, to leave out. They chose to increase the deficit by $1.5 trillion, which turned out to be $2.3 trillion, and they decided that the most urgent national priorities were to provide a massive tax cut for corporations, business owners, and those who have inherited large sums of money.

For years they have touted the agenda of opportunity, including an increase in the earned income tax credit, especially for those workers without children, but when it came time to pass their tax bills Republicans actually shrank the EITC by slowing its growth rate over time. In fact, the 2017 tax law missed every significant opportunity to make a difference in the lives of working people. It did nothing to help working people and families afford childcare, pay for their child's education, or pay down their student loan debt.

Perhaps the most devastating impact in our Nation's memory is what they attempt to do now to our healthcare system. The tax bill amounted to backdoor effort to drive up health insurance costs, resulting in the loss of coverage for millions of Americans, and the petition in the District Court of New Orleans over the last 48 hours is consistent with the argument I just made.

We will hear from some today that the economy is booming, a reminder that we are now more than 100 straight months into economic growth. To some extent, it is true about recent growth, and investors are surely doing very well. And many corporate CEOs right now can proclaim that they have had it pretty well, as well. Wealthy heirs couldn't be doing any better.

But in truth we have two economies, and let's not pretend that stock market gains and corporate profits tell the whole story of today's economy. This country also includes many middle class and lower income people who are working hard and struggling to get by. Wages have been more or less flat for the middle class since the late seventies, while housing, healthcare, and higher education get more expensive. We need a healthy middle class in this country, one that people can stay in and one that people can climb to. We expect people to earn their way, but we should also expect hard work to translate into financial dignity. A massive tax overhaul should have created a Tax Code that rewards effort, not simply the good fortune of those who are already at the top.

And, with that, let me recognize the ranking member Mr. Brady for an opening statement.

[The statement of Chairman Neal follows:]

Mr. Brady. Thank you, Chairman Neal.

Thanks to tax reform and pro-growth policies, vulnerable Americans left behind during the Obama administration are finding jobs with growing paychecks, experiencing less poverty, and expressing new optimism about their future. Repealing the Tax Cuts and Jobs Act, as our Democrats have pledged, not only will damage the U.S. economy, kill jobs, reduce paychecks and send American jobs overseas, it will most hurt women, minorities, individuals with disabilities, and workers without a high school education.

It is still relatively early to judge the full impact of tax reform -- that will take years -- but the early signs are extremely encouraging, ones that both parties should welcome. We care about poverty. Today Latino and African American poverty is at the lowest recorded. We care about folks with disabilities, about women, about teenagers, and workers who didn't complete high school. The unemployment rates for these crucial Americans are at the best in decades. And it is even better for Hispanics and African Americans. We care about single moms. That is why a single mom with two kids won't pay any taxes on her first $53,000 of income. Millions of hardworking Americans will no longer have to figure their taxes twice with the AMT gone for all but millionaire households.

With 3 out of every 4 dollars in tax cuts going to individuals and small businesses, we care about middle-class families. That is why millions of parents now enjoy a child tax credit twice its earlier size. More of the credit is refundable to the low income, and 8 million more middle-class families can actually use the credit.

Main Street America is back hiring more, paying more, and expanding more because the new 20-percent small business deduction.

U.S. manufacturing is back. After losing thousands of jobs during the Obama years, today 450,000 manufacturing jobs have been created under the Trump White House. That is why blue-collar jobs are surging, good news for workers who were told by the previous

President their jobs were never coming back.

Paychecks are rising at the fastest rate in the decade, and workers with the lowest incomes are seeing the greatest increases. There is a reason for that wage growth. With lower business rates, a modern international system, historic incentives to invest in new technology, new equipment and research, many American businesses are hiring more, paying more, and making the long-term investment in innovation that drives productivity and wages over the long term.

Some try to claim that all this is the result of Obama policies, but that is silly. After a decade, did some growth fairy suddenly wake up in 2017, 2018? Business investment grew six times faster than the last year of President Obama. Manufacturing awoke. New business startups are skyrocketing. In just the first year, American businesses brought back $700 billion from overseas to invest in jobs, buildings, research, and, yes, in their own shareholders when smart investments weren't readily available.

Can we do more to help grow the economy and fine tune the Tax Code so it achieves even more? Absolutely. And we welcome constructive bipartisan ideas on how to grow more jobs and provide more opportunities for Americans willing to work. I suspect today though we may be doing a lot of fact checking: Claims, for example, that $1.3 trillion of tax breaks went to corporations, factcheck.org called that claim misleading; or Senator Schumer's assertion that companies are laying off workers because of tax reform, PolitiFact labeled that mostly false; or the claim that 83 percent of all tax breaks go to the top 1 percent, factcheck.org rated that misleading as well; or PolitiFact, which gave their embarrassing Pants on Fire rating to Democratic claims that tax cuts are only for billionaires and corporations.

So far, what tax reform has left behind are the gloomy predictions of a new normal for America where economic growth was disappointing for decades, where paychecks would stay flat, and we could do nothing about American jobs going overseas. The American economy has a new trajectory and a new optimism. My prediction is the best benefits of a new modern Tax Code are yet to come because we changed the location and investment decisions of job creators for the long term. As a result, America has moved to the top as the most competitive economy in the world. That is where we want to stay: the best.

With that, Mr. Chairman, I yield.

[The statement of Mr. Brady follows:]

Chairman Neal. Thank you, Mr. Brady.

And, without objection, all members' openings statements will be made part of the record. We have a distinguished panel of witnesses here with us today, and first I want to welcome Dr. Elise Gould. Dr. Gould is a senior economist at the Economic Policy Institute, where her research focuses on wages, poverty, inequality, economic mobility, and healthcare.

Next I would like to welcome Professor Jason Oh. His work at UCLA law school focuses in particular on political economy as it relates to taxation and how institutions shape tax and budgetary policy.

Christopher Shelton, President of the Communication Workers of America. Prior to his election as CWA president in 2015, Mr. Shelton served as vice president of CWA District 1, which represented 300 CWA locals, including New England.

And next we have Professor Nancy Abramowitz, a professor of practice and director of the Janet Spragens Tax Clinic at American University Washington College of Law. Professor Abramowitz specializes in taxation, employee benefits, general business law, and dispute resolution. And finally, no stranger to this committee, I would like to introduce Douglas Holtz-Eakin, President of the American Action Forum. He has previously served in a number of policy positions, including as chief economist for the President's Council of Economic Advisers and Director of the Congressional Budget Office.

Each of your statements will be made part of the record in its entirety, and I would ask that you summarize your testimony in 5 minutes or less. And to help with that time there is a timing light at your table. When you have one minute left the light will switch from green to yellow and then finally to red when 5 minutes are up.

Dr. Gould, would you please begin.

STATEMENT OF ELISE GOULD, PH.D., SENIOR ECONOMIST, ECONOMIC POLICY INSTITUTE

Ms. Gould. Chairman Neal, Ranking Member Brady, and members of the committee, thank you for the opportunity to testify today on rising inequality in the United States. My name is Elise Gould, and I am a senior economist at the Economic Policy Institute, a nonprofit, nonpartisan think tank in Washington, D.C.

My testimony establishes that the poor performance of American workers' wages in recent decades is one of the country's central economic challenges. A range of other economic challenges -- reducing poverty, increasing economic mobility, and closing racial and gender wage gaps -- rely largely on boosting wage growth for the vast majority.

I have four main points to share with you this morning. The first, income inequality is the primary reason why most Americans experienced disappointing growth in their living standards over the last four decades. Second, because labor market income represents the largest source of income for most Americans, the divergence between pay and productivity is at the root of slow growing income. Third, recent wage gains for the lowest wage workers can be explained by a tight labor market and state level minimum wage increases. Fourth, policymakers should prioritize keeping labor markets tight while also strengthening institutions and policies that provide workers the leverage they need to achieve decent wage growth even when the economy is not at full employment.

So, first, and I have some slides here to share with you, in recent decades, most Americans have experienced disappointing growth in their living stands, despite economic growth that could have easily generated faster gains had it been broadly shared. Here I am showing CBO's measure of comprehensive income that includes cash, market-based income, such as wages and capital gains and other market-based incomes; noncash income, such as employer contributions to health insurance; and government transfers, such as the importance of Social Security and Medicare.

Over the last four decades, the top 1 percent of household income has grown 229 percent, more than four times as fast as the bottom 90 percent of households. The rise of American inequality is extreme even when using these comprehensive income measures, which include these important taxes and transfers.

My second point, the divergence between pay and productivity is at the root of slow-growing incomes. Among the bottom 90 percent of American households, labor income represents the vast majority of their income. Contributions of labor income for the top 1 percent were about 40 percent, while its over 80 percent about 86 percent for the bottom 90 percent of households, so they depend on labor income about twice as much as those at the top. Therefore, the rise in income inequality that has blocked living standards growth since 1979 has been driven by a pronounced reduction in the collective and individual bargaining power of most workers. As a result, their wages have grown agonizingly slow over the past generation diverging from economic growth and growing productivity, as you can see on the slide here.

So who won? The excess went to higher wages at the top as well as high corporate profits and increased income accruing to capital and business owners. When policymakers consider policies to improve productivity growth, they also should consider ways that rising productivity could better translate into wage growth for most workers and not just those at the very top.

My third point is that, after years of wage losses, low-wage workers are finally exceeding their 1979 wage levels, and these recent wage gains can be explained by tight labor markets and state level minimum wage increases.

Low-wage workers are among the most vulnerable in economic downturns, and it often takes them longer to recover in economic expansions. Using policy levers to achieve genuine full employment is one way that these workers gain enough bargaining power to increase their wages. Employers have to pay more to attract and retain the workers they need when idle workers are scarce.

What this shows is that while workers do relatively worse -- while low-wage workers do relatively worse in bad times, they also see a relatively larger boost in good times. That helps explain the recent rise in wages for low-wage workers over the last few years.

But there is another policy lever that was recently pulled that happened at the State level. In 2018, the minimum wage was increased in 22 States and D.C. These changes came on the heels of other increases to the minimum wage. When we compare States that had any minimum wage increase in the last 5 years with States that did not, we see wage growth among low-wage workers in those States with at least one increase was more than 50 percent faster than in States without any.

Going forward, policymakers should, one, prioritize keeping labor markets tight and, two, strengthen institutions and policies that provide workers the leverage they will need to achieve decent wage growth even when the economy is not at full employment. Some of these policies are things like raising the Federal minimum wage, expanding eligibility for overtime pay, addressing gender and racial pay disparities, and protecting and strengthening workers' right to bargain collectively for higher wages and benefits. Thank you.

[The statement of Ms. Gould follows:]

Chairman Neal. Thank you, Dr. Gould.

Professor Oh, would you please begin.

STATEMENT OF JASON OH, PROFESSOR OF LAW, UNIVERSITY OF CALIFORNIA LOS ANGELES SCHOOL OF LAW

Mr. Oh. Chairman Neal, Ranking Member Brady, and members of the committee, thank you for inviting me to testify on the Tax Cuts and Jobs Act. My name is Jason Oh. I am a tax law professor at the UCLA School of Law, and my primary areas of research are tax law and policy and the political economy of taxation. The Tax Cuts and Jobs Act was the most significant overhaul of the tax system in over three decades. It is commendable that this committee is already taking a hard look at this piece of legislation and how it affects the American public. I have been asked to focus my remarks on its distributional consequences and planning opportunities. We are fortunate to have the projections of the Joint Committee on Taxation and various think tanks, but the sheer amount of data can be overwhelming.

What I want to do with my short time is to crystallize that data into five major takeaways: Who received tax cuts and how much? How will that change over time? How will we as the American public pay for the deficits created? How does the new law create new avenues for tax avoidance? And what can history tell us about how tax laws change in the aftermath of major legislation?

First, the Tax Cuts and Jobs Act disproportionately benefits the rich. For comparison purposes, let's just focus on households that earn less than $50,000 and those that earn more than a million dollars. In 2019, low-income households are projected to save roughly $200 in taxes. That is, you know, five or six trips to the gas station. Millionaire households are scheduled to save over $64,000 on average. That is either a lot of gas or a brandnew BMW X5. Of course, richer households paid more in taxes before the tax law change, so it is somewhat unsurprising that they are saving more after.

However, the same pattern emerges if we consider the percent increase in after-tax income. How much more do households have to spend or save after taxes? Using those same comparison groups, the low-income households see their after-tax income go up roughly half a percent. Wealthier groups enjoy a much more significant increase of 3 or even 4 percent. The Tax Cuts and Jobs Act makes the tax system less progressive.

The second takeaway is that, over time, the distribution of tax cuts will become even more unequal. In 2025, the majority of the individual income tax provisions sunset. The remaining tax cuts will be concentrated among the wealthy. For the poorest households, the tax cuts disappear after 2025. In 2027, low-income households will actually owe on average $250 more.

The third takeaway is that these tax cuts have to be paid for eventually, and when they do, the overall effect may be even more unequal. Most projections estimate that this legislation will add over a trillion dollars to the deficit even accounting for increased economic growth. Eventually those deficits will have to be funded either through spending decreases or tax increases. To the extent we cut mandatory spending programs, the overall effect will be to make the Tax Cuts and Jobs Act even more regressive since most spending programs predominantly help low-income Americans. If we instead increase future taxes, we are shifting a major fiscal burden on to our children and grandchildren. None of these choices seems particularly appetizing.

Fourth, while the Tax Cuts and Jobs Act has improved the international tax regime and brought our corporate rate in line with our peers, the law also introduces a new avenue for business tax avoidance. The new passthrough rule provides a 20-percent deduction for income earned by sole proprietors, partnerships, and LLCs. This provision is a maze of complexity, which creates arbitrary distinctions between different types of economic activity. Why should engineers and architects pay lower taxes than doctors and consultants? It is an expensive provision projected to cost over $400 billion in the budgetary window, and even though this deduction will provide some tax cuts to small businesses, the primary beneficiaries are again the rich. JCT predicts that roughly half of the benefits of the passthrough deduction will go to households that earn over a million dollars.

Finally, my research finds that tax legislation is fundamentally unstable. This is true even when a law has strong bipartisan support as was the case with the Tax Reform Act of 1986. Although the Tax Reform Act of 1986 gets all the attention, people often forget that Congress passed major legislation in 1987, 1990, and 1993 to make important changes in the aftermath of reform. In particular, the changes in 1990 and 1993 substantially increased the revenue raised by the tax system and changed the distribution of the tax burden. A lot of the hard work comes after major legislation has passed.

I applaud this committee for examining the effects of the Tax Cuts and Jobs Act. You as a committee have a real opportunity to improve on pieces of the law that work while reconsidering others that don't. Thank you so much.

[The statement of Mr. Oh follows:]

Chairman Neal. Thank you, Professor Oh.

Mr. Shelton, please begin.

STATEMENT OF CHRISTOPHER M. SHELTON, PRESIDENT, COMMUNICATION WORKERS OF AMERICA

Mr. Shelton. Thank you, Chairman Neal, Ranking Member Brady, and members of the committee for inviting me to testify today. During the debate on the Tax Cuts and Jobs Act, the President and his administration made three key promises, which were echoed over and over again by Members of Congress and corporate executives. They promised it would lead to, one, a minimum increase of $4,000 in annual American household wages; two, an end to the incentives for corporations to offshore American jobs; and, three, an explosion of corporate investment and job growth in the United States.

I am here to tell you that these three promises just were not kept. I would like to use the company where the largest number of CWA members work, AT&T, as a case study. Are the tax cuts delivering robust job creation? At AT&T, the answer is an emphatic no. Instead of the 7,000 new jobs AT&T's Randall Stephenson promised if the bill passed, AT&T has actually eliminated over 12,000 union jobs: 7,000 new jobs promised; over 12,000 jobs actually eliminated.

Has offshoring jobs stopped? From 2011 to 2018, AT&T closed 44 call centers in the United States. Nothing has stemmed that tide. AT&T has announced closures of seven call centers in just the past 4 months. Meanwhile, AT&T has opened two of its own call centers in Mexico. These centers currently employ 2,475 people and continue to grow every day.

What about more investment? Despite promises to invest more, AT&T's capital expenditures declined by $300 million year over year. This is all very troubling to us. AT&T publicly reported an expected $21 billion windfall from the tax cuts. You may ask, what is AT&T doing with this money if it is not being used to create jobs and invest in the U.S.? We would like to know that as well.

Here are some of the things we do know AT&T is using its profit for. AT&T's top five executives received compensation of $89 million in 2018. During 2018, AT&T distributed

$14 billion to shareholders in dividends and stock buybacks. That is right: more money for executives and Wall Street.

Unfortunately, AT&T is not unique. American Airlines has carried out $837 million in stock buybacks in the last year yet pays wages as low as $9.50 an hour, forcing workers to rely on public assistance to survive. General Motors reported net income of over $8 billion for fiscal year 2018 but has announced plans to shutter four U.S. plants while also laying off 8,000 white-collar workers in the U.S. The lives of nearly 12,000 American workers will be directly harmed while GM continues to manufacture some of its most popular and profitable products in Mexico.

Wells Fargo is predicted to benefit from the tax cut more than any other bank, and their annual profits were over $6 billion last year while laying off 26,500 employees and sending those U.S. jobs overseas. Investment didn't soar, but stock buybacks did to the tune of a record $1 trillion last year. We are grateful that you have called this hearing, but executives like AT&T's Randall Stephenson, GM's Mary Barra, Tim Sloan of Wells Fargo, and others should be brought before this committee to explain why the predictions made were so incorrect.

Thousands of CWA members have already written Congress demanding such a hearing. I have brought with me today hundreds of those letters from your constituents. In closing, I would like to quote two of the letters. One is from Joseph in Kent, Ohio: Without these jobs, the middle class is disappearing at an alarming rate. Our communities suffer, our families are faced with insurmountable obstacles every day, and we continue to scramble in the face of exponential increases in healthcare costs, housing costs, and fewer employment options that offer a living wage. It is truly a race to the bottom.

And from Betsy in Oshkosh, Wisconsin, whose call center has recently shut down: AT&T will not commit to growing and creating jobs. What are they doing instead? You need to support your working class base vigorously and demand a congressional hearing to make CEO Randall Stephenson answer to this. Can we count on your support?

Again, thank you for giving me the opportunity to testify today, and I look forward to answering any questions that you may have.

[The statement of Mr. Shelton follows:]

Chairman Neal. Thank you, Mr. Shelton.

Let me proceed to recognize Professor Abramowitz. Please begin.

STATEMENT OF NANCY ABRAMOWITZ, PROFESSOR OF LAW AND DIRECTOR OF THE JANET R. SPRAGENS FEDERAL TAX CLINIC, AMERICAN UNIVERSITY WASHINGTON COLLEGE OF LAW

Ms. Abramowitz. Good morning, Chairman Neal, Ranking Member Brady --

Chairman Neal. Put your microphone on, please.

Ms. Abramowitz. -- members of the committee. Thank you for the invitation to appear today to share some experiences about the new tax law and the working poor. I am Nancy Abramowitz, and I direct the Spragens Tax Clinic at American University Law School. I speak for myself, but my views are the result of the last 22 years I have spent supervising hundreds of students handling thousands of tax controversies for low-income taxpayers.

Our tax clinic was founded by my colleague -- my late colleague, Janet Spragens, and was among the earliest of its kind. A bit more than 20 years ago, it was Janet's testimony before the IRS restructuring commission about our clinic that prompted Congress to provide grant funding for the now more than 130 clinics nationwide.

The cases we handle are essentially controversy work, liability cases, and collections cases where people are unable to pay amounts they may otherwise agree they pay. Our students, not as part of clinic, but all participate in the Volunteer Income Tax Assistance Program, and through our work we have developed what we believe is a pretty good understanding of the working poor.

It would appear that the 2017 tax law's promise of reduced taxes, greater simplicity, and new jobs has fallen flat insofar as the working poor are concerned. I leave it to the economists and others to explain the allocation or misallocation of the law's tax expenditures by income class as well as the use of tax windfalls by businesses and higher income taxpayers who were expected to expand jobs. Suffice it to say, the working poor seem to derive little, if any, benefit, and, in fact, depending upon certain factors, such as the configuration of family or immigration status, there may actually be an increase in tax or a reduction in tax benefits.

As for simplicity, neither the law nor return preparation seems to have gotten much simpler. Returns -- as for returns, the front page of the Form 1040 does achieve aspirational postcard size but only by adding six new schedules containing essentially the balance of the old 1040.

As for the low-income population more generally, I would point out that the law continues and expands the practice of singling out the working poor and their issues for special due diligence and special penalties for misclaims. These provisions are only remarkable in that they do not apply in a host of other potential revenue loss situations involving taxpayers in other income classes. The law's section 199A deduction, as Professor Oh has noted, which provides benefits for the self-employed, may have the ironic effect of promoting further misclassification of workers as contractors rather than employees. We have seen articles suggesting that the new law provides the opportunity for payors to sell contractor status, and at the lowest income levels, the 199A deduction against income tax is useless if you are not earning enough to pay income tax.

In addition, people who may fall into contractor status additional misclassification suffer the regressivity of the self-employment tax, which falls with undue harshness on the working poor.

We think that other provisions in the law may affect people indirectly, such as reduced charitable giving, the SALT deduction, as well as opportunities on legislation, all of which may have negative impacts on services intended or previously provided to the poor.

Finally Congress' reduction in appropriations for the IRS over the past several years has hit the poor the hardest in terms of tax administration and enforcement. They get the short end of the stick. They find themselves in court without any administrative process, and they find that they are unable to have meaningful dialogues with the IRS. The lack of resources undoubtedly contributed to the IRS' treatment of low-income taxpayers or low-hanging fruit this way.

The 2017 law did not address any of these issues. It exacerbated some, and we could do so much more to lift people out of poverty, make childcare better and more affordable, and to even out unfair differences in our tax system and its administration.

[The statement of Ms. Abramowitz follows:]

Chairman Neal. I thank the gentlelady.

With that, let me recognize Dr. Holtz-Eakin, a familiar face here at the committee. Dr. Holtz-Eakin.

STATEMENT OF DOUGLAS HOLTZ-EAKIN, PH.D., PRESIDENT, AMERICAN ACTION FORUM

Mr. Holtz-Eakin. Thank you, Mr. Chairman, Ranking Member Brady, and members of the committee. It is a privilege to be here today. Let me make three points at the outset, and then I look forward to answering your questions.

Point number one is that going into the deliberations over the Tax Cuts and Jobs Act, the U.S. had severe problems in growth and in competitiveness.

Point number two is that the TCJA targeted the incentives at the core of those growth and competitiveness problems.

And point number three is that recent economic performance has been markedly improved, and that is good news for everyone, but it is especially good news for those Americans who are part of the 44 to 45 percent who are not affected by the U.S. individual income tax, do not pay income taxes but benefit from improved economic performance.

Let me talk about those in turn.

In the post-war period from the end of World War II to 2007, the U.S. experienced rapid productivity growth above 2 percent per year, rising labor force participation, and the upshot was a top line growth in the economy at about 3.2 percent annually and growth in income per capita that was above 2 percent. What that meant for the average American was that, every 35 years on average, the standard of living doubled. So, in one working career, Americans had a chance to access their version of the American dream.

After the Great Recession and the financial crisis, we saw a diminished product growth under 1 percent, declining labor force participation, top line economic growth of under 2 percent, and per capita income growth of 1 percent or less. What that meant was that access to the American dream was disappearing over the horizon. The standard of living was on track to double only every 70 years, two working lifetimes.

To adding to these growth problems were severe problems in international competitiveness. U.S. multinational firms faced the highest statutory tax rate on the globe, 35 percent, and were subjected to the last worldwide income tax system in the developed world. The result of that was that when competing in neutral countries, a German firm and a U.S. firm competing in Brazil, the German firm paid the Brazilian tax and was done. U.S. firms paid the Brazilian tax and owed a second layer of tax up to the highest rate in the United States. That put us, our firms and our workers, at an immediate disadvantage.

On top of that, we saw marked declines in the headquarters in the United States. This committee is familiar with the terrible rash of inversions and mergers and acquisitions that led to loss of headquarters, and overall, the Tax Code was complex and not conducive to growth and competitiveness.

The TCJA addressed these core issues. The international tax regime has been markedly improved, moved toward a territorial system. The top rate has been moved to an internationally competitive 21 percent rate. If one does that as matter of tax policy, you have to recognize that over half of business income is not corporate income, not C corporation. It is taxed as passthrough income on individual income tax returns. The TCJA instituted a regime of a 20-percent deduction to address the imbalance in the taxation of business income and had numerous other individual provisions that I am sure we will have time to talk about.

All of this sent the following message to the American business community: Invest in the United States, not abroad; invest more; raise capital per worker; raise the technological sophistication of that capital; raise productivity; and, thus, ultimately raise wages.

More recent economic performance has in fact markedly improved. After a recent low of 1.3 over year growth in 2016, growth has improved every quarter since reaching a 3.1 percent rate year over year at the end of 2018. Where did that growth come from? Improved business investment. Nonresidential fixed investment rose rapidly in 2017 and especially 2018. It is the source of this recent growth spurt. That has carried along with it the things one would expect. We saw 223,000 jobs on average created every month in 2018. That is an astonishing performance. Normal demographics would have predicted about 90,000 jobs. We drew into the labor market and employed people who had not been familiar with work for years. It is the single most important thing that happened in 2018. And underneath that, we saw increasing wages. Wages are rising at over 3 percent up 50 percent from 2016, and as I show in my written testimony, if you look at the wage distribution at the low end, the 10th percentile, the median and the high end, the fastest growth rate in 2018 was at the low end at the 10th percentile. These are the people who most needed a raise, and they are now starting to see their wages rise.

Is this all because of the TCJA? No. There was an enormous change in the regulatory environment. There was some bad news in my personal opinion on the trade policy front, which hurt economic performance. And it is simply too soon to make definitive statements about how much is due to the TCJA. But the timing and the location of the improvement in the investment world really does suggest that it has had a marked impact, and our hope is that will continue in the future.

[The statement of Mr. Holtz-Eakin follows:]

Chairman Neal. I thank the gentleman. We will now proceed to questioning under the 5-minute rule. Consistent with committee practice, I will first recognize those members present at the time of the gavel -- in terms of the gavel having come down, recognizing seniority.

Let me begin by recognizing myself. Dr. Gould, everyone here agrees that it is good news that the unemployment rate is below 4 percent, but that is a lone data point that can't begin to describe economic well-being alone in this country. Here are some other statistics that also describe our economy. According to the Federal Reserve, over a fifth of American adults can't pay their current month's bills in full. Given that backdrop, if you were to prescribe economic policies to stimulate the economy and elevate economic well-being to all Americans, would you have aimed to benefit those at the bottom or those at the top?

Ms. Gould. You are absolutely right. Americans across the country are feeling financially insecure. I would absolutely prescribe economic policies that are targeted to benefit the vast majority of Americans. As I stated previously in my testimony, this slow growth in the economic well-being of Americans has been driven by a pronounced reduction in the collective individual bargaining power of most workers, and I would do whatever it is that I can to strengthen that.

Chairman Neal. So you would suggest that collective bargaining would be an important part of that?

Ms. Gould. Yes, absolutely. I can't overstate the importance of workers being able to come together and collectively bargain for higher wages. When unions are weak, the highest incomes go up even more, but when unions are strong, the bottom 90 percent enjoy more income growth. We know that a big force for equality -- we would know how much of a big force for equality unions are by looking at how much their decline is contributed to inequality. Union decline in the U.S. can explain one-third of the rise in wage inequality among men and one-fifth of the rise in wage inequality among women from 1973 to 2007.

Among men, the erosion of collective bargaining has been the largest single factor driving a wedge between middle- and high-wage workers.

Chairman Neal. Thank you.

Professor Oh, the Tax Policy Center ran an analysis of alternative tax reform bills that Republicans could have considered back in 2017. This analysis looked at over 9,000 hypothetical tax reform bills, each of which tweaked TCJA provisions related to individuals without decreasing overall revenue. What the analysis shows is disturbing. Over 99 percent of the hypothetical tax reform bills provide a larger benefit for taxpayers earning less than $153,000 in the Republican tax law.

Professor Oh, you have spent a lot of time thinking about the distributional impact of the Republican tax law. Do you find this result surprising?

Mr. Oh. I think the most interesting thing about that Tax Policy Center report is how there were slight changes one could make due to the Tax Cuts and Jobs Act that would result in a much more equal distribution of tax cuts.

So, for example, they run a bunch of alternative tax cut plans that result in between 1 percent and 2 percent after-tax income increases for all income households. And so some of the changes that they test are increasing the child tax credit, making it fully refundable, and removing the income threshold. It turns out that those three changes make a huge difference for income at the very lowest level.

Chairman Neal. Thank you.

And, Ms. Abramowitz, in your testimony, you have stated that, quote, to the extent that the TCJA dangled the prospects of eased tax liability, tax simplicity, and improved job prospects, we have not seen any real evidence of that helping the working poor.

Can you explain how that statement relates to your experience in working with low-income taxpayers in the Janet Spragens Federal Tax Clinic?

Ms. Abramowitz. Thank you.

Chairman Neal. Put your microphone on, please.

Ms. Abramowitz. Thank you. With respect to the jobs issue I can only say anecdotally, we don't -- and we see hundreds of people coming through the clinic each year. Again, they are all low income. We don't see any meaningful change. We see job loss. We don't see people getting better jobs. We see people working in the gig economy as contractors at the edges of the economy and just trying to make a living that way.

With respect to the actual tax liability, I think we have said that some low-income taxpayers may experience a small perhaps $100 or $200 benefit this year. Others will receive actually a tax increase by virtue of their status. It may be having to do with their number of dependents, their immigration status, and what have you. As you may know, the child tax credit now requires children to have Social Security numbers in order to get a tax credit, and that will eliminate the credit for a number of people.

Finally, with respect to simplicity, I know we all talk about, first of all, just the filing obligation, and I did bring with me a sample of the 1040, and you can see, if you can, that the front page does look like the postcard, but you can't really just fill out the front page. There are numerous schedules you are required to fill out. Some precede the tax law, but there are an additional six schedules that came by virtue of the tax law.

Chairman Neal. Mr. Shelton, as you know, the cost of living continues to go up, and most of those costs for families are related to childcare. Affordable, good, reliable childcare is a major struggle for many working families. The average cost of enrolling a child in a childcare center in Massachusetts is almost $19,000 a year, one of the highest in the country. Republicans predicted that their tax law would boost household income by $4,000 to $9,000 a year. Are your members finding it any easier to afford childcare?

Mr. Shelton. Absolutely not, Mr. Chairman. You know, all the cost-of-living normal costs -- going to work, buying gas, whatever -- are going up, and there have been no real wage increases since the tax law. So my members have been in a downward spiral since the tax law has happened.

Chairman Neal. Thank you. And, with that, let me recognize Mr. Brady for 5 minutes.

Mr. Brady. Thank you, Mr. Chairman.

A couple quick things. First, without objection, I would like to enter for the record a paper by Lawrence Lindsey showing that income inequality rose more under Bill Clinton than under Ronald Reagan, rose more under Barack Obama than under George Bush, and began to decline, get better, starting in 2018.

Chairman Neal. So ordered.

[The information follows:]

Mr. Brady. Secondly, Mr. Shelton, I don't follow individual businesses very closely, but I think I could swear AT&T has hired 20,000 more workers, substantially increased their business investment -- infrastructure investment in the U.S. I know they paid $1,000 per person bonuses, and I think maybe the call centers in Mexico were related to their expansion into Mexico, part of which is part of what we are reinforcing in the new U.S.-Mexico-Canada trade agreement. And GM, again, I don't follow these companies individually, but I could swear when they made the announcement on layoffs, there were 4,000 layoffs, mainly executive white-collar workers, and the plants that were closed related to cars that just aren't selling. Nothing in the Tax Code requires businesses to keep producing cars the American people don't want. So I don't think any of those examples frankly are tied to tax reform.

Thirdly, we are told our Democrat colleagues would like to fully repeal the entire Tax Code, every word and provision in it. Let me ask you about an easy one. We simplified the Tax Code for Main Street businesses, small businesses. One, we made it significantly bigger for them and better for them to be able to write off from their taxes their purchase of new equipment, technology, things really important to staying competitive. We also allowed many more small businesses to qualify for cash method of accounting, which dramatically simplified the tax and accounting system for them. Can I see a show of hands of the panelists who believe we should repeal those two small business simplification provisions making it harder for local businesses to buy new equipment and making their accounting more complicated? How many recommend we do that? So, for the record, I think clearly those are provisions that need to stay.

Mr. Holtz-Eakin, for too long -- you referenced this -- the old Tax Code really disincentivized companies, made it harder for them to grow here at home. Really sort of pushed investment to other countries and, when they did compete and win, made it very difficult for them to bring those profits back home to invest here in the U.S. That has all changed. And for the first time in memory, more foreign direct investment is coming into the U.S. than outbound. We want that giant sucking sound coming this direction. Jobs, research, and production are starting now to come back from overseas, and many of these positive decisions will take some years to manifest in the economy. My question for you is so how would repealing the reforms we made to the international side of the Tax Code, how does that help growth in the U.S. and how does that help workers in America if we -- if Democrats repeal those provisions?

Mr. Holtz-Eakin. I think it would be unwise to go back to the previous regime. There was, quite frankly, agreement across the ideological spectrum that the U.S. had to do something with its business tax system. As I explained very quickly, we got into situations where U.S. firms competing, in my example in Brazil, with German firms were at an immediate tax disadvantage. The only way they could fix that was to not bring the money back. So lock all the U.S. earnings offshore. If it stays offshore long enough, it must stay offshore. Those are the rules. So it doesn't get invested in the United States. And any time there was a crossborder merger acquisition initiated by any party, if you ran the numbers, the headquarters were going to end up outside the United States. And for that reason, the New York Stock Exchange, the iconic symbol of American capitalism, is headquartered in Europe for tax purposes. That is a problem, and this attempts to fix that problem. It is not perfect, but to go back I think would be a dramatic mistake.

Mr. Brady. And you strongly recommend not going back to the bad old Tax Code?

Mr. Holtz-Eakin. I strongly recommend that.

Mr. Brady. Thank you.

Mr. Holtz-Eakin. And if I could add one thing.

Mr. Brady. Yes, sir.

Mr. Holtz-Eakin. There was a built in test, which is the moment the law was signed there was a deemed repatriation of overseas earnings. If the U.S. was not a better place to do business, those earnings would have stayed overseas. It was no longer any tax consequence to where you located them. They came back. And so we have made improvements, and that is an important thing.

Mr. Brady. All right. Thank you.

I yield back, Mr. Chairman.

Chairman Neal. Thank you, Mr. Brady.

And, with that, let me recognize the gentleman from Georgia, Mr. Lewis, to inquire.

Mr. Lewis. Thank you very much, Mr. Chairman, for holding this hearing. I think it is good and necessary that we do it, that we put the cards on the table face up. I want the record to be crystal clear about the true cost of the tax law. I think every single warning has come true. This law did not make the Tax Code any simpler. It did not balance the budget. It does not ease the burden on working families. Instead, this law put politics before the people. It continues to be a shame and a disgrace. I appreciate that each and every one of you would come to testify today. It is true that you cannot get blood from a turnip, and you cannot justify robbing poor Peter to pay visionary Paul. You cannot do it. It is crystal true.

Professor, I know you have been working at American University, teaching, educating brilliant young minds. Do you have any suggestion how to improve the tax administration to ease the burden on low-income taxpayers?

Ms. Abramowitz. Yes, Mr. Lewis. I think that it is time that we actually spend a greater portion of our studies thinking about what our objectives are and thinking about looking at some of the existing provisions whether we can do better, whether we can increase the earned income tax credit to help bring more people up into a livable income zone, whether we can improve childcare, make employment a better reality for people through better childcare incentives, and as I said, in addition to direct benefits for the working poor, and again, I want to emphasize here the Tax Cuts and Jobs Act at $1.5 trillion or whatever the number was, we are talking about tax expenditures, tax expenditures are the same whether you are foregoing income you otherwise would have collected or whether you are giving out tax benefits out-of-pocket. So, again, giving attention to the working poor and what we would like to see.

Secondly, I think that we need to think about appropriations to the Internal Revenue Service and directions to think about the rights of the working poor who very often get short shrift in the administrative process by the IRS largely because of recent cuts to their budget and the inability to pay attention, to educate, and to listen when disputes arise.

Mr. Lewis. Thank you very much.

President Shelton, I know that a number of workers in metro Atlanta are upset with the burden promises of the Republican tax bill. May you speak more about what they are experiencing -- of what people are experiencing in other parts of America?

Mr. Shelton. What my members saw from the tax cut basically is maybe a $4 or a $5 a week increase in their take-home pay because of the tax cut, which could buy them a cup of coffee at Starbucks, but they have also seen, as I said before, prices for commuting and childcare and other things go up. But what they are really worried about because a lot of the companies that we represent are laying people off every day and sending a lot of the jobs overseas, what they are really worried about is their job security because if you don't have a job, you don't have to worry about what the tax rate is because it doesn't matter what the tax rate is because you don't pay taxes.

So, you know, this is just -- the tax bill from what I know of it cut the tax rate on profits made overseas to half of what it is in the United States so that a 21 percent corporate tax rate in the United States becomes a 10.5 percent corporate tax rate in Mexico or in whatever country you want to, the Philippines or India, which is causing these companies to send more and more jobs overseas. So that is what my members are mainly worried about.

Mr. Lewis. Thank you very much.

Thank you, Mr. Chairman.

Chairman Neal. I thank the gentleman.

Let me recognize the gentleman from California to inquire, Mr. Nunes.

Mr. Nunes. Thank you, Mr. Chairman.

Mr. Holtz-Eakin, Ranking Member Brady was talking to you just briefly about and you mentioned the inversions that were happening. So before the tax bill passed, it was every day we had someone in our office visiting us saying that they were preparing to sell their company, move their company overseas. I don't take those meetings anymore. You started to get into why that happened. Can you just explain a little further why that stopped happening?

Mr. Holtz-Eakin. Prior to the passage of the law, the U.S. had the highest statutory rate, 35 percent, and it taxed the worldwide income of all of the U.S. headquartered firms. Our developed country competitors had steadily moved toward more territorial systems, basically one a year in the OECD, which taxed only the earnings within the nation itself in Britain or France, whatever it might be.

What they meant was if you were looking at any kind of merger or acquisition and you started running the numbers, if you put the headquarters in the U.S., you are going to tax the whole world's income at the highest rate, or you can put it in the other company's country and tax it at a lower rate on a territorial basis. It would be financial malpractice to put the headquarters in the U.S. in those circumstances. So we lost headquarter after headquarter. There were a variety of attempts to remedy this through regulation at the

Treasury. It simply wasn't going to work, and that had, you know, the potential to be damaging to the U.S. economy. And so this is a much more internationally competitive approach to taxation.

Mr. Nunes. So now you don't see companies leaving the United States to headquarter overseas. You actually see -- we are seeing some come back, but you also mentioned the repatriation money, and I am going to -- you may not know this off the top of your head, but what was the -- do you recall the number that was estimated that was going to return to the U.S., and so far, how much has returned to the U.S.?

Mr. Holtz-Eakin. I am not going to get those right, but we have had a little under a trillion dollars come back in the first year.

Mr. Nunes. Say that again.

Mr. Holtz-Eakin. A little under a trillion. You know, I can get you numbers with more precision. I would have guessed something like 2.5 trillion would have been overseas available to come back. There are bigger numbers out there, but I think they are misleading and that some of those things are reserves and financial services companies that can't come back. So, of the available amount, some has come back relatively quickly.

I would, you know, emphasize that the Treasury just finished really writing the rules that the large global companies will have to obey underneath the Tax Cuts and Jobs Act, and it will be in 2019 and 2020 that we genuinely see its impact on that part of the economy.

Mr. Nunes. So we are just starting now just to see the real results of the certainty now that companies have in order to either locate in the United States or to stop shipping their headquarters overseas.

Mr. Holtz-Eakin. And to me, the most important thing is not the label on the headquarters, U.S. versus others, but the fact that the factories will be in the U.S., the improved technologies will be in the U.S., the productivity growth and wages will be in the

U.S. It is that aspect, regardless of whether it is foreign inbound investment or a U.S. domestic firm electing to stay here. That is what you want to look at, the impact on the ground.

Mr. Nunes. Let me yield quickly to Mr. Brady.

Mr. Brady. Well, if I may, Mr. Nunes, just to follow up, I was in New England last year with a company, a medical company working on their fourth breakthrough drug, and their point to me was because of the new Tax Code, their new research won't be done in London; it will be done here in New England. Their patents are not remaining in Ireland; they now fit better here in the United States. And if they can find the workers, key phrase, they will be doing their advanced manufacturing in New England rather than overseas, all because the new Tax Code allows them to actually make those decisions for here in the United States.

I yield back, Mr. Nunes.

Mr. Nunes. I thank the gentleman. And I also want to talk about wage growth because a lot of the other witnesses said that, you know, America is not growing, that the middle class is not growing, and I will tell you that -- and I just took a meeting outside from businesses from California -- their number one problem is that they cannot find workers. They can't find a trained workforce. So wage growth is up. It continues to go up. Did that even surprise you as quickly as the wage growth has grown in the last couple years, Dr. Holtz-Eakin?

Mr. Holtz-Eakin. I think I have emphasized that I want to agree with most of the witnesses on the fact that we have had a wage growth problem. A lot of people remained employed throughout the recovery from the Great Recession and didn't get a raise. It is encouraging to me that, in the more recent data, from 2016 on, we have seen wages ramp up across the spectrum and, especially in 2018, the low end of the wage distribution rise rapidly. That is important.

Mr. Nunes. Thank you, Doctor.

Thank you, Mr. Chairman.

Chairman Neal. I thank the gentleman.

With that, let me recognize the gentleman from Texas to inquire, Mr. Doggett.

Mr. Doggett. Well, thank you very much. There have been so many false claims made about this Trump tax law. It is hard to know where to begin, but just to perhaps provide Dr. Holtz-Eakin the number he couldn't come up with, President Trump promised $4 trillion would be coming back in repatriation if we gave this huge discount on international money abroad or really across the street in a different Wall Street account, and so we have gotten back a little less than a fourth of what was promised.

Mr. Shelton, you talked about what the impact is as far as outsourcing, and I appreciate the support that you have offered for the legislation that I have to try to stop outsourcing by eliminating not the reform of corporate taxation but the specific provisions that Republicans added in the bill to encourage outsourcing, like letting someone who chooses instead of investing here in the United States, wants to invest abroad, they can pay at most half the rate that they would be paying here. Isn't that true?

Mr. Shelton. That is absolutely true, and that is why these companies are moving jobs overseas in wheelbarrows.

Mr. Doggett. So the claims that outsourcing would be stopped, just like the claims that all this repatriated money would come back and we would see the spurt in investment, they just have proven to be false, in fact, haven't they?

Mr. Shelton. Yes, they have. Just the companies that I mentioned, you take AT&T, which, by the way, the two call centers in Mexico, one is for the U.S. market, and one is for the Mexican market. The one for the U.S. market is a 5,000-seat call center in Mexico City. You take Wells Fargo, who moves 26,500 jobs overseas, it is because of the tax cut. It has got to be because of the tax cut. And you take General Motors moving their plants to Mexico.

Mr. Doggett. Thank you very much. And, Professor Oh, let me move then to small business. Of course, we heard all kinds of claims about how much small business would be helped by this tax law recognizing that I believe about 90 percent of small businesses earn less than $150,000 a year. Hasn't the analysis of the passthrough provisions, $400 billion of passthrough changes that Republicans made in their tax law, shown that about half of all that went to those who were making over a million dollars a year?

Mr. Oh. That is correct. It is one of the most complicated tax provisions I have ever seen, and there are some relatively easy fixes one can envision for making the passthrough deduction help small businesses specifically, but the way it is drafted now -- you are right -- about half of the benefits go to households earning more than a million dollars.

RPTR MERTENS

EDTR SECKMAN

[11:00 a.m.]

Mr. Doggett. And, Professor Abramowitz, I represent a number of pockets of poverty from the west side of San Antonio to the north end of Austin, and I am eager to see relief that helps those neighborhoods. We have already had this morning more testimony and inquiry about the tax law than we had during all the time on the bill itself because the Republicans were afraid to bring any administration witness to answer questions. They didn't want academics. They didn't want businesses, unless they were meeting back in their offices, to come here and be questioned about this.

And so one of the provisions that was buried in the law was something called the opportunity zone. And it does offer some opportunity, but you make reference in your testimony to some of the challenges. Given the lack of any really specific guidelines about opportunity zones, what do you think the challenges are for that legislation?

Ms. Abramowitz. If the goal of the opportunity zone was to encourage investment in order to provide benefits for the lowest income categories, I think it is difficult to evaluate yet, but the only thing I can say is early reports in the news and in industry suggest that some investment in opportunity zones is going into areas that are already gentrified, areas that may not benefit those who we would like to see benefited, and it may be a real challenge trying to target that investment properly.

Mr. Doggett. Lastly, one of the other false claims was about all you need was a stamp and a postcard to file your tax returns. In fact, and you referenced this, we have actually made the filing season more complicated. A teacher, for example, who was able to claim on Form 1040 a small deduction that the Republicans wanted to eliminate -- but we were able to prevent that -- they now can no longer claim on their basic form. They have got to go and file a schedule before they can claim that modest deduction for the money that they put into their classroom. Isn't that right?

Ms. Abramowitz. That is correct.

Mr. Doggett. Thank you all very much for your testimony.

Chairman Neal. I thank the gentleman.

With that, let me recognize the gentleman from Florida to inquire, Mr. Buchanan.

Mr. Buchanan. Thank you, Mr. Chairman. I appreciate the opportunity.

I want to take my time -- we all have limited time -- to focus on primarily small business passthroughs. I mean, there is a lot of discussion about corporations that separate passthroughs in terms of subchapter S and LLCs. What I am seeing from Florida is that if you look at it from a jury standpoint, where we are at, we have had 3 percent growth. For the first 10 years I was here, we had 1 percent growth, 1.5 percent growth. We had a record 3.1 percent growth. Many people didn't think we could get there. Lowest unemployment in a long time, which also is making a big difference, at least in Florida, on paychecks, bigger paychecks, not only in terms of the refunds they are getting, but employers and supply and demand, they are having to pay more, and that is a big factor there. Optimism is at an all-time high. And, also, I can just tell you, people in general are very bullish.

Let me ask the panelists today just -- this isn't good or bad; I just want to get your opinion. How many of you have ever been in business where you owned or operated your own business, signed the front of a paycheck? Can you raise your hand? Okay. Thank you.

My background: I was chairman of the Florida chamber for many years. We have 137,000 small businesses; 95 percent are small businesses. We are not talking about AT&T and others, but small businesses. And I want to say something. They are the job creators. They create over 50, 60 percent of the jobs. We should be in the business here doing everything we can to help startups and help them be more successful and help entrepreneurs.

I did a forum with 10 women, CEOs in my area, a couple of years back, and people say, why just women? Because, I said, 57 percent of the startups going forward are going to be women-led. So that is who we are as America, in my opinion. Apple started out in California in a garage, and we know where they are at today. But they are the job creators.

Let me just remind you, before tax reform, in terms of small businesses, the rate was 39.6. You had Obamacare was -- or the ACA -- was probably 3, 3.5 percent. I am just taking it from memory, and then I know you are from California. My friends in California, they had another 10, 15 percent; 13 percent I think was the rate. You are at 55 percent, the rate for taxes on small businesses, medium-size businesses.

So the question I would have for the panelists, and I would like kind of a yes or no: Would you, in your opinion, repeal the 20-percent deduction part of this tax reform we made available to small business? Doctor? Why don't we start on the left and go over? Would you repeal the 20 percent for small business?

Ms. Gould. I am sorry. I would have to say I am not an expert on that issue.

Mr. Buchanan. Pardon?

Ms. Gould. I am not an expert on that issue.

Mr. Buchanan. Okay. It is just a yes or no, just kind of want to get your opinion.

Mr. Oh. I could imagine keeping it with some changes.

Mr. Buchanan. Okay.

Mr. Shelton?

Mr. Shelton. I am also not an expert on that, but I don't repeal anything, so --

Mr. Buchanan. Okay.

Ms. Abramowitz. With respect to the lowest income folks, I would just hope that the provision doesn't have unintended consequences for the poorest --

Mr. Buchanan. But would you, yes or no, cut -- would you not repeal the tax or --

Ms. Abramowitz. I would certainly study it very carefully.

Mr. Holtz-Eakin. No.

Mr. Buchanan. Dr. Holtz-Eakin, let me ask you, the impact that the 20-percent reduction has had for small business, in your opinion, how big of an impact has that been as a result to our growth and our country?

Mr. Holtz-Eakin. Well, as I mentioned briefly in my opening, passthrough businesses have more than one half the business income. We have seen a dramatic improvement in the business climate measured by confidence, intention to invest. So, if you look at, for example, the NFIB, small business confidence indices and their planned capital investment, in the immediate aftermath of the passage of the law, both spiked sharply.

And then, in the data, we see improved investment and faster growth, and that has to be in substantial part due to the passthrough community because the large C corporations are still waiting for the regs to get written throughout 2018.

Mr. Buchanan. What I am seeing, you know, in Florida, anyway, it is an explosion. People are bullish. It is a combination of the leadership here and this tax reform and also I think the leadership in Florida, that dual combination. People are very bullish about where we are at but, more importantly, where we are going.

Thank you, and I yield back.

Chairman Neal. I thank the gentleman.

Let me recognize the gentleman from California, Mr. Thompson, to inquire.

Mr. Thompson. Thank you, Mr. Chairman, for holding this hearing.

And thanks to all the witnesses.

Mr. Chairman, we have heard time and time again over the years from expert witnesses that tax cuts don't pay for themselves. As a matter of fact, Mr. Holtz-Eakin, Dr. Holtz-Eakin, you said that yourself on this panel. And we know that this bill cost $2.3 trillion, $2.3 trillion in unpaid-for tax cuts.

I would like to ask unanimous consent to read into the record this news article that says, "It's Official: The Trump Tax Cuts Didn't Pay for Themselves in Year One."

[The information follows:]

Chairman Neal. Will the gentleman yield?

Mr. Thompson. I will.

Chairman Neal. Mr. Eakin, you nodded in the affirmative. Would you say yes or no to Mr. Thompson's question?

Mr. Holtz-Eakin. I have said many times at this table that tax cuts do not pay for themselves.

Chairman Neal. I have tortured you with that question.

Mr. Holtz-Eakin. I believe that is correct, sir.

Chairman Neal. Thank you.

Mr. Thompson. Mr. Chairman, thanks for holding the hearing, the first hearing we have had on this tax bill. And as you can expect, when you pass a major tax rewrite in 51 days without holding a single hearing to receive expert input, the Republican tax plan has seen one problematic surprise after another for taxpayers. Last Congress, we saw one rewrite have to take place to fix a policy that was grossly distorting the marketplace by incentivizing farmers to sell their products to agricultural co-ops over other businesses.

Now, in addition to just outright drafting errors in the bill that are causing real harm to businesses, the true impacts are being felt of unvetted policy hastily passed into law. This includes churches and other nonprofits who may, for the first time, be forced to pay taxes due to a change in the tax bill to the treatment of some types of fringe benefits they provide their employees. We have seen small wineries paying more to house their wine in warehouses, impractical depreciation schedules for restaurant construction.

Professor Oh, what are some of the other problems with this tax bill that might have been avoided had the Republicans held hearings and consulted with experts before ramming this through?

Mr. Oh. I think we would have had a better handle on the distributional issues that are created by this legislation, the fact that the progressivity of the tax cuts as measured by increases in after-tax income are heavily tilted towards the rich.

I also think that we would have had an opportunity to more closely examine the passthrough deduction. I agree with the Congressman from Florida that small businesses are very important and that the passthrough deduction does help some small businesses, but it helps a lot of very, very wealthy people as well. And I think that is the type of thing that comes out when you have hearings and expert testimony at some time.

Mr. Thompson. And despite the Republicans and the President's promise of 6 percent economic growth and repeated claims by members of the administration and my colleagues across the aisle that the bill would pay for itself, already we know these promises were empty. What is more, the Republican tax bill increased Federal borrowing, not to expand programs aimed at the struggling low and middle class, the working people of this country, but to provide handouts to the richest 1 percent. The bill is expected to increase deficits by $2.3 trillion over 10 years and by over $5 trillion if Congress extends and delays the time bombs that the Republicans built into this bill.

The rising deficits aren't a surprise, and they aren't an accident. The Republicans will turn around and use them as an excuse to call for cutting essential social safety net programs like Social Security, Medicare, and Medicaid.

Dr. Gould, how will the coming deficits affect spending on important programs such as Social Security, Medicare, and Medicaid?

Ms. Gould. Absolutely. I think that we have demonstrated here that the tax cut has been a wasteful use of fiscal resources. We should also be clear that any argument that it must be paid for by cutting spending is based on politics, not economics. There is no evidence right now that deficits are doing economic harm to the U.S. economy, but if tax cut supporters manage to politically leverage the deficit they created to cut spending, it would, indeed, do harm to working families. Cuts to programs that you mentioned, Social Security, Medicare, Medicaid, would do measurable harm.

Mr. Thompson. Thank you.

Dr. Oh, who will be left behind if the tax cuts are eventually funded by cutting Social Security, Medicare, and Medicaid?

Mr. Oh. Those programs predominantly help low-income Americans, and so if the Tax Cuts and Jobs Act is funded through a cut to mandatory spending programs, that makes the distributional effect much, much worse.

Mr. Thompson. Thank you.

Thank you, Mr. Chairman.

Chairman Neal. I thank the gentleman.

With that, we recognize the gentleman from Nebraska, Mr. Smith, to inquire.

Mr. Smith of Nebraska. Thank you, Mr. Chairman.

Thank you to our panel as well for your input today.

President Obama in his budgets reflected a reduction in the corporate tax rate to be more competitive. He elaborated on that as well in moving to a territorial system for corporate taxation and obviously to be more competitive and to bring jobs and business back to America or prevent it from leaving. Just real quick, yes or no or a show of hands, could I see a show of hands of who would like to take us back to the 39.6-percent corporate tax structure and the taxes on the worldwide basis instead of a territorial basis like TCJA? Any hands that would want us to return to those levels? Okay. Just hopefully, the record will reflect that there were no hands that went up.

And so I hope that we can work together as we do move forward. We shouldn't wait for tax changes to happen only once every 30 years. And as we do move forward, I think there are ways we can look to work together. In fact, when we finished our work on the

TCJA, we just didn't sit back and relax; we asked ourselves what could we do to bring folks off the sidelines of our economy, and certainly that is why I worked on the Jobs for Success Act. This was a way to reform TANF, the Temporary Assistance for Needy Families, so we could reconnect them with work.

Especially as I travel my district and I hear from colleagues across America that the tight labor market, as was indicated earlier today, is a major challenge that our country is facing. We have millions of Americans on the sidelines, and I hope we can pursue policies, whether it is our tax policy, whether it is other policies within this committee, or even beyond, to bring folks off the sidelines of our economy. Job vacancies are out there. Help wanted signs are way more prevalent these days than they were not so long ago.

And I hope that we can -- I was shocked by the opposition to some of the changes that we would make to TANF because I think there was a large agreement that we wanted our safety net to be friendlier to taxpayers, workers who have childcare expenses, who have transportation needs. Our bill had that, and so I hope that we can resolve some of these issues because the opposition I think was very unfortunate.

Ms. Abramowitz, I was wondering. You mentioned the Social Security number and the child tax credit. Can you elaborate? You would not want documentation for the child tax credit? Is that accurate?

Ms. Abramowitz. I think previously an ITIN was required. The new bill requires a Social Security number. I would say that it is a misperception that immigrants don't pay their fair share of taxes. We know that immigrants do for a lot of reasons. In fact, not only do they pay, but they pay payroll taxes and FICA taxes and Social Security taxes which they may never see in terms of Social Security benefits.

So, if we are trying to measure the income of people and trying to give benefits for childcare or for just the child tax credit for having a child in your home in lieu of a dependency, it seems to me that maybe we don't need a Social Security number in order to claim that child.

Mr. Smith of Nebraska. Okay. Thank you.

Dr. Holtz-Eakin, can you explain how the TCJA has helped lead to what we see as historically low unemployment rates, and does this create opportunities for those who have actually dropped out of the labor force, as I had mentioned earlier?

Mr. Holtz-Eakin. Yeah. Prior to the passage, we had seen declining labor force participation and in the aggregate, and had we had traditional labor force participation rates, had the unemployment rate stayed something like 4.8 or 5 percent, that would have been roughly 90,000 jobs a month in 2018. We got 223,000 jobs a month. It kept labor force participation up, drew people in who might have otherwise exited, kept people from leaving. The unemployment rate fell to 3.8 percent.

And if you look at the data on those people who report themselves as marginally attached to the labor force or a discouraged worker, those categories are dropping, and that is exactly the place where you would like to see improvement in the labor market.

Mr. Smith of Nebraska. Very well. Thank you.

Thank you, Mr. Chairman.

Chairman Neal. I thank the gentleman.

Let me recognize the gentleman from Connecticut, Mr. Larson, to inquire.

Mr. Larson. Thank you, Mr. Chairman, and thank you so much for this hearing.

Thanks to our expert witnesses, et cetera. We are pleased that you are here so that we can have a hearing on tax cuts that never took place when they should have.

And I think that that is the concern that a number of us have because both sides were in favor of a tax cut. Both sides recognized that there was inequality that existed. In fact, President Obama had proposed such a tax cut, 28 percent and then an incentive to 25.

You would think that he never proposed it. Show of hands if any of you were invited to speak here at this committee on President Obama's tax cuts. You were invited to this committee to speak on the tax cut? Do you remember that hearing?

Mr. Holtz-Eakin. I could have the wrong hearing, but I was here.

Mr. Larson. I think you probably do, but in fairness to you because you have spoken so many times and you are held in such respect --

Mr. Blumenauer. I will stipulate he was.

Mr. Larson. Yes. So the point is this. Dave Camp did a great job in terms of trying to hold hearings, et cetera, and bring everybody together, and then we have no hearings. And in 51 days, as Mr. Thompson eloquently stated, all of a sudden, without the benefit of any give and take or back and forth, we get a bill dropped on us that was loaded with mistakes and inaccuracies. Now, that can happen. It is not that they intended it to happen that way, but that is what the results were. And so now we have to come together to change the results, and I think the galling thing for a number of us up here is that immediately after passage of the bill, they said: Well, what the problem is, is not the inequities.

And if you live in Connecticut, and you are completing filling out your tax form this past month, and you find that you have been double taxed under the law because of the 750,000 people in Connecticut who itemized deductions with an average of 19,000 per individual, when you are capped at 10, someone is making up that difference. So to know -- it is somewhat not heartening to all of my constituents to know that they are subsidizing the tax cut of the wealthiest in this Nation.

Having said that, I think the most galling thing is this shift towards entitlements. And all of you had something to say about that, the shift being that, "Oh, no, what the real problem is in this country is what we need is entitlement reform." Social Security and Medicare are not entitlements. There are benefits that people paid for. They are earned benefits. Credit President Trump at least for standing up and saying that in a debate and saying it directly to the Republicans that were countering him and trying to say, "Oh, no, Mr. President."

So, Mr. Oh, in your testimony, you eloquently described how the tax cuts went primarily to the wealthy. If the $2 trillion tax cut is offset by future cuts to programs like Social Security and Medicare, what would the impact be?

Mr. Oh. It would make the overall distributional effect of the Tax Cuts and Jobs Act much more unequal, particularly burdening the bottom 20 percent or 40 percent of the American public.

Mr. Larson. Dr. Gould, what do you think the impact would be?

Ms. Gould. Yeah. Absolutely right. We know that Social Security is the number one poverty reducer in this country. We make cuts to that, we increase poverty. That increases the inequality that we have in the country. Absolutely.

Mr. Larson. Mr. Shelton?

Mr. Shelton. We would be adding insult to injury. A tax cut that went mainly to the rich and corporations is now going to be paid for by everybody else who would take advantage of the Social Security and Medicare or Medicaid.

Mr. Larson. Ms. Abramowitz.

Ms. Abramowitz. I would say not only would it have short-term, it would have long-term effects. Less than half of the people in this country have retirement savings and rely on Social Security. So, to the extent you are talking about reducing that, I think you are looking at a disaster in the future.

Mr. Larson. Dr. Holtz.

Mr. Holtz-Eakin. I would just stipulate that you can do progressive Social Security reform as well as for Medicare, you know. There would premiums for high-income individuals that are just --

Mr. Larson. I don't disagree with you, but I don't think it is an entitlement, either. I think it is an earned benefit that people paid for.

Ms. Gould, the impact on women specifically with regard to Social Security. Currently, in our country, amidst all of this, and I would like to, Mr. Chairman, for the record, The FEDS Notes, "A Wealthless Recovery? Asset Ownership and the Uneven Recovery from the Great Recession." I would like to institute that for the record.

Chairman Neal. So ordered.

[The information follows:]

Mr. Larson. And the "Distribution Analysis of the Conference Agreement for the Tax and Jobs Act" by the Tax Policy --

Chairman Neal. So ordered.

[The information follows:]

Mr. Larson. Thank you, Mr. Chairman.

And, with that, I will yield back.

Chairman Neal. I thank the gentleman.

With that, let me recognize the gentleman from Texas to inquire, Mr. Marchant.

Mr. Marchant. Thank you, Mr. Chairman.

I found that the best way to gauge a law that we have passed is to go back to the district and actually meet with the people that the bill that we passed affects. I had a great week last week. My regular drive every day goes by an aluminum factory that builds windows to my local Starbucks, and I saw as I drove there one day, it said, "$11.50, now hiring." The next day, I went by, and it said -- it struck out "$11.50" and said, "$12.50," you know, "need workers." About towards the end of the week, it said "$15.50 to $18, please apply." So that particular company was saying tax reform is working; we need workers.

I met with a mortgage company that was doubling the size of their company, moving from one side of my district to the other side. I met with their employees. We talked about the tax bill. I asked them, how is the tax bill affecting you? How many of you in this room are making less money now than you were a year ago or before? Tell me now. Complain now. Not a hand went up. All their questions were about workers: Where can we get more workers?

A local city that I represent, Hurst, Texas, is building -- has a gentrified area. Now, I thought that going into gentrified areas and revitalizing them, in my district, that is a really good thing. So they are going in there using the new market credits. They are using the opportunity zones, and they are building veterans housing and new development around those, and they are very excited about the tax bill and the opportunities that that city was given to go into their area and really do some good things.

And then I went to another company that is headquartered in the district, and they put wind turbines up all over west Texas. And so I was kind of braced for that company. I thought, hey, I am going to walk in, and they are going to talk to me about extenders, and they are going to want their tax credits increased, and they are going to -- you know, they are going to ask me for a bunch of stuff that I really am not sure that I can deliver. The first minute of the conversation, he said: You can just relax.

He said: We are doing just fine. We appreciate the credits. We know they are phasing out. It is helping us. But our big problem is we can't find enough people to work, and we are raising our salaries, and we are improving the benefits of our company, and we are embracing the tax bill. Please tell us that this tax bill is not going to be changed. Let us have some -- at least a year or two or three or four or five of this tax bill to sink our teeth into it and to really take advantage of it and employ more people.

And so, Mr. Chairman and members, this is how I experienced the tax bill back when I was in the district. I thought, well, people are starting to fill their taxes out. I might ought to wear a helmet to some of these meetings because, you know, people might not be very happy. They may have every question in the world to ask me, but it didn't happen that way. And I have got a wonderful district. It is growing, but even in the areas of my district that are gentrifying and need help, there are answers in this bill.

I yield back.

Chairman Neal. I thank the gentleman.

Let me recognize the gentleman from Oregon to inquire, Mr. Blumenauer.

Mr. Blumenauer. Thank you, Mr. Chairman, and thank you for having the long-awaited hearing that we should have had when the proposal was before us.

You know, I hope we can explode some of the cartoon arguments about tax policy. I am looking forward to what my friend from Texas pointed out. I would like to have him interact with the policy questions we never had before this committee about why architects and engineers pay a higher tax rate than doctors, lawyers, and CPAs. What is the policy rationale for that? How do you explain that to your constituents? Never heard from him.

Professor Oh, you are going provide us with some suggestions about how to make the passthrough provisions work better. I don't want to take the time now. I would like to see it in writing, but you know, it would have been nice if this committee actually had done that rather than ramming something through without benefit of a hearing, without benefit of going back and forth and resolving those questions.

The GOP is going to give us a postcard size tax return, and it would be fun watching our Republican friends in a hearing trying to fill out the postcard size tax return with real life experience. And I appreciate Ms. Abramowitz having the rest of the story with the schedules that still have to be filled out. You didn't do away with them. You slid past it.

Explain why you gave most of the help to people in America who need it the least. We never had a debate on that, and the distribution, we tried to get at it. We made the arguments. We gave based on the best information we had, the evidence is coming forward in terms of what that impact is going to be over time. We never had a robust discussion about the hundreds -- the millions of people who are going to pay higher taxes because they are going to pay a tax on a tax, and it is not just blue States. You have got a lot of them in your district, Kenny, who are going to pay more because they can no longer deduct to the full extent of the law. We have never talked about that and what the impact is going to be. We never really delved into what the impact is going to be really in terms of corporations.

My friend from Texas pointed out the problems of the incentive for outsourcing jobs because they have a lower tax rate. We never talked about that ever on this committee. What is your policy rationale to incent more outsourcing? And I really appreciate our friends from CWA coming in with some real life examples, not hypothetical or a couple cherry picking here or there. You have talked about 5,000 call center jobs located to Mexico to serve America, and your tax bill provides incentives for that. We have never talked about what the costs are going to be for the benefits for people who don't need it.

No doubt there are lots of people who made out like bandits. I know some of them. But we didn't talk about what the short-term and long-term costs are in terms of making a hash out of the Tax Code, making it more difficult to administer, problems for real live people.

I have got some of the largest corporations in my State who still don't know what the Republican bill did to them. They know their executives are getting hammered and lots of people who aren't executives because we have property tax and income tax in Oregon. They are going to be paying a tax on a tax. But the corporations themselves almost 2 years later are clueless.

I am hearing these questions about the opportunity zones. We didn't debate that in this committee. We didn't get evidence on that, and now they are being dropped on us out of the sky. In some cases, they may be useful. In other cases, they are not. But we have created a cottage industry for lawyers and accountants. Oh. And by the way, they are going to pay higher rates than doctors who will treat the blood pressure for people who are trying to figure this out.

Mr. Chairman, thank you for doing this. I look forward to Chairman Thompson being able to do a deeper dive on his subcommittee to ferret this out and get the information we should have had in the first place, not to blow this up and repeal it, but to make sense out of it and fix the stuff that doesn't. Thank you.

Chairman Neal. I thank the gentleman.

Let me recognize the gentleman from New York, Mr. Reed, to inquire.

Mr. Reed. Well, thank you, Mr. Chairman, and thank you to our panelists today.

I just want to cut through a lot of the political rhetoric that you are hearing today from both sides of this aisle in regards to "tax cuts, boo," "tax cuts, yea," that type of debate because at the heart of what we have done in the tax cut bill is we have produced jobs. We have produced jobs. You cannot argue that fact: 493,000 manufacturing jobs added since the tax cut bill. We now have 7.3 million jobs available with only 6.2 million people on unemployment. We have more jobs than people looking for those jobs.

What we did on our side in regards to focusing on and being the party of jobs is we recognize that a job is more than a paycheck as Republicans. Jobs bring to you -- somebody who was raised by a single mother whose father passed when I was 2 and saw firsthand -- a job brings dignity -- dignity, pride, optimism. So that is when I see the numbers of 71 percent of Americans believing the economy is in a good shape and the consumer optimism is high, that is a good thing. We should both be celebrating these numbers, not chastising one side or the other.

I want -- oh. And one thing here from our panelists because we often hear the top 1 percent argument day in and day out. I come from New York. State and local taxes and that deduction in the cap of $10,000 is a very important issue to us in New York State. Now, I stand for repealing that provision and putting the full set of -- the full SALT deduction back on the books, but I will tell you. I want to go into this eyes wide open and understand exactly what we are doing to my colleagues that advocate for the SALT and argue about the SALT cap in these high-tax States. If we did that, the beneficiaries of that move will be the 1 percent. Does any panelist on this dais today disagree with the conclusion?

Chairman Neal. Will the gentleman yield?

Mr. Reed. I will not. But if I have time, I will yield to my good friend --

Chairman Neal. Thank you.

Mr. Reed. -- from New Jersey.

Does any panelist on this dais today disagree with the assertions that have been concluded by the Tax Policy Foundation, by Bloomberg, by numerous organizations that have studied that if we repeal the $10,000 cap, that that is going to go primarily to the top 1 percent, and in the top fifth of income, those making more than $153,000, that would be 96 percent of the people that benefit under that repeal? Does anybody disagree with the assertion that repealing the SALT cap will benefit the 1 percent?

Mr. Pascrell. Right here. I do.

Mr. Reed. I am asking the panelists, and then I will yield to my friend from New Jersey. Anyone disagree with that?

Mr. Pascrell. I am a panelist.

Mr. Reed. Mr. Oh, please. Do you disagree with that conclusion?

Mr. Oh. I can't speak to the exact numbers that you are giving because I don't have them available offhand, but I do agree with you with the general sentiment that the SALT deduction generally benefits the top in income distribution.

Mr. Reed. And I appreciate that. So, if we do this, to my colleagues, to my friend from New Jersey who I now yield to, if we do this together recognizing who we are going to benefit in regards to that repeal.

Mr. Pascrell. I want to do everything together, my friend.

Mr. Reed. I know we do.

Mr. Pascrell. And, you know, just use your imagination of all of the things --

Mr. Reed. You have got one minute.

Mr. Pascrell. But the point of the matter -- thank you. The point of the matter is, in New Jersey, and in my Ninth District, the majority of those folks who use that deduction, the oldest deduction on the tax books -- it goes back to the Civil War, and there was a reason --

Mr. Reed. I understand.

Mr. Pascrell. My minute is not up.

Mr. Reed. Well, it is my time. Hurry it up.

Mr. Pascrell. Well, you can take your time.

The oldest deduction, and it was done for a very specific reason so that States and the Federal Government would not take resources away from local communities that they couldn't build roads and schools and hospitals. And you want to -- before the Code even existed, before the Tax Code ever existed, and so I want to look at it that way.

But in my district, the majority of people who use that deduction -- and it changes every year, even in small States.

Mr. Reed. My time is expiring. What I would just -- reclaiming my time, is I am willing to do this, but do not play politics with it. Go into this eyes wide open, and we will make sure, but nobody on this panel stood for the repeal because they understand that it impacts the top 1 percent.

With that, I yield back.

Chairman Neal. I thank the gentleman.

Let me recognize the gentleman from Wisconsin, Mr. Kind, to inquire.

Mr. Kind. Thank you, Mr. Chairman. Thank you for teeing up this very important hearing.

And we are going to have to do a deep dive, as my friend from Oregon said, on the aspects of this tax bill.

But to my good friend from New York, and he is my friend. I am glad he is asking for his eyes to be wide open because this fire-aim-ready legislative 51-day rush to pass the most significant reform in the Tax Code since 1986, this is predictable with the unintended consequences, the mistakes that were made, and the lack of economic punch that we are seeing right now, now that it has been in effect well over a year.

Let me just strike down a couple of the straw men that we have heard here today.

You know, the last 2 years of the Obama administration had stronger job growth numbers than the first 2 years of the Trump administration, and that includes one full year of this new tax law. That is just a truism. And to my good friend from Texas, the ranking member, who is setting up the straw man that he is hearing all Democrats talk about completely repealing this bill, I haven't heard one member on this dais talking about completely repealing this tax cut bill or anyone in the --

Mr. Brady. Will the gentleman yield?

Mr. Kind. No. This is my time right now.

Unlike the opposite side who had 68 votes to completely repeal the Affordable Care Act and now this President that is embracing a lawsuit in Texas that will completely repeal the Affordable Care Act and all the patient protections that come from it, on preexisting conditions, gives up to 26 staying on the parents' plan, getting rid of annual and lifetime payment caps; all of that would be repealed based on your votes and what this administration is calling for. So let's get serious about what we need to change with this Tax Code.

Now, Dr. Gould, your testimony was talking about the danger of growing inequality in the wage gap in our country. In a moment, I am going to ask you to expound on that a little bit, but first, I want to pop up a chart that we asked the Joint Committee on Taxation to prepare for us for this committee that shows the distributional effect of this tax cut. Many of us had a problem, not only the lack of incentives for the economic growth that we need as part of this tax cut but the fact that it wasn't paid for, which with interest payments now will explode our debt by $2.3 trillion over the next 10 years because of no offsets, but also because of the distributional effect. If you take a look at this chart, and, Mr. Chairman, I ask unanimous consent to have the chart included in the record at this time.

Chairman Neal. So ordered.

[The information follows:]

Mr. Kind. It shows that in 2019 alone, those making over a million dollars are getting a $64,000 tax cut under this bill, and those earning less than $100,000, on average, 464 bucks. And it is even worse than that. I mean, taxpayers in the bottom 20 percent of the income distribution is projected to receive on average a tax cut of $60 under this.

Now, Dr. Gould, I think one of the great threats that we face in regards to future economic growth and just the stability of our society is growing inequality and the growing wage gap that we have in our -- does this tax bill help or hurt in that regard, policywise?

Ms. Gould. It hurts. Right. Absolutely. The data you are showing here and the Tax Policy Center has also shown that individual income tax provisions in the 2017 tax law were indeed skewed toward the top of the distribution with the top 5 percent of households getting about 40 percent of the benefits, so it is exacerbating the inequality that we have seen over the last 40 years.

Mr. Kind. Professor Oh, you too have done some research and looked into the implications of this tax law and the disproportionate benefit to the most wealthy, but you also indicated in your written testimony today that this is going to get worse in the outyears. How so?

Mr. Oh. Well, you take a look at the chart that you have helpfully provided here and compare 2019 to 2027, and I will just draw everyone's attention to that very small yellow bar, which indicates what the people earning less than $100,000 are going to get, and what they are getting is a tax increase relative to old law.

Mr. Kind. Now, the other problem that we had -- and this is something that was foreshadowed because they told us what they were going to do with the tax windfall, corporations, and what they used the tax cut for -- we have seen huge share buybacks, dividend distributions, very little going into base wage increases. You have got some token bonuses that were given out, but even that was qualifying, so not all employees received that. This was exactly what corporate America said they were going to do with the tax cut when we were asking them. They were sitting on a pile of cash to begin with.

Mr. Eakin, I agree, and there was consensus that something had to be done to make us more competitive in the international tax regime. In fact, the previous administration, Obama, recognized that too in their tax reform proposals. But what we have seen is this huge giveaway that has not gone to improve the wage disparity or the income inequality gap because of how corporations have chosen to use this huge windfall. And that is something I think this committee is going to have to look at much deeper policywise as we move forward on it.

And then, finally, let me just say that I am always struck by the attention that these tax cuts receive when it comes to growth. We know the two key factors with GDP growth is workforce participation and worker productivity. We have an administration in power now that is talking about reducing legal immigration in this country by 50 percent. If that happens, game over. There is no way we are going to meet GDP growth targets unless there is some baby boom that I am unaware of that is happening in this country today.

Thank you, Mr. Chairman.

Chairman Neal. I thank the gentleman.

With that, let me recognize the gentleman from Pennsylvania, Mr. Kelly, to inquire.

Mr. Kelly. Thank you, Mr. Chairman. Thanks for having the hearing.

So the title of the hearing is "The 2017 Tax Law and Who It Left Behind." So thank you all for being here today to talk about that.

One piece that hasn't been addressed yet when we talked about who it left behind, are any of you aware of opportunity zones that were included in the Tax Cuts and Jobs Act? Do you know what it is, Ms. Gould?

Dr. Oh, do you know what that is? No? You are aware of it?

Mr. Oh. I am aware of it.

Mr. Kelly. Okay. Not a bad provision.

Mr. Shelton, do you know anything about it?

Ms. Abramowitz?

Ms. Abramowitz. I am aware.

Mr. Kelly. I know you are, right. You know, all politics is local. Let me just go over something real quickly here. In the district that I represent, there are 16 opportunity zones. Opportunity zones are exactly what we are talking about. It is creating an opportunity in a zone that the rest of the world has left behind and doesn't even look at anymore because there is no reason to invest there.

Part of the Tax Cuts and Jobs Act was to breathe life back into our economy, breathe life back into our communities. So, if I go to Erie, Pennsylvania, if I go to ZIP Code 16501, which is one of the poorest ZIP Codes in the world, there are eight opportunity zones. So who was left behind? I will tell you. I don't know who was left behind, but I sure as hell know who was put at the front of everything. And when I look at the numbers of this, I am completely confused. When I hear the rhetoric back and forth about, you know what? It just -- you know, it was okay, but it wasn't good enough. Because the perfect is always the enemy of the good. So I am fascinated by some of these things.

You know, if I could, Mr. Chairman, I would like to submit for the record "The Distributional Effects of Public Law."

Chairman Neal. So ordered.

[The information follows:]

Mr. Kelly. Okay.

Mr. Eakin, now, if you really want to test whether people are better off or worse off, you have to kind of go to the numbers, right? So, when you look through this book -- and I think you probably already looked through this report -- one of the things I find interesting, the group that the taxes were really important for, and this is what we call the middle-income people, as a group, their taxes were cut by 8.7 percent, and the tax rate of this group dropped from 14.8 percent to 13.5 percent. Does that make somebody better off?

Mr. Holtz-Eakin. Yes.

Mr. Kelly. Yeah. It is pretty simple, right? When you look at all the numbers that we talk about with this -- and we keep saying: Well, you know what? Again, pretty good but not really good enough.

There was not one person on the other side of the dais that voted for the Tax Cuts and Jobs Act. So you want to come here today and say: You know what? It was really good, but you know what? It wasn't perfect.

And when I look at the numbers -- because the numbers don't lie. And, you know, the President talks about fake news; let's talk about real data. When you have economic growth that we have been seeing, when we see wages growing by 3.4 percent over the last year, when we see job openings at 7.6 million, and for anybody looking for a job, there are more jobs open right now in the United States of America than we have ever had before. They can't be filled because we don't have enough people to fill them.

So to sit here today and say, "Somehow this damn Tax Cuts and Jobs Act just didn't help every single American in the same way," no kidding. No kidding. In my lifetime, I have been so privileged and so -- just able to do some things. I was in Paris one time, and I went to the Louvre. And one of the things that everybody goes to the Louvre to see is the Mona

Lisa. I was standing there looking at this magnificent portrait by da Vinci, and I thought: This is absolutely gorgeous.

A guy came up beside me. He says: What do you think of this?

I said: I think it is absolutely gorgeous.

He says: I don't think so. I think her mouth is kind of funny.

We take a classic painting. We take a classic piece of legislation. We talk about the most important thing in economic growth that this country has seen, and we say: You know what? It just wasn't good enough. That is why we couldn't vote for it.

Please. Please. Any of you that believe that somehow the passage of the Tax Cuts and Jobs Act hurt America, please raise your hand right now. I want to know. Did that hurt America, or did that help our economic growth? Not people from the other side of the aisle because I know none of you voted for it.

You don't think it was good. You don't think it was good. None of you think it was good. Really. I am in the automobile business. You know what? You know when people buy cars? When they are working. You know when people buy cars? When their income goes up. You know when people buy a house or add on to their house or improve their house? When their income goes up. There is a little something called take-home pay that has worked for every single American, maybe not to the same level that everybody would like to see. I get that.

I want to tell you something. You look at the Tax Cuts and Jobs Act, and if anybody can sit on that panel in front of me, and I know you are all -- when it comes to academics, you know that inside out. But I want to tell you. People that work on blacktop and not on a laptop, what it means to them. It means they have more take-home pay. It means they have a better future. It means the future is better for their children and their grandchildren, and the country has become stronger. To that, there is absolutely no way you can deny that this wasn't effective and it didn't help every single American and make America great again.

Thank you, and I yield back.

Chairman Neal. I thank the gentleman.

With that, let me recognize the gentleman from New Jersey, Mr. Pascrell, to inquire.

Mr. Pascrell. Thank you, Mr. Chairman.

Thank you to the great panel we have today. Thank you to both sides of the aisle for shedding some light sometimes on this bill.

Mr. Chairman, we were promised higher wages from the Republican tax cuts, chapter and verse. Nobody has denied that. We were promised that the massive unpaid-for tax cuts for corporations and the wealthy would trickle down to the middle class and working families. Well, we have heard that before, and today, in America, you are less likely to reach the middle class if you are born poor than any time since World War II. I don't blame the Republicans for that. We participated in government too since World War II. But as many researchers have pointed out, the American dream is more likely to be found on the other side of the Atlantic Ocean right now.

Economists have pointed out that the economic mobility in a country is strongly tied to the levels of income inequality. In the United States, income inequality has risen while economic mobility has declined. It didn't happen by accident. Too often, this Congress has given itself over to blind, free-market thinking that prioritized corporate profits over human being.

How much revenue did reducing the SALT deduction, how much revenue did that bring in, projected to bring in over the next 10 years to the government? You did this to raise $620 billion over 10 years to pay for everything else, and then here was the biggest insult of all: After you said in the very beginning that you weren't going to lower the income tax rate for those in the top, top tier, you reduced it from 39 to 37.5 percent at the end because you needed to pay for more of the fantasy that you had created. So you are here telling me that you can't touch the SALT deduction. You can't go back to it because it will, quote/unquote, primarily help those in the top 1 percent.

Well, let me give you some facts. I have, you know, some politicians who will remain nameless right now said that restoring the full deduction would benefit the wealthy. The vast majority of those losing this break of the 860,000 New Jersey households with middle incomes, those between $75,000 and close to $200,000, that is more than twice as many taxpayers than those in the higher income brackets. It is a phony excuse that you have used, but you have to do it. You have to do it because you put yourself in a box. You didn't even have the courage to run on this in the last election. In fact, I can point to certain people that lost because they took this position and voted for it. They had every right to do that, every right to do that.

You can't say I didn't warn you on this floor. Here is what is going to happen, and I am not a good predictor. Certainly not in sports or in politics, but I nailed that one. There is a sensible fix to this terrible, terrible tax law. Every county in my State but one had an average SALT deduction in 2016 that was more than $10,000. That means average taxpayers are going to see their taxes go up, not just super wealthy but average taxpayers. We need to consider the cost of living, particularly housing, in New Jersey is much higher than it is in some of those other states. Nearly 40 percent of the taxpayers with incomes between $50,000 and $75,000 claimed the SALT deduction, and we are not only talking about 12 States. Every State in the union had those that deduct the SALT deduction, which has been in existence for long time. More than 70 percent of those making between $100,000 to $200,000 claim it as well.

So we are a high-cost State. We are more densely populated. Our needs are different. And we are only getting back 73 cents on every dollar we sent to the Federal

Government. This is the highest -- next to the highest amount of dollars that you take from citizens of New Jersey, we do, to pay the bills. So we are not missing out on our responsibilities. We are addressing it, and we will continue to address it.

Thank you.

Chairman Neal. I thank the gentleman.

Mr. Pascrell. Thank you.

Chairman Neal. Now let me recognize the gentleman from Missouri, Mr. Smith, to inquire.

Mr. Smith of Missouri. Thank you, Mr. Chairman.

I want to thank all the witnesses for being here today.

And I want to thank the former Republican Congress and President Trump for championing the Tax Cut and Jobs Act. I was someone who had reiterated support in southeast Missouri, and let me just tell you a little bit about my congressional district. Either myself or Terri Sewell on this committee have the most impoverished congressional district of all members of the Ways and Means Committee. The median household income in the Eighth District of Missouri is right at $40,000 a year for a family. $40,000 a year.

And so, when we were looking at the effects of this Tax Cut and Jobs Act, in drafting the policies, we looked at various things that, from my perspective, would help lower income American workers because that is the people that I have the great opportunity to serve and to represent. And let me tell you what the Tax Cut and Jobs Act did for the people that I represent. And I am sure none of you live in a congressional district that has a median household income of $40,000 or less. You are from areas that have much higher.

A family of four in southeast Missouri who makes $55,000 or less, their debt in Federal taxes is zero. So we actually increase the amount of people that don't have to pay Federal taxes in a family of four. We did that by doubling the child tax credit -- it was very helpful -- from $1,000 to $2000. We also did that by helping make the child tax credit refundable for those low income families that didn't receive it to begin with.

So my question is of every individual on the panel, do you support repeal of the language that doubled the child tax credit and made it refundable in the Tax Cuts and Jobs Act? I would like just a yes-or-no answer. Do you support repealing it, or do you think it should stay in law? Just yes or no.

RPTR TELL

EDTR ZAMORA

[12:00 p.m.]

Mr. Oh. I do not support repealing it. In fact, I would support expanding its refundability.

Mr. Smith of Missouri. Perfect.

Ms. Gould. Yeah, I would reiterate that as well.

Mr. Smith of Missouri. Okay.

Mr. Shelton. No.

Ms. Abramowitz. I agree. Keep and expand.

Mr. Holtz-Eakin. No.

Mr. Smith of Missouri. I am glad we have all that. I would love to get a Democrat colleague on the other side to cosponsor my legislation. I can't even find one Democrat to sponsor the legislation to make it permanent, and we know that this helps families. You all agree with me. So if anyone on this committee --

Yes, I do yield.

Ms. Moore. Did you hear the witnesses say that they want you to expand it because the refundable tax credit really doesn't help the poorest mothers?

Mr. Smith of Missouri. It went up to $1,400 with refundability.

Ms. Moore. Like he said, they want it expanded, not made permanent the way it is.

Mr. Smith of Missouri. I will reclaim my time. What I will do is that, under the law prior to our expansion, it is better and it helps the poor people more now than it did prior to the expanding, because it was never refundable. Is that correct? Anyone want to answer that there, was it refundable? Did we expand it?

Ms. Abramowitz. There was, in fact, what was called an additional child tax credit that provided some refundability for people who couldn't use the --

Mr. Smith of Missouri. Did our provision provide more low income to get it under refundability?

Ms. Abramowitz. It did increase it, but you have to look at it also with the change in dependency exemptions, which were eliminated.

Mr. Smith of Missouri. Thank you. And so my point is, to my colleagues on the other side of the aisle, is that something is always better than nothing. And I hope that you all will join with me to at least preserve the benefit that everyone has by doubling the child tax credit. If you want more and you can pass more, go for it, but let's at least preserve what we have and not let it expire.

So I would welcome, welcome any Democrat brave enough to support and cosponsor my legislation to support working families. That is all I am asking. So I will be eyes and ears for anyone on this committee that helps to support working families in doubling the child tax credit.

With that, Mr. Chairman, I yield back.

Chairman Neal. I thank the gentleman.

With that, let me recognize the gentleman from Illinois, Mr. Davis, to inquire.

Mr. Davis. Thank you, Mr. Chairman. And I also want to thank all of the witnesses who have been with us all morning.

I thought of Mr. Kelly talking about the Mona Lisa. You know, beauty is often described in the eyes of the beholder, and what one might see, another does not. What I see in the Trump tax law, a law that contains a substantial provision that will likely incentivize State and local governments to shift from progressive and real estate income taxes as a source of revenue and rely more heavily on fees and fines. Part of this has to do with generation of resources.

The Tax Cuts and Jobs Act substantially takes away the ability to deduct one's State and local taxes from Federal taxable income. Shifting from progressive income and property taxes to regressive fines and fees is tantamount to shifting the tax burden from those with the most to those with the least.

We know that we have fines and fees and that especially criminal justice fines and fees fall disproportionately on people of color, and especially on those who are poor, no matter what racial, ethnic, color group they come from. These are the individuals who receive these fines the most.

Professor Abramowitz, and I am sure you know that the National Academies of Science recently released a roadmap to reducing child poverty. The academy presented four packages of policy solutions to significantly reduce child poverty. Each package contained one common proposal: making the child and dependent care tax credit fully refundable.

I lead a bill with Senator Casey to do just that. Our bill is supported by at least 19 national child advocate organizations and makes the CDC fully refundable, increases the maximum credit to $6,000, and raises the phaseout to 120,000, and indexes it to inflation.

Professor, could you help us to better understand how making childcare more affordable will affect parents' workforce participation, our economic growth, and our ability to generate tax revenue in an overall sense?

Ms. Abramowitz. There is no doubt that making childcare more affordable is going to encourage better labor force participation, better education, better health for children. As it stands now, for a single working mom who might be earning $18,000 or some such number, they are not paying income taxes, and there is no incentive to a nonrefundable credit. They might rely a little bit on EITC or child tax credit, but there is no doubt that improving the refundable credits will make life a lot better.

Mr. Davis. Well, let me ask you about EITC. Would expanding the earned income tax credit to include individuals who were homeless and now are working individuals who age out of being a dependent child, would that essentially do some of the same thing? It sounds like some of what Mr. Smith was talking about, and I would certainly work with him to increase those opportunities.

Ms. Abramowitz. There is no doubt that the earned income credit, if expanded to lower ages, right now you can't get it at young adult ages, and to expand it for single taxpayers would certainly help, again, lifting people out of poverty.

Mr. Davis. Thank you very much. I yield back, Mr. Chairman.

Chairman Neal. I thank the gentleman.

With that, let me recognize the gentleman from South Carolina, Mr. Rice, to inquire.

Mr. Rice. Thank you, Mr. Chairman.

I have a couple questions for the panel, and I am going to want you to raise your hand if you disagree. But we raised the standard deduction, which is the amount you can take off your taxes even if you don't have itemized deductions, from $6,350 for individuals to $12,000 for individuals. Wouldn't you all agree that helps primarily low- and moderate-income folks? Because they don't have many itemized deductions, right? Ms. Abramowitz, wouldn't you agree with that?

Ms. Abramowitz. Well, I think you can't look at any one provision in a vacuum, and we have taken away dependency exemptions, which is about $4,000 per dependent.

Mr. Rice. This is -- I am talking about for a single individual and we doubled it for families too, from 12,000 to 24,000.

Ms. Abramowitz. That is correct.

Mr. Rice. So doesn't that primarily help low-income folks?

Ms. Abramowitz. Does it improve their tax picture over what it was? Not necessarily, and not by much.

Mr. Rice. And when you combine it with the child tax credit, of course, it improves their tax liability.

Ms. Abramowitz. Again it is the constellation that is involved.

Mr. Rice. We lowered the tax liability from -- we eliminated taxes on anybody -- an individual who makes 12,000 or less. We lowered the tax rate from 15 to 12 percent on people making less than $40,000. Would you repeal that? Would you? Yes or no?

Mr. Oh. Mr. Rice, do you mind if I take 30 seconds?

Mr. Rice. I can't. I only have very limited time, and I have got a lot --

Mr. Oh. Okay. I will try to do it as fast as possible. I think what Ms. Abramowitz says is correct, which is that you have to look at three things together, which is the increase in the standard deduction, the increase in the child tax credit, and the removal of the personal exemptions. And the way I explain it to my students is imagine you are a family of four, two parents, two children --

Mr. Rice. I am sorry, I can't let you go on. I am a tax lawyer and a CPA too, and what I know is the effect of all those is a lower tax bracket on the average family that makes less than -- on families across the board.

So here is what I don't understand, here is what I struggle with, and that is we have partially -- I won't say all, but partially as a result of this tax bill, we have below 4 percent national unemployment, record lows in African American and Hispanic unemployment, record highs in small business and consumer confidence. CNN poll last week, 71 percent of Americans think the economy is in good shape. That is a 20-year high. Gallup poll from last month, 69 percent of Americans say the economy is good and their financial condition is improving. That is almost a record high.

When people feel good about their financial situation, they go on vacation. I live in Myrtle Beach, South Carolina. Tourism was up 7 percent last year. I have three of the poorest counties in South Carolina in my district: Marion and Dillon and Marlboro counties. In January of 2017, the year -- the month that Donald Trump took office, the unemployment rate in Marion County, the poorest county in South Carolina, was 9.6 percent. It hit 4.8 percent last June. It was cut in half in 18 months, and this tax bill was a part of that. I mean, this county is 57 percent African American, 30 percent of the people live in poverty.

We are out there in the churches now. We are in the schools. We are talking to guidance counselors. We are trying to hook them up with tech schools to pull people who have never been in the workforce off the sidelines and into the workforce, and every one of those that we can do it is a win. And this tax bill is a huge part of that. Every person that we can pull into the workforce who has never been in it reduces -- reduces poverty, reduces entitlements, reduces crime, reduces drugs, helps families, helps the communities, helps this country.

I am so proud of the effect that this tax bill has had on my district. People are being uplifted. People who never thought, who never believed in the name of America's land of opportunity. They never believed that opportunity was for them. Well, they are seeing that opportunity right now.

So what I struggle with is how we are not all celebrating this, because I know it affects everybody's district, not just mine. I know that all of you all are seeing these same effects on the people who need it the most back home in your districts. And yet we are trying to tear this down and somehow make it negative.

I hope we can rise above this, and I hope we can look on how to improve it and make it even better and pull even more people off the sidelines because, my friends, it is working exactly the way that I had hoped it would work.

I yield back.

Chairman Neal. I thank the gentleman.

Now let me recognize the gentlelady from California, Ms. Sanchez, to inquire.

Ms. Sanchez. Thank you, Mr. Chairman. And I want to thank our witnesses for joining us here today.

I feel like a lot of my Republican colleagues like to defend their overall tax scam by focusing on the very small slice of people who benefited. Particularly, we have heard stories about some small businesses that benefited. And while some businesses saw some benefit, far more people were left behind than were actually helped. Not once did this committee hold hearings to consider the impact of this tax law and the impact that it would have on women and minority-owned businesses who happen to be the fastest growing group of entrepreneurs in this country.

So I am going to use part of my time today to ask questions that weren't given time before the 2017 bill passed. I would like to begin with Professor Oh, and although I would love to have you answer Mr. Rice's question because he didn't give you time to answer the question he posed to you, I want to talk to you specifically about Republicans who have touted the benefits of 199A. I would like you to shed some light on who this provision left behind.

What do we know about how truly small women-and-minority-owned businesses are faring under the new tax law?

Mr. Oh. It is still very early, and we are waiting on the first tax returns that really claimed the 199A passthrough deduction. What I will say is that you can imagine restructuring the passthrough deduction in a way that helps small businesses, helps businesses owned by women and minorities without this huge windfall for households that earn over a million dollars.

Ms. Sanchez. So this point that, oh, the tax bill is so good, and it is not perfect and so that is why Democrats are upset, I mean, it is actually that there would have been smarter ways to incentivize the right kind of behavior and to provide the right kind of relief, instead of this rushed bill that was written behind closed doors late at night that had all of these unintended consequences. Would you agree with that statement?

Mr. Oh. I would. And just going back to the chair's comments. If you look at the TPC projections, you can actually create tax cuts up and down the income distribution with a much smaller effect on the deficit by making a few small adjustments.

Ms. Sanchez. So it is not that we are upset with tax cuts; we are just upset that the way that it pans out is that the people who need the help the most really truly aren't getting the most help. Is that correct?

Mr. Oh. I think that is right.

Ms. Sanchez. I want to touch on another population that was left behind by the new tax law, and that is the low-wage immigrant workers. The Republicans eliminated personal exemptions saying that they were no longer necessary given the expanded standard deduction. However, nonresident aliens are not able to take the standard deduction. This means that thousands of low-wage earners who legally work here have lost their $4,000 personal exemption, making much, if not all, of their income fully taxable. Is that right, Ms. Abramowitz?

Ms. Abramowitz. Yes.

Ms. Sanchez. So Mr. Rice said that people who earn under $12,000 a year don't pay taxes. Is that a true statement?

Ms. Abramowitz. Well, it is not, if you are --

Ms. Sanchez. Mike, please.

Ms. Abramowitz. Not necessarily if you are not getting the standard deduction. In addition, one area of concern that I have that actually intersects with 199A is if you take an immigrant worker who is paying into our Social Security system either through payroll tax or self-employment tax, the lower the income, the self-employment tax is essentially a much harsher hit because the self-employment tax you are entitled to a deduction against your income for a portion of it. The poorest of the poor pay a full 15.3 percent.

Ms. Sanchez. The poorest of the poor pay a full 15.3 percent.

Ms. Abramowitz. And the immigrants get no benefits.

Ms. Sanchez. And they get no benefits. Thank you.

I would like to ask President Shelton, I want to talk some more about the broken promises to some of America's best trained workers that you discussed early in your testimony. Have the people that you have been elected to represent seen real wage growth from this TCJA?

Mr. Shelton. No, they haven't. The wage growth has -- there just hasn't been much wage growth.

Ms. Sanchez. But the Republicans will say, well, but they got bonuses, right?

Mr. Shelton. Yes. Actually, we tried -- while the tax cut was being debated, we tried to get our major employers to sign something that said that they would give our members $4,000 in raises, because that is what everybody was touting and saying that that would happen. Well, we didn't get one employer to sign that pledge.

Ms. Sanchez. So the employees got a one-time bonus, but they didn't get permanent wage increases. Is that correct?

Mr. Shelton. Right. Some of our members got a $1,000 bonus. It actually started with AT&T in a conversation that I had with the chairman of AT&T, but a one-time bonus is not a $4,000 raise.

Ms. Sanchez. Correct. And my last question, have you seen a great influx of new workers and increased membership, as the Republicans promised that there would be, because they promised that there would be massive domestic investment if this permanent tax cut passed for corporations? Have you seen that come to fruition?

Mr. Shelton. No, just the opposite. We have seen losing jobs everywhere. And in AT&T, someone said before that they said they have hired 20,000 people. Well, they conflate the hiring with the employment levels, and if you look at their own records, their employment levels, they have laid off 14,000 people since the tax cut was passed.

Ms. Sanchez. Thank you. You have indulged me with my time, Mr. Chairman, and I yield back.

Chairman Neal. I thank the gentlelady.

And let me, with that, recognize the gentleman from Arizona, Mr. Schweikert, to inquire.

Mr. Schweikert. Thank you, Mr. Chairman.

Dr. Holtz-Eakin, look, as we all know from the nature of this conversation, we are going to do our best to politicize something that we almost have no real data back yet, but could you and I -- because this is a continuation of a previous conversation. I have a personal fixation on velocity of mobility, and the fact that we went, what, would you say the previous decade, 15 years, where mobility in income and the stride ahead had basically become very flat?

Mr. Holtz-Eakin. We saw very little real wage growth, very poor productivity growth, and those are the routes to a better standard of living.

Mr. Schweikert. Now, I know it may be somewhat anecdotal, but we do have some early data from 2018. Are you seeing finally some movement that is breaking the last decade's trend?

Mr. Holtz-Eakin. So, again, I don't understand overstate the scientific firmness of this because it is very preliminary, but we have seen in the last couple productivity reports increases in productivity economywide. So it is now 1.8 percent annual growth in the fourth quarter of 2018 over 2017. That would be an enormous improvement, almost a full percentage point over the previous decade, if it is sustained.

We have seen our best measures of wages, those in the employment cost index rising at over 3 percent up over 50 percent in the past 2 years. That has been matched even more so, in some cases, by benefits, so total compensations also rising at about that rate. And if you look at the data we get monthly from the Current Population Survey, you can look at low-wage workers, those in the bottom, and that grew faster than anyone else in 2018.

Mr. Schweikert. And that is actually where I want to go. And, look, I haven't read everyone's academic papers in the history, but we have a whole file back in our office talking about the permanent underclass, the populations from -- who did not graduate high school, who had been in basic types of manufacturing. And we do see in some of the U6 data when you start to really drop down into the cross tabs the very populations that this committee talked about for years that were going to be part of the permanent underclass, what did you see in some of the data over just this last year?

Mr. Holtz-Eakin. As I said before, the most important movement has been in categories like marginally attached to the labor force, discouraged worker, where we have seen those totals drop quite sharply, and that is tremendously good news, I think, from the point of view of people's attachment to work, right? Work is sticky. If people work, they will continue to work, and that benefits them both materially and otherwise. I think that is the most important thing that happened in 2018 is to see that improvement.

It is mirrored in this decline in the unemployment rate because the college-age unemployment rate has been low for a long time. I mean, every month you get a 2 percent unemployment rate for college educated. It is the less educated, less skilled who have seen their work opportunities and actual employment improve in the past year.

Mr. Schweikert. I guess for -- you know, many of us talk, you know, we have a passion for the poor. I despise using the term "underclass," but we are brothers and sisters who are having a really tough time in society, if you actually look particularly at some of those cross tabs. In the last 18 months, 12 months, it is the first time you are starting to see the spiking of both income, labor force participation. Right now, we are, what, over -- we finally broke through 63 on labor force participation.

Mr. Holtz-Eakin. We are about at 63. The most important thing about that is the aggregate labor force participation rate should be declining because of the aging of the generation --

Mr. Schweikert. Demographic.

Mr. Holtz-Eakin. -- and the normal exit from work. It is staying flat. That is actually a remarkable accomplishment.

Mr. Schweikert. So if I keep turning and saying there is actually some really interesting conversation I wish we could have in almost the negative income tax models and those things of how you actually help make work very valuable for those who -- and maybe it is time to take a sweep of all the different benefits packages and put them into something of that nature, but there is a fixation we need to have as a society of participation in the labor force.

In the last couple seconds, just because we have all been talking one side of the book, I want to start with Mr. Holtz-Eakin and come back down. For the top 20 percent of income earners in our society, for just the income tax, how much of the Federal income tax take should the top 20 percent be paying?

Mr. Holtz-Eakin. Should they be paying?

Mr. Schweikert. I mean, what would you say? Should they pay 50 percent, 60 percent, 70 percent?

Mr. Holtz-Eakin. I will get back to you after I think about it.

Mr. Schweikert. Doctor, the top 20 percent, what should they pay of the Federal income tax? My friend from --

Ms. Abramowitz. It sounds like a political question.

Mr. Schweikert. It is. It is. But because we have been talking on the other side.

For my friend from AT&T, which I am panicked over your multiemployer pension system that you run while the union's pension system is incredibly well funded, would you work with us maybe to blend the two of those to protect those workers?

Look, last thing, Mr. Chairman -- thank you for your tolerance -- I would like to actually submit this article that basically says the top 20 percent of income earners pay over 87 percent of all Federal income taxes.

Chairman Neal. So ordered, and I thank the gentleman.

[The information follows:]

Chairman Neal. And, with that, let me recognize the gentleman from New York to inquire, Mr. Higgins.

Mr. Higgins. Thank you, Mr. Chairman.

Dr. Eakin, you have said here today and previously and also in written testimony that tax cuts do not, in fact, pay for themselves. I just want to press you on that a little bit. I would like you to distill that down to, if you can, what is it that you think a tax cut does relative to economic input? In other words, for every dollar of tax cut that you would give away, what is a reasonable expectation in terms of return on that investment or loss of on the investment?

Mr. Holtz-Eakin. That is an enormous opening for a former professor in tax policy.

Mr. Higgins. I see that.

Mr. Holtz-Eakin. So I will try to restrain myself. Let me just say, first and foremost, that not all taxes are created equal, and so you shouldn't expect to get the same response.

Mr. Higgins. Corporate tax cut.

Mr. Holtz-Eakin. Most of the formal efforts at this yield something between 33 and 50 percent.

Mr. Higgins. Thirty-three --

Mr. Holtz-Eakin. On the dollar.

Mr. Higgins. Okay.

Mr. Holtz-Eakin. And that is in very pristine settings. Real tax laws, not as pristine. I will just say that.

Mr. Higgins. So for every dollar that you give away in a tax cut, you could expect 30 to 50 cents back. So it is a 50 percent loss on investment.

Mr. Holtz-Eakin. A 50 percent loss, that is for sure.

Mr. Higgins. They don't pay for it. They don't pay for it, right?

Mr. Holtz-Eakin. Right.

Mr. Higgins. Okay. All right. Is that established conservative economic orthodoxy? I mean, is that pretty much the view relative to tax cuts? There is a recognition that there may be some other benefits, but in terms -- it doesn't pay for itself.

Mr. Holtz-Eakin. I learned a long time ago that I don't speak for conservative orthodoxies, so what I can say is that if you look at the Congressional Budget Office analysis of the Tax Cuts and Jobs Act, it shows about 30 to 35 percent feedback for every dollar lost. And if you look at what they essentially say it does is that the revenue baseline before and the revenue baseline after, they come back together within the 10-year window, but you have lost revenue for a while and you have more debt.

Mr. Higgins. Well, let me just say this.

Mr. Holtz-Eakin. That is the definition of not paying for yourself.

Mr. Higgins. Reclaiming back my time. Let me just say this. Unlike, for example, infrastructure that for every dollar you spend, you return anywhere between $1.75 and $2 in economic growth. So infrastructure would more than pay for itself.

Mr. Holtz-Eakin. I disagree.

Mr. Higgins. Okay.

Mr. Holtz-Eakin. And I can get back to you the studies I have done on infrastructure that suggest that is too high.

Mr. Higgins. Okay. So the tax cut of 2017 was sold as a tax cut that would be deficit financed because of the magic of supply side trickle down rebranded as dynamic scoring. You were -- as you mentioned, you taught at Syracuse University in the economics department. You ran the Congressional Budget Office under George W. Bush. You were an economic adviser to John McCain. You are president of the American Action Forum, a conservative think tank, and you are the Republican witness today. You also, I read, were the chief economist for the White House Council of Economic Advisers under George W. Bush.

Mr. Holtz-Eakin. Correct.

Mr. Higgins. Okay. In 2017, the Trump White House Council of Economic Advisers issued a statement about the economic impact on American household income in relation to the Trump -- President Trump's tax cut, saying that each American household would see a $4- to $9,000 annual increase. If you were on the Council of Economic Advisers, would you have signed that letter?

Mr. Holtz-Eakin. That was based off of research that was done by the chairman of the Council of Economic Advisers.

Mr. Higgins. What do you think of the research? You are a numbers guy.

Mr. Holtz-Eakin. I am not -- I have not genuinely sufficiently scrubbed that for technical expertise to have an opinion one way or the other.

Mr. Higgins. Well, here is what I would say. I mean, given the fact the one thing that we do agree on is that these tax cuts did not pay for themselves.

Mr. Holtz-Eakin. Correct.

Mr. Higgins. And they never will, because there was never a tax cut in human history that paid for itself, at least in the short term, particularly when it is deficit financed. So, you know, this theory of dynamic scoring that my colleagues use to justify this, that the tax cuts would produce future growth that would offset the deficit that you incurred to fund the activity in the first place, so dynamic scoring isn't all that dynamic. And I think that when you look at, you know, trillion dollar deficits for each of the next 4 years, it is indicative of a very clear and indisputable fact, and that is, tax cuts do not and never have paid for themselves.

With that, I will yield back.

Mr. Holtz-Eakin. If I could just in the interest of clarity, Mr. Chairman?

Chairman Neal. Yes, for sure.

Mr. Holtz-Eakin. Dynamic scoring does not mean things pay for themselves. It means there are beneficial growth consequences. I believe that the bill had the potential for that and is showing early signs of those beneficial, but that doesn't mean it is free.

Chairman Neal. I thank the gentleman.

With that, let's recognize the gentlelady from Indiana, Mrs. Walorski.

Mrs. Walorski. Thank you, Mr. Chairman. Thank you to the guests that are here today.

I find it kind of interesting; ironic, actually. I feel like I kind of don't even belong in this hearing, because when I paint the picture to you all about what my district looks like in the State of Indiana in northern Indiana and what is really happening on the ground there, I feel like the gloom and doom that has been in conversation here, and my friends across the aisle are looking to spend all this time worrying about the 1 percent earners and the cap and SALT and that whole thing, let me just take you quickly to what my district looks like.

And I can tell you that the Tax Cuts and Jobs Act has been nothing but positive, and so I feel bad for my friends that haven't had that experience, but this is reality of what actually happens in the Indiana Second District.

I would take to you a place where there is hardworking Hoosiers, middle-class families in Indiana, and this is what I see with them. Working families that really benefit from the double tax credit that we talked about earlier; a remarkable 3-1/2 percent unemployment rate, which is lower than the national average. A great American manufacturer in my district named Smoker Craft has raising wages. They have been awarding bonuses and reinvesting capital. I have got a community bank, not only raising wages, but increasing tuition reimbursement, awarding stock to its employees, and almost by far lower electricity prices across my whole district in the State of Indiana. All of this and more is what Tax Cuts and Jobs Act is about.

And so I can proudly and boldly stand here today and talk about the fact that my constituents in my district have more money in their pocket. These are hardworking people, hardworking Hoosiers. They are not the 1 percent that you all have been arguing about. One employee at a company I was touring told me just recently that these aren't -- the benefits that he has right now are not the crumbs as Speaker Pelosi told them and told the country. It is real money for him and it is real money for his family.

And so, Dr. Eakin, I just wanted to ask you, given the dynamics of what you just heard about one place in this country, what do you believe could have been the primary drivers of what I am seeing as economic growth in the last 2 years? Because surely what I am seeing can't be a nuance, and it can't just be coincidence, and it cannot have happened by accident.

Mr. Holtz-Eakin. I think there are a couple of things to point to. One that hasn't been talked about much today but is enormous has been the deregulatory efforts of the Trump administration. During the 8 years of the Obama administration, it enacted a costly regulation at an average rate of 1.1 per day. The total self-reported cumulative cost of those regulations was $890 billion, over $100 billion each year. And in the first 2 full years of the Trump administration, that regulatory burden has declined by $1 billion. So it essentially just stopped it in its tracks. In all of the business surveys, this is a key component of what they perceive is a better business climate, probably reflected in your district.

The second, which I outline in much more detail in my testimony, was the sort of increase in business investment, more rapid economic growth, feedbacks to tentatively productivity, and certainly we have seen wages rising. The timing of that coincides with the Tax Cuts and Jobs Act. Some of that may diminish over time. It could be just short run. But the incentives on the business investment side are quite strong and I am hopeful will persist, but, you know, time will tell.

Mrs. Walorski. And I am glad you brought that up, because I am very thankful to this President, to President Trump for coming in, and with the Republican majority at the time, one of our first priorities was repeal regs and set people free to do what they want to do, to hire. We are a very large manufacturing district, one of the largest in the country. We export, we are the fifth largest exporter. And I saw that in the State of Indiana as well when Mitch Daniels was our governor and we had an opportunity to come into our State, roll back those regs, investment boomed and skyrocketed. There was an uptick in employees as well, and I very much appreciate that. I appreciate this administration's effort on that as well. Thank you for your comments.

And I yield back my time, Mr. Chairman. Thank you.

Chairman Neal. I thank the gentlelady.

The rule 14 will be invoked now. We are going to move in the direction of two witnesses on the Democratic side, given who is still here, to one Republican. And, with that, I want to recognize the gentlelady from Alabama, Ms. Sewell, to inquire.

Ms. Sewell. Thank you, Mr. Chairman. I want to thank our witnesses for being here today. And I also just want to thank the chairman for having this hearing.

You know, I joined the Ways and Means Committee last term and was excited as a bond lawyer/public finance lawyer to actually have an opportunity once in a lifetime generation to do something really positive on the Tax Code since the last time it was revised was in 1986. But I have to tell you, I was very disappointed that we didn't actually get witnesses to tell us what the impact would be, so that we could have all of this knowledge that we have heard today on the front end, and instead, we are having to sort of figure out whether or not this kind of, you know, tax cut really benefited folks.

And I can tell you for a fact that our global competitiveness has been -- we have leveled the playing field in a way because of the decrease in the corporate tax structure, but I also can tell you that I represent a very low-income district. I grew up in this district. My heart and soul know what is positive and what can happen when you have opportunities and resources from my district. I get to live it every day. The challenge is to try to find ways to help working families all across my district have those opportunities and those resources.

And the Tax Code gives us a perfect opportunity to incentivize the world we want to see. And while we have lowered the corporate tax rate, I don't think that we have done enough to help working families. And so I would like to actually pose my questions to you, Professor Oh, with respect to earned income tax credits and new market tax credits that can help distressed communities. There are lots of ways that we could actually improve upon this bill or -- I am sorry, the new GOP tax bill.

And so will you talk to us a little bit about what those ways that we could have actually incentivized working families?

Mr. Oh. Of course. So I think one of the things that has come out through the testimony of everyone on the panel is just how much revenue is out there to be spent. The bill was a very expensive bill, yet --

Ms. Sewell. Not paid for.

Mr. Oh. And not paid for. And there was not a single change made to the EITC, the earned income tax credit. It is surprising, right? When you see the bill, it is hundreds of pages, costs lots and lots of money, no changes to the EITC.

Ms. Sewell. Right.

Mr. Oh. Which is probably one of the most important Federal tax provisions that lifts so many families out of poverty.

Ms. Sewell. Absolutely. What about the child tax credit?

Mr. Oh. So the child tax credit -- and I am going to harken back to Chairman Neal's point. If you take a look at the Tax Policy Center simulations, the way to help the bottom quintile, the way to help the bottom 20 percent is to increase the child tax credit, make it fully refundable, and get rid of the income threshold. That does unbelievable amounts to help them increase their after-tax income.

Ms. Sewell. And then when you think about distressed communities that -- what would incentivize investments in those communities. Because I am hearing my colleagues on the Republican side talk about their districts doing so well with this tax reform, and, you know, my thought is, I mean, couldn't we have done just as well if the corporate tax rate went down from 35 to 28 to 26, as far as this trickling down effect, which doesn't actually get to workers and doesn't get to those who are struggling in the -- in my district?

And so would love to hear your thoughts about other ways that we can incentivize the behavior we want to see, which is everybody benefiting, not just the 1 percent, but everybody benefiting.

Mr. Oh. So I agree with what has been said on this testimony. It seems like the labor market is very robust at the moment.

Ms. Sewell. But only in certain districts. I can tell you in my district, it has not been.

Mr. Oh. It is uneven, right, it is very uneven. And one of the things that I hope has been conveyed by this testimony is how geographically lumpy the Tax Cuts and Jobs Act is, right? There are some districts doing really well. I don't discount that testimony. There are also districts that are doing poorly.

Ms. Sewell. Right.

Mr. Oh. To speak to the special -- the economic opportunity zones, we still haven't see how that is going to play out.

Ms. Sewell. Right. Well, we still need some regs, don't we? We need some rules of the road --

Mr. Oh. We need some rules.

Ms. Sewell. -- to figure out how the people --

Mr. Oh. People are very -- there are some people who are very excited about these rules because they create very generous tax incentives for investment in these areas, but it is just too early. I think that is one of the things that we need to keep in mind when it comes to allow the macroeconomic. It is early. We are going to be collecting data. We should be holding hearings to check in on these issues, and I am so glad that this committee is proactively doing that.

Ms. Sewell. Same here. I just want to say, Mr. Chairman, that I think it is really important that we continue to check in with the American people as to this tax reform and how we could do a better job of incentivizing the behavior of everyone and uplifting all of us and not just the 1 percent. So thank you so much for having this hearing, and I look forward to more hearings like it.

Chairman Neal. I thank the gentlelady.

And, with that, let me recognize the gentlelady from Washington State, Ms. DelBene, to inquire.

Ms. DelBene. Thank you, Mr. Chairman, and thank you to all our witnesses for being here. This is a very important issue as we work to make sure that everyone in our country has economic opportunity and that we are thoughtful about policy to do that. And we are having a hearing, which is a first step, because we didn't get to have any in the last Congress to have these discussions.

I want to go back to the child tax credit. The Republicans failed to comprehensively address the child tax credit in their legislation and, instead, only amended one aspect of a complex policy, the nonrefundable side, leaving low-income Americans behind in the process. Republicans failed to address several aspects of the child tax credit that would have benefited the poorest Americans, including increasing the refundable credit, lowering the earned income threshold to zero, increasing the credit percentage, or eliminating the tide to earn income altogether.

The Tax Cuts and Jobs Act ensured that the poorest Americans whose children arguably would benefit from the increase the most did not benefit. So this is yet another example of how the Republican tax bill benefited higher income Americans with a significant tax benefit for their children while leaving the poorest Americans behind.

I recently introduced legislation with Congresswoman DeLauro that would meaningfully expand the child tax credit, making it fully refundable, to benefit lower income families and ensure that they have the ability to provide their children opportunities to succeed.

Dr. Gould, can you give me your sense of would making the child tax credit fully refundable impact children whose parents are in the lowest income brackets, and other ideas you have about what we can do with the child tax credit to help the lowest income families?

Ms. Gould. Yes, absolutely, making it fully refundable would help, and expanding it. I think that those families that are hurting the most to pay for childcare, to pay for their child's needs, need to be helped. I mean, and you are a great body here to be able to help them.

I think that there is another thing I just, if you don't mind, I just want to comment on. There has been a lot of talk about how, you know, all the jobs that have been added and all the wages that have grown for people over the last year, and attributing that to the tax cut, and I just want to say, just point out for the record, that we have seen job growth over the last several years before this President took office, before the tax cuts were enacted, and the job growth that we have seen over the last couple of years has been a continuation of those trends. The wage growth that we have seen for the lowest wage workers -- I am sorry, the lowest grade we have seen can be attributed to those tight labor markets and to the State-level minimum wage increases.

So I just wanted to get that on the record that we can't attribute this growth, we cannot say, research has not said that we can attribute those gains to the tax cuts.

Ms. DelBene. Thank you.

Ms. Abramowitz, do you agree that the changes to the child tax credit in the Republican's tax bill didn't address the lowest income families and that we can do more by making it fully refundable?

Ms. Abramowitz. Absolutely.

Ms. DelBene. Thank you very much.

Mr. Shelton, during the Tax Cuts and Jobs Act markup, I introduced an amendment that would repeal the Cadillac tax, which would harm working families with employer-sponsored health benefits that exceed a specific threshold. Repealing the Cadillac tax has bipartisan support, and yet it was not included in the Republican's bill.

Mr. Shelton, I wondered what workers would the Cadillac tax hurt the most?

Mr. Shelton. I would say teachers, public officials, and a lot of my members in telecom.

Ms. DelBene. Are these high income earners, middle class, lower income earners?

Mr. Shelton. I would say they are middle-class earners.

Ms. DelBene. Right. So these are middle-class families that would be hurt if this tax isn't repealed?

Mr. Shelton. Absolutely. And if there was bipartisan support, I hope somebody will do something about repealing it.

Ms. DelBene. And so it has bipartisan support, and yet Republicans weren't willing to consider it when we were talking about the Tax Cuts and Jobs Act last year, an important piece of legislation to help middle-class families; another place where we absolutely could have done better. So thank you for your testimony.

And I yield back, Mr. Chairman.

Chairman Neal. I thank the gentlelady.

And, with that, let me recognize the gentleman from Kansas, Mr. Estes, to inquire.

Mr. Estes. Thank you, Mr. Chairman, and thank you to our witnesses for joining us today.

You know, as we meet today, our economy is going at historic levels, and, you know, this is directly attributable to the Tax Cuts and Jobs Act and some of the regulatory reform over the last couple of years.

You know, the last four quarters, we have experienced the highest GDP growth in 14 years. Wages are growing at the fastest rate in a decade. Our unemployment rate is at a 50-year low, and for the first time in history, we have more job openings than we do job seekers.

This growth is great for all Americans, and it didn't happen by accident. You know, when I go out in my district and I talk with businesses about finding employees to go to work, it is because of the growth that they are experiencing, and they are having a difficult time finding employees to come work for them.

You know, the progress that we have made over the last 2 years by the President and the Congress making sure that that deregulation and the tax cuts happened, I mean, it is just hard to deny that that is working. I know there has been some debate back and forth about where it helps and who it helps the most, but it is making a difference for millions of American workers and families. Thanks to those lower tax rates, to doubling of the child tax credit, to a nearly doubling of the standard deduction, you know, average, middle-class families in Kansas are seeing over $2,200 of their hard earned money that they are keeping in their pockets instead of paying in taxes. An additional hundreds of companies with thousands of employees have expanded and added to the savings for their employees.

So it is really tough to say that we are not seeing a lot of positive growth out of this tax reform.

Recently, I met with an accountant in my district and talking about some of the CPA work that he did for some of his constituents -- some of his clients, and according to him, 94 percent of the middle-class clients that he has benefited from the new tax law, including the lower rates, the doubling of the child tax credit, and the nearly doubling of the standard deduction.

He also discussed about how people have seen in their paychecks be larger because of withholdings throughout the year. And depending on whether they had more withheld and the amount they had withheld, some saw larger refunds, some saw smaller refunds, depending on the amount that was withheld out of their check. And these people, these working class families aren't part of the 1 percent; they are average middle class Kansans. And thankfully, that observation is true across the country.

You know, I want to talk a little bit about one of the benefits -- one of the major benefits that I see out of this is just the nearly doubling of the standard deduction. And, you know, prior to the changes from the Tax Cuts and Jobs Act, roughly 30 percent of Americans, taxpayers, had to itemize, going through all their paperwork, filling out those extra forms, going through that process. I know it is a burden for me, a burden for others as well. Now, expectations are that roughly 10 percent of the people will only have to itemize because the other 20 percent will get more benefit out of that standard deduction.

And I know there was some discussion earlier and some mixed communication back and forth about the value of the standard deduction versus the value of the child tax credit, but if we were to just hold everything else equal, if we weren't able to make the child credit more refundable, whether we weren't able to change the rates any, but just looking focused solely on that standard deduction, would any of you think we ought to lower that standard deduction back to the way it was? Maybe just a show of hands of anybody that thought we ought to lower that deduction back.

Mr. Oh. It is hard to hold everything else equal. I mean, I really do think that you need to think about the standard deduction, the personal exemptions, and the child tax credit together as a package.

Mr. Estes. And I think we do need to look -- we probably -- when we make changes, we need to look at all of them, but if everything else were being held equal and that is the only thing we could change, I would like to think that we would all be supportive of keeping it at the higher level and not reducing it.

So in general, obviously we just talk about that as being a benefit and how do we help average taxpayers through this process.

I have very little time left, but I want to get in one quick question for Dr. Holtz-Eakin. You know, one of the things that came up in another hearing, we talked a little bit about this digital tax that is being added by countries like France, and I wonder if you have any thoughts about that just as a direct issue and how that might affect companies and whether that is a good idea.

Mr. Holtz-Eakin. I have a low opinion of that as tax policy. Most of those taxes are designed to hit only U.S. firms, and they are revenue taxes. They are not income taxes anyways, they are just sales taxes. So it is just an attempt to take the U.S. tax base and grab it in other countries.

Mr. Estes. Thank you. I yield back.

Chairman Neal. I thank the gentleman.

Let me recognize the gentlelady from California to inquire, Ms. Chu.

Ms. Chu. Well, first, let me say the thing that keeps me up at night is thinking about what would happen to the American family if a terrible emergency happened to them, like a serious illness, a disaster that would destroy their home, or the loss of a job. And the reason it keeps me up at night is, last year, I read about how much money the majority of Americans had to withstand an emergency. Fifty-seven percent of Americans have only $1,000 in savings to withstand an emergency.

So how could we have gotten into this situation? How could the top 1 percent in this country have more wealth than the bottom 90 percent? And how could we be in a situation where the bottom 57 percent of Americans are only one emergency away from homelessness and utilizing food banks?

Well, rather than solving this problem, the tax scam bill passed by Republicans last year made the situation drastically worse. And let me just use one example of a contrast between the benefits to corporations versus to workers, one of the biggest bank beneficiaries and that was Wells Fargo bank. In my research, I found that the size of Wells Fargo's tax cut in 2018 was in the billions, $3.7 billion, but the benefit of a tax bill to Wells Fargo workers, due to an increase in the minimum wage from the Trump tax cut, was $78 million. Therefore, the benefit to the Wells Fargo corporation was 47 times bigger than the wage increases to its workers.

And then let me talk about the contrast in stock buybacks versus benefits to low-wage workers. If given the opportunity, so many corporations would use their extra capital to buy back its own stock because it pleases its wealthy corporate executives and shareholders. Wells Fargo is no exception. In 2018, because of the tax bill, how much did Wells Fargo spend on stock buybacks? An astounding $22.6 billion. In contrast, how much did Wells Fargo spend on minimum wage increases last year due to the tax cut? $78 million.

The stock buybacks were 290 times bigger than the wage increases to its workers.

And so, Mr. Shelton, you are the president of one of the largest unions in this country. Last year, the White House claimed that American workers would see a $4,000 increase in annual income as a result of this tax bill. Did they get it?

Mr. Shelton. Absolutely not. Not my members, anyway.

Ms. Chu. Okay. Mr. Shelton, did the one-time thousand dollar bonuses given to workers have a long-term benefit for workers and their families?

Mr. Shelton. A $1,000 bonus doesn't even come close to a $4,000 annual wage increase. A $1,000 bonus, you know, after taxes, is not a whole lot of money.

Ms. Chu. Mr. Shelton, can you tell us how this tax bill increased income inequality for workers in this country and how it did that?

Mr. Shelton. Well, you know, my members are -- they are not seeing wage increases that everybody is talking about. They are not seeing -- what they are seeing is jobs going overseas. And you talked about Wells Fargo, and Wells Fargo, besides everything else that they did with the tax cut, they decided to cut their workforce by 26,000 people and send the jobs to the Philippines.

So, you know, if you don't have a job, you don't worry about tax cuts, you don't worry about taxes at all because you don't pay taxes if you don't have a job, and that is what we see. Everybody here has been talking about job creation, and, well, in the big companies that we represent, we see just the opposite. There is no job creation. There is continual layoffs every single day.

Ms. Chu. And have they seen wage increases?

Mr. Shelton. Small, very small.

Ms. Chu. So their quality of life has not improved?

Mr. Shelton. Absolutely not, no.

Ms. Chu. Thank you. I yield back.

Chairman Neal. I thank the gentlelady.

And, with that, let me recognize the gentlelady from Wisconsin, Ms. Moore, to inquire.

Ms. Moore. Thank you so much, Mr. Chairman. And just, good afternoon to all of our -- my colleagues, and our witnesses, thank you so much for your patience here.

I wanted to start with you, Dr. Oh, since you haven't been able to answer certain questions that I have been curious about as well. And so let me frame the question a little bit here. There is an assertion, apparently, that this Tax Cuts and Jobs Act is really helping lower income people, and so I am going to ask you to tell me, when you said that we needed to consider sort of the consortium of things -- they talk about doubling the standard deduction -- you said you needed to put that in context with the child tax credit and other things.

So I am looking at my mother, single mom -- because we have got to do some welfare reform around here -- single mom, we finally found her a job, she is making $7.35 an hour. She is making $14,500 a year. Can you tell me how -- and doubling, I guess, the standard deduction might get her $60 more, not the $4,000, and the child tax credit, she is going to get $75. So I am trying to figure out, unless you have some different numbers, how we have helped the most vulnerable and the poorest people with this bill.

Mr. Oh. So thank you so much for giving me a space to address this really important question. So one of the things we have been hearing today is how there are pieces of the bill that do help low-income families, yet we see the numbers and you look at the tax cuts for low-income people and they are very, very small. And the way I explain it is let's picture, you know, a family of four, two parents, two children. You used to get four personal exemptions. So in 2017, that was $4,050 per person in your family. Well, what we have more or less done is taken two of those personal exemptions, the one for the kids, rolled them into expanding the child tax credit, and we have taken the two that were for the parents and rolled them into the standard deduction, right. And it is not a perfect offset. There are obviously some winners and losers, but I think it is indicative.

If you take a look at the JCT projections on these three provisions, the amount of revenue raised by repealing the personal exemption is between $1.2- and $1.3 trillion.

Ms. Moore. That is right.

Mr. Oh. If you take the expansion of the child tax credit and the expanded standard deduction, also costs between $1.2- and $1.3 trillion. And so we moved around a lot of deck chairs. I am not sure we made a huge difference.

Ms. Moore. Okay. And so with the child tax credit, if you are a married couple with two children earning $400,000, you get a $4,000 tax credit versus the $75 for the single parent.

Let me go on and ask some more questions here. We have heard a lot today about how this job cuts act has really improved employment, created jobs. We do know for a fact that we only added $20,000 -- 20,000 jobs, and that trend is going down. So I guess my question is -- I guess I have another nexus to that question. Can you give us the distinction between wage growth, which isn't happening, and the creation of jobs?

Ms. Gould. So you are right, we saw a little bit of a slowdown in job growth. I am not exactly sure what you are asking.

Ms. Moore. Okay. I am sorry. Let me be a little bit clear. I saw the clock winding down on me. Okay. We are -- you know, Republicans promised a $4,000 wage increase, and I guess we got the tax cut bills, and we have not seen that employers have given them those wage increases. And I want you to give the distinction, because this hearing is about who is left behind. So people are left behind because we haven't seen any wage growth, and we are -- and GDP is going down. That promise is not being met. And in addition to that, we are seeing jobs that are not necessarily good jobs. We are increasing jobs, but they don't necessarily have the wage structure to support a family. Am I correct?

Ms. Gould. That is right. That is right. We have been adding jobs for many years now, as I have said. Living standards have not been increasing because wage growth has really been lagging behind. We are finally seeing the tightness of the labor market translate into stronger wage growth, but families are still really digging themselves out of the Great Recession.

Ms. Moore. So we helped rich people, but we did not help the most vulnerable and the more poor. Wages are dropping. Our GDP is dropping. And the only thing we have done is benefited the wealthy corporations.

Thank you. I yield back.

Chairman Neal. I thank the gentlelady.

With that, let me recognize the gentleman from Ohio, Dr. Wenstrup.

Mr. Wenstrup. Thank you, Mr. Chairman. I thank you for having this hearing today.

You know, we heard people talk about the Gallup poll and the optimism throughout America, what their future looks like. Sixty-nine percent are optimistic. And as I sit here today, I find that this is not a representation of America, as I feel that 80 percent of this panel is pessimistic about the future of America. And I hear people say things which I don't appreciate, because in the line of civility to call something a scam, I don't know what some people consider a scam, but we just endured 2 years in this country of being told that the President colluded with Russia. That was a scam, folks. This is not a scam. This is serious business, and we are trying to improve the lives of American people.

That being said, the Affordable Care Act requires individuals to purchase a specific product, specifically, a government-blessed health plan, or they face a tax penalty. Now, disproportionately, those making less than $50,000 a year are the ones paying that in a large proportion. So the tax reform repealed this.

This is helping those that couldn't afford the insurance to begin with, because those who couldn't afford the insurance that they were being told they had to buy, were also being penalized for that, the plan that the government supports. So raise your hand if you think the individual mandate helps lower income Americans?

Okay. Well, that is very interesting, because what you are also telling me, those that raised their hands, and two people did, that our government is able then to penalize people simply for being alive. That is how the bill was written. It was a penalty simply for being alive. And if you don't purchase what we tell you to purchase, we are going to penalize you. Folks, that doesn't speak of freedom to me, because what you are telling me is you are okay with the government saying you have to buy and eat spinach, and if you don't, we are going to penalize you. You have to buy this government-made car or we are going to penalize you. Is that where we are headed?

But you cannot convince me that that mandate was helping lower income Americans, because those same lower income Americans talked about, to me at home, how they couldn't afford the plan and they couldn't afford the penalty. That is where they are.

You know, in medicine, I am a doctor, you know, I am always leery of studies and things that people put forward, because you have got to look at all things. If I have someone that tells me they have pain in their leg and I amputate it, did I do them good? I got rid of their pain, or could I have used a cortisone shot.

Dr. Gould, you talked about wage increases in States that increased the minimum wages. Well, first, wages are going up anyway with the tax reform. In Ohio, if we increase the minimum wage to $50 an hour, I guarantee you the wages would go up. But what you didn't address is the effects of that, and that is the complete picture. Where did unemployment go? Maybe it got less, but did it drop like the other States are? And, you know, a complete study -- we talk about those that lost jobs so, yes, wages may have gone up, but more people may have lost jobs.

You know, there are tax -- this tax reform has a lot of positives, and today, it is an employee's market out there. Employees can call the shots.

Mr. Shelton, you should take note of that, because AT&T can't make money without those employees, and they need employees. Maybe you need to negotiate a little bit better. I had a man in my district who got out of prison and is now working, and we have programs to help with recidivism that we have put in locally. He said, I am a taxpayer for the first time in my life. You talk today about, well, it is going to come at the cost of social programs. Well, it depends on what you consider success. I love our social programs. I love that we are a country that cares enough about its people that we put safety nets in place, but the goal should be that fewer people need them. And when more people go to work, fewer people need them, and you have more resources for the most vulnerable Americans that truly do need them. More for the most vulnerable, because we are getting fewer people need these safety nets that we treasure in this country that cares about its people.

So it takes every component you have to think about and what are the results of things that take place, and a better economy makes for a better America.

I yield back.

Chairman Neal. I thank the gentleman.

With that, let me recognize the gentleman from Michigan, Mr. Kildee, to inquire.

Mr. Kildee. Thank you, Chairman Neal, for holding this really important hearing. And I thank all the witnesses for their participation.

Look, this tax bill picked a clear set of winners and losers, and I think today's testimony is helping to shine a bright light on just which groups and which industries in particular were deemed worthy of relief by this Republican tax bill. Here is a hint. It wasn't the middle class.

So in all the lead-up to the so-called Tax Cuts and Jobs Act, we heard promises made by lots of companies about how this tax cut would allow them to create thousands of jobs for American workers. Republicans in the White House all pushed the idea with the promise that households would see their incomes rise, average Americans, rise by $4,000. But the reality has been different.

I recently got a huge stack of letters from constituents whose company promised them that they would create jobs in the wake of the Republican tax bill, but instead have eliminated thousands of positions while reaping billions in savings. So to me, we can talk about anecdotes here and there. Thousands of people losing their jobs after promises that thousands of people would be hired by the same company.

And, Mr. Shelton, you were referred to by the -- by my friend on the other side of the aisle as indicating that maybe you should negotiate a little tougher. I find that a little ironic. AT&T laid off 12,000 people since this tax cut. Is that close to accurate?

Mr. Shelton. Yes.

Mr. Kildee. So I assume AT&T is a struggling company, working hard to make ends meet. They can't even keep these 12,000 people employed. They have to open up call centers to serve the very same customers in Mexico paying subminimum wages. So I am assuming that they are hurting. Is that correct? Is AT&T in trouble?

Mr. Shelton. Absolutely not. As far from it as you can get.

Mr. Kildee. So all these promises that your employees got, I assume that they have not been able to initiate any stock repurchases or anything of that nature. They haven't been able to benefit their stockholders, I assume, by all this because they obviously are in big trouble. I mean, this is what we would have to conclude. Quite the contrary. AT&T was a big winner with this tax cut. Is that correct, Mr. Shelton?

Mr. Shelton. To the tune of about $3 billion.

Mr. Kildee. And so how is that being taken by the 12,000 members that have lost their jobs? Are they feeling like they really benefited from the tax cut?

Mr. Shelton. That is an easy question to answer. When you have worked for a company for quite a while, as most of these folks have, and you suddenly lose your job, I don't think you think that that is a good deal for anybody.

Mr. Kildee. It has not been a good deal, and, of course, we have seen it not just with AT&T. You know, I am frustrated. You know, I come from Michigan, an auto community. In fact, General Motors was founded in my home town of Flint in 1908. And we have seen over 10,000 jobs being eliminated just in the last few months.

So the point is this: Unless the focus is on how we strengthen the American worker and not how we reward those people at the top who are already doing quite well, we are going to see more of this. And this Tax Cuts and Jobs Act was a jobs cut and tax act. So I don't know if we want to call it a scam or whatever it is, but I am telling you, it wasn't what was promised, at least for the people I work for, your members, Mr. Shelton, that I met with in my hometown of Flint, who are trying to figure out what life is going to be like for them when they have lost everything that they worked for. And the idea that you should somehow negotiate harder I think is a bit of an insult to the collective bargaining process and to the work that the people you represent have done.

Mr. Shelton. Well, Congressman, I can't negotiate for jobs that are in Mexico or the Philippines or India. I can only negotiate for jobs that stay in the United States, and from what was told to us and everybody else, that is what this Tax Cuts and Jobs Act would do, and it did just the opposite.

Mr. Kildee. Thank you for your testimony.

I yield back.

Chairman Neal. I thank the gentleman.

As you know, there are two votes scheduled on the House floor. It is the chair's intention to proceed and move as far along as we can.

And, with that, I recognize the gentleman from Virginia, Mr. Beyer, to inquire.

Mr. Beyer. Mr. Chairman, thank you very much, and thank all of you for being with us.

You know, I am still dismayed by the fiscal recklessness of the Tax Cuts and Jobs Act. Speaker Ryan promised early on that it would be revenue neutral, and, of course, it ended up being, you know, $1.5 trillion to $2.3 trillion upside down. And, you know, as a long-time business person, I was interested in the sugar high, because I don't think economies are largely driven just by tax cuts or by quantity of using.

You just look, in the last 24 hours, we have heard the housing starts hit a 2-year low yesterday. Car sales are down 2-1/2 percent this year under last year. Consumer confidence fell another 7.3 points in March. Jay Powell, the head of the Fed, last week said that 2019 growth is going to be 2.1 percent, 1.9 percent in 2020, 1.8 percent in 2021, and expect no more than 2 percent in the next decade. And this is with $1 trillion deficits every single year.

I mean, I think it is wonderful that my friends on the Republican side defend things like the doubling of the childcare tax credit. I think that is great. Maybe even doubling the standard deduction to the extent that is real is great, but there are large parts of this bill that need to be repealed. And clearly, we saw the American public say that in the voting booth this last November. None of my friends on the other side ran on this bill, and yet many of my Democratic friends who won ran specifically against this bill.

You know, as a business owner of 45 years, I am really tired of hearing small business used as a shield for policies where the lion's share of the benefits accrue to those who need them the least. We know why this is done because the phrase "small business" implies that we are talking about the little guy. But to the extent that small business is used as a shorthand for passthroughs, which some say, like the Trump organization, fit nobody's definition of small. And protecting small businesses used to justify tax cuts on a tiny number of extraordinarily wealthy States, further cementing inequality in this country.

Luckily, the American people weren't conned. I had a townhall meeting at Edison High School in Franconia, Virginia last night, and halfway through someone stood up to talk about how his tax bill had gone up $7,500, and all of a sudden every head in the room was nodding about how much their tax bill had gone up in this last year because of the SALT deduction.

Dr. Gould, if you were asked to spend $1.5 trillion dollars over the next 10 years, or let's just say $2.3 trillion over the next 10 years, with the goal of raising wages on the middle class and working Americans, how would you do that? And would cutting taxes on high earners be first on your list or the beneficiaries of large estates or tax cuts for stockholders?

Ms. Gould. Yes. Certainly, I would think about the income distribution in a very different way than the tax cuts did. We talked earlier about what can help working families the most. Let's expand, make affordable childcare and high quality childcare for families. Start right there. Make those kind of investments that would really have a good return and help out families.

Mr. Beyer. Dr. Oh, in your testimony, you touched on the opportunities for tax planning avoidance under the new 199A cap -- or 199A deduction. And certainly, we saw in the failed Kansas experiment, which is sort of the intellectual front runner of the TCJA, which led to massive gaming the downfall of the Brownback administration. What are the opportunities for business tax avoidance under the new tax law?

Mr. Oh. It is one of those provisions that is so complicated that people are salivating to try to take advantage of it. So you hear about businesses thinking about splitting up. There are some regs now out there that have been designed to combat this, but the amount of game playing, I think we are just seeing the beginning of it, right. You know, as clever tax planners get their hands on this provision, we are going to see maybe even larger revenue losses than were predicted by the JCT.

Mr. Beyer. Thank you very much.

Dr. Gould, you know, one of the things that we did is we doubled the exemption under the estate tax, you know, $22 million for a couple. But one of the arguments there was that people would just figure out a ways around the estate tax, people have gamed it for years. Is this actually an argument for reducing the ability of aggressive tax planning to limit the estate tax liabilities?

Ms. Gould. I can't say I am an expert on estate taxes, but as I have said before, you know, wealth inequality has risen along with those income and wage trends I showed you earlier, and the estate tax is one vehicle that you have to have a mild pushback against that rise in wealth inequality. So weakening it would really exacerbate that increase in inequality, so I wouldn't recommend that.

Mr. Beyer. Great. Mr. Chairman, I yield back.

Chairman Neal. I thank the gentleman.

Let me recognize the gentleman Mr. Ferguson, to, inquire, from Georgia.

Mr. Ferguson. Thank you, Mr. Chairman. And thank you to all the witnesses that are here.

You know, as I have listened to you, I just find -- I find some of the information that you are putting out to be very fascinating. One of the things that I hear is when I hear about this deal that jobs are being lost and the economy is not doing well and that the income gap is growing, it just doesn't jive with what I see back home.

So I want to bring your attention to this graph that I found. These are Department of Labor statistics. If you look at -- the blue line is the lower half of income earners, and the -- I think that is -- I am color blind, so bear with me, either the green or red line are the higher income earners. So if you look at -- if you look at what happens in about late 2011, the two groups of wages are growing at about the same -- roughly at about 2 percent. And then look what happens when we see a slowing of the economy and an expansion of government programs in the 2012 to roughly 2014 timeline, you see a tremendous spread in the wage gap. The higher earners are growing at about 2.75 percent, but the lower earners are only growing at about 1 percent.

And fast forward. Look at what happens in 2018 with the Tax Cuts and Jobs Act. You see that they both are growing at about 3.2 percent, and then all of a sudden, wages jump at about 4 percent for the lower half of earners, and they are growing at a slower rate of just about 2.1 percent for the highest earners.

Now, that is pretty fascinating to me. That tells me that folks at the bottom end of the spectrum, wages are going up at a faster rate than those at the higher end of the spectrum. Dr. Holtz, am I reading that graph right?

Mr. Holtz-Eakin. That is how I read it, yes.

Mr. Ferguson. No, hang on a second.

Ms. Gould. Sorry. I thought --

Mr. Ferguson. So I want to go back to the gentleman's slide, from Wisconsin, that he put up and showed the percentage of tax -- yes, that one right there. I didn't know you had that one, but I am glad you do. So at less than $100,000, the average tax cut was -- what was that -- 400 and some odd dollars?

Mr. Oh. $464.

Mr. Ferguson. $464. Not only am I color blind, I am blind in one eye, and I can't see out of the other, so I apologize for not being able to read that. But in that group, wouldn't you say that the average for folks, say, under $50,000, their Federal income tax bill is in the hundreds of dollars? Mr. Holtz, I mean, typically it is a fairly low number?

Mr. Holtz-Eakin. Under $50,000?

Mr. Ferguson. Yes.

Mr. Holtz-Eakin. They are probably not paying taxes.

Mr. Ferguson. Oh, okay. All right. And then you go to the highest earners, the ones that are paying -- that got a cut of $64,000, but yet they are still paying hundreds of thousands of dollars in income tax.

So the way that I read this is that what is happening is that wages are growing fastest for the lowest half of earners, they are growing slower for the higher earners. The Federal Government is not taking a whole lot out of the pockets of the lower earners, and yet they are into the higher earners for hundreds of thousands of dollars. Now, to me, that looks like that is closing that wage gap that everybody is so worried about. Dr. Holtz, does that appear to be the case?

Mr. Holtz-Eakin. That is a -- and other things being the same, closing the after-tax incomes.

Mr. Ferguson. So I mean, it is shrinking. So here is the thing that I also look at when we kind of go through this. I lived in a town that lost its manufacturing base, and one of the things that I saw, no matter how many government programs our folks went on and no matter how much government money was thrown at their poverty, it really didn't change until they got a job. And what we had to do at the State and local level is what the Federal Government was unwilling to do, which is to get the right tax rate, the right regulatory environment, and the right education environment. And when we did that, we revitalized an entire region of the State in west Georgia. Brought in tens of thousands of new jobs, and lo and behold, look what is happening at the Federal level. We are seeing job growth. At least in my great State of Georgia, unemployment is at its lowest rate ever. It is unbelievable.

And so all I can say on this is, is that what you are saying is in the statistics that seem to get thrown out here really don't gee haw with what I see at home, nor what the numbers show.

And, with that, Mr. Chairman, I yield back.

Chairman Neal. I thank the gentleman.

With that, certainly to acknowledge the patience of our witnesses, we will try to get this back in about 10 minutes or so. We are temporarily recessed.

[Recess.]

RPTR TELL

EDTR SECKMAN

[1:39 p.m.]

Chairman Neal. Let me reconvene the committee, and the witnesses please take their seats, and with that, let me recognize the gentleman from Pennsylvania to inquire, Mr. Evans.

Mr. Evans. Thank you, Mr. Chairman.

Mr. Chairman, I, too, like other members on the committee like to thank you for having this open dialogue and discussion. I didn't have the pleasure of being on the committee in the last 2 years, but I am certainly learning a lot. So much I want to ask the question. I am from the City of Philadelphia. We have 26 percent poverty, so it is a huge, you know, for the major city -- and I joke with the chairman sometimes about that is where America started. We have a little running rivalry. He talks about Boston. But I had the pleasure of meeting with the Sunday Breakfast Rescue Mission, and the mission is a not-for-profit organization that helps hunger, homeless, and hurting by providing three meals a day to anyone in need and providing shelter and transitional programs for the homeless. The mission does not receive government funding but relies on charitable donations. So I want to go to something Mr. Oh talked a little bit about the Titanic and moving around deck chairs. Can you please explain the potential consequences of there being a reduction in the charitable donations to organizations like Sunday Breakfast Rescue Mission and the guests they serve? Can you speak a little bit to?

Mr. Oh. Sure. So one of the consequences of expanding the standard deduction is that fewer households are going to be itemizing, which means that they are not going to see any sort of Federal tax deduction, any benefit from the donations that they are making. What we know from some of the economic research out there is that the charitable deduction is a deduction that really does work. It encourages giving, and so I know that there were a lot of charities that were very concerned about the potential effects to their revenues and donations as a result of this change in law.

Mr. Evans. I would like to follow up with that. Can you please explain how the 2017 tax bill has added to the scrutiny of low-income individuals seeking to claim credit as well as what your thoughts on improving the earned income tax credit? I want to go to Dr. Gould on that issue also.

Mr. Oh. So I will just reiterate something I said earlier, which is it is surprising that no changes were made to make the earned income tax credit more generous in this current law. It is the most important social program arguably that we administer through our Tax Code. It does more to lift people out of poverty, like people in your district, than almost anything I can point to.

Mr. Evans. Dr. Gould, do you want speak on how you think the earned income tax credit in terms of how it could have been improved?

Ms. Gould. Absolutely. If we expand it, it would help more people. As Mr. Oh said, it is a very important poverty reducer, very important program for our low-income Americans.

Mr. Evans. I want to go to Ms. Abramowitz on that issue, too.

Ms. Abramowitz. Same thing. It is staying the same. The earned income credit stayed the same. The amount did not change, and we still have large groups of individuals who are not entirely excluded but only claim a very little credit, and there has been some mention earlier today about not only expanding the credit for existing families but thinking about individuals who are not married, individuals who enter the workforce at age 18 or 19. So there is a lot more work to be thought about there. If I can --

Mr. Evans. Sure.

Ms. Abramowitz. Can I just add one thing on the charitable piece?

Mr. Evans. Yes.

Ms. Abramowitz. There is some speculation that there is a difference in the nature of giving and that large givers who may not be impacted by the standard deduction who will continue to give may tend to give more to certain kinds of charities, maybe museums, maybe universities and that the kinds of services you reference in the church are often the kinds of services that were funded by charity from lower income individuals or individuals who may no longer benefit by virtue of the increased standard deduction. So I think time will tell, and it certainly bears further investigation as to whether or not there is a change in the charitable sector as to where the dollars are being directed.

Mr. Evans. So the organization I described, the Sunday Breakfast Rescue, at this point could have a rather challenging time.

Ms. Abramowitz. Possibly. It is something I think we ought to be paying attention to.

Mr. Evans. I thank you, Mr. Chairman, and I yield back the balance of my time.

Chairman Neal. I thank the gentleman.

And, with that, let me recognize the gentleman from Pennsylvania, as well, Mr. Boyle to inquire.

Mr. Boyle. Yes, that is right, as the founding city of the country we have two members on Ways and Means, the city of brotherly love. So thank you. I am so appreciative to the chairman of our committee having this hearing that we should have had last Congress on what was the biggest change in our Tax Code since 1986. The process that was taken in the last Congress under different leadership was dramatically different than that bipartisan effort that happened in 1986 and was really the culmination of about 5 years' worth of work.

Back then, in 1986, there was a reduction on the nominal rates and a broadening of the base, and the effort was bipartisan. What we saw last Congress with the GOP tax cut was none of that. It wasn't paid for. There was no broadening of the base. So it really wasn't tax reform, it was just a dramatic tax cut, oh, by the way, coming in about the eighth or ninth year of an economic expansion.

Besides the fact it was an awful process and rushed for political reasons mostly because Republicans had just spent the previous year attempting and failing to repeal and replace ObamaCare and needed a political win, but in addition to that, let's consider the consequences. And I ask; I am not sure which of these is the worst aspect of it. The fact that you had a 40-percent reduction in the corporate tax rate from 35 percent, a rate that I believe and other economists on both sides of economic spectrum that was a high rate that hurt our international competitiveness, however, the drop from 35 to 21 percent was completely unwarranted, a 40-percent reduction in our corporate taxes. That is bad enough when you consider point number two, that it wasn't paid for. Then when you consider point number three, that the reduction in corporate taxes combined with other dramatic reductions means that, according to the CBO, within 10 years 83 percent of the benefit of this will go to the wealthiest 1 percent. And even within that wealthy 1 percent, there is quite a big difference between the just regular rich and the super rich with, most of the benefits being tilted towards those not just in the 1 percent but the top 10th of 1 percent.

So, when we consider all of this already happening at a time of record income inequality, it is quite outrageous, and I will ask one of the economists, but I was thinking specifically Mr. Oh could talk about many aspects of this, but let me just talk about one. We are now, for the first time in an economic expansion, seeing a dramatic increase in the budget deficit approaching $1 trillion this year. What do you expect to happen if and when the next recession occurs, recognizing that, given historic precedent, we are probably at the tail end of this economic expansion, about 9 years into it by my estimates? Dr. Gould or Mr. Oh.

Mr. Oh. Yes, I will cede to Dr. Gould as I haven't received that promotion yet to becoming an economist.

Mr. Boyle. You speak to authoritatively on these issues.

Mr. Oh. I appreciate it.

Ms. Gould. I think that, you know, we definitely want to be prepared for the next recession. I am not a budget expert. So I don't want to speak too much on that. One thing, if you don't mind, I just want to point out that another thing that happened: We have been giving a lot of credit to the tax cuts for the economic growth we have seen such as it is over the last year, and I think one thing that has been forgotten is there was also a spending bill $300 billion spending bill that also came out last year that could have actually been the cause. So we are looking at this one tax cut. You have to look at it in the context of all the other legislation --

Mr. Boyle. And reclaiming my time, I should also point out that, of course, when President Obama came in and over 700,000 jobs a month were being lost, turning that around to then having 7 straight years of job growth and economic growth, it is not as if this growth that has happened in the last 2 years suddenly came out of nowhere, that it is, in fact, the continuation of what had been happening already for the previous 7 years. Isn't that right?

Ms. Gould. Absolutely. If we had had an economy, let's say, on auto pilot, this is very much what we would have seen.

Mr. Boyle. Yes, and I believe the charts actually show that. Well, thank you very much.

I yield back.

Chairman Neal. I thank the gentleman.

With that, let me recognize the gentleman from North Carolina, Mr. Holding, to inquire.

Mr. Holding. Thank you.

And I thank the witnesses for enduring here for almost 4 hours, and I certainly want to thank the chairman for giving me another opportunity to publicly discuss the economic growth, job creation, and the rising incomes that American families are seeing because of the Tax Cuts and Jobs Act. By taking money out of Washington and putting it back in the pockets of hardworking Americans, our historic tax cuts have sparked an economic surge. After years of stagnation, the Tax Cuts and Jobs Act finally provided American families and workers with some much needed relief.

Our bill lowered tax rates, doubled both the child tax credit and standard deduction. Because of this, the average family of four living in my district in North Carolina saw their taxes cut by around $2,791 last year. So the Tax Cuts and Jobs Act also put in place into the Code an element that encourages business investment and growth here in the United States, and a key component of that was enactment of immediate expensing, which generally allows a company to write off business investments during the next 5 years. And that is the cost of equipment can be deducted immediately rather than deducted slowly over a long term of years, and this has not only increased investment, certainly in my district -- as I have ridden around, I see what is going on and talked to the folks in those businesses, and they say this expensing provision, you know, has led to growth and is leading to increased employment.

So a simple question on expensing to the panel, a simple yes or no. So, yes or no, would you like to eliminate the expensing provisions from the Tax Code? Dr. Gould.

Ms. Gould. I am sorry, I can't speak to that.

Chairman Neal. Would you please use the microphone?

Ms. Gould. Yes.

Mr. Holding. Yes, you would like to see them leave. Dr. Oh.

Mr. Oh. It is such a complicated issue. I can't address it with a yes or no.

Mr. Holding. All right. Mr. Shelton.

Mr. Shelton. There is no way I am going to --

Mr. Holding. Expensing --

Mr. Shelton. -- when an economist is not going to --

Mr. Holding. Right, right, right. And Ms. Abramowitz.

Ms. Abramowitz. My specialty is the working poor.

Mr. Holding. Okay. And Dr. Holtz-Eakin.

Mr. Holtz-Eakin. Do not repeal it. Make it permanent.

Mr. Holding. So I can take it from at least four members of the panel that you really have no business experience and have no comprehension of what expensing is actually doing for this economy because if you did have some business experience, if you did have some people in your orbit who had some business expense, you would have a different answer from what you had today. But thank you for answering the question.

In fact, in 2018, the first year under the new Code, U.S. companies were the buyers of $1.26 trillion in domestic and international deals, which is an increase of 16 percent over 2017. And, further, last year was the first time since 2011 that U.S. acquisitions of foreign companies exceeded foreign acquisitions of U.S. companies. And why is that? Because we moved from a worldwide system of corporate taxation to a territorial system of corporate taxation, which, you know, from the numbers, you know the real data we can see, you know we have more work to do on that, and I will just lay this out there for the consideration of our panel and maybe for the witnesses to think about. Its citizens are still taxed based upon their citizenship rather than their residency. The United States is one of only two countries or three countries including North Korea and Eritrea that tax their citizens on their worldwide income rather than based on their residency. And we have done such a good job of addressing our corporate taxation, our corporate rate, and making a territorial system, so it is fair, I think we ought to address it for our citizens as well on a future tax package. Right now, it costs upwards of 40 percent more to hire a U.S. citizen abroad. So you travel, you go to Singapore, and you go to the American Chamber of Commerce in Singapore, you meet no Americans there because it costs so much more to hire an American overseas. So I am really glad that we are seeing the impact of the territorial system on a corporate rate, and I look forward to working with my colleagues on addressing that for individuals so they can have a fair deal, as well.

With that, Mr. Chairman, I yield back.

Chairman Neal. I thank the gentleman.

And, with that, let me recognize the gentleman from Illinois, Mr. Schneider, to inquire.

Mr. Schneider. Thank you, Mr. Chairman, and I want to thank you and the ranking member for holding this important hearing. This is exactly the type of hearing that did not take place in the last Congress, and as others have said, I will join in that it is better late than never, but if we had had these hearings, if we had these hearings last year, we would be in a much better place with this Tax Code.

Earlier my colleague from New Jersey shared some thoughts on the impact of the State and local tax -- cap on State and local tax deduction. I want to associate myself with Mr. Pascrell on this issue. I raised the issue when Secretary Mnuchin was here earlier, and it has an impact. Eleven of the counties in Illinois, my State, have an average SALT deduction that is higher than the $10,000. In my two counties, it is both much higher. In Lake County, which is three-quarters of my district, the average is $18,000. More than 42 percent of tax filers use that -- claim that deduction. It is having a significant impact in our communities, and I do hope the Secretary was sincere when he said it is something that they were going to address, and I hope we address it in the committee.

My focus today is I would like to talk about the cost of childcare. As the SALT deduction is hurting families in my district, the cost of childcare is having a significant impact. It is something that we as policymakers, Republican and Democrats, should be able to agree on. How do we help families cover the costs so they can be involved in the economy? A survey conducted last year by Morning Consult for The New York Times explored why young Americans are having fewer children. And one of the primary reasons indicated is the cost of healthcare, that they just felt they could not provide for their kids in a way that will allow them to do it in the fashion they hoped to.

According to the Economic Policy Institute, the average cost of daycare is nearly -- in Illinois is nearly $13,000. That is more than $1,000 a month. Illinois is the eighth most expensive State, and to put this in perspective, we typically talk about the $1.5 trillion student loan debt that young people and people of all ages are facing. According to EPI, the yearly cost of infant care in Illinois is slightly more than the in-State tuition for a 4-year public college. Let me repeat that: The cost of infant care is more than tuition for a 4-year college. So, as young adults enter the workforce, carrying their student loan debt, worrying about maybe someday having a house, starting a family, they have to have to make difficult choices. But it doesn't need to be the case, and it doesn't need to be the reality that we live in. The Republican tax bill could have tackled this issue, but, unfortunately, it did nothing to help Americans gain access to higher quality and more affordable childcare.

Professor Oh, I will start with you, but are you aware of any provisions in the tax bill, the Republican bill, that addresses the challenge of affordable childcare?

Mr. Oh. I mean, not head on. I mean, I think some might try to argue this the expansion of the child tax credit helps. I don't think that is the case because what I was explaining before in terms of just that replacing personal exemptions, so my answer to you is no.

Mr. Schneider. Are there things we could be doing to help families with this?

Mr. Oh. Yes. So, right now, we kind of have a patchwork approach in the Federal tax system towards childcare. I am a new father. My son is turning one on Saturday.

Mr. Schneider. Congratulations.

Mr. Oh. And I know how expensive childcare can be. So, right now, what we offer is a flexible savings account approach, which really only helps people that pay taxes at high marginal rates of tax. And then we have a very small dependent care credit, and one can imagine expanding both of these programs depending on which families we are trying to help more.

Mr. Schneider. I know we talked about who is and who isn't an economist on the panel, but what impact would taking steps to make it more affordable for young families to afford childcare, what impact do you think that would have on the economy?

Mr. Oh. I can -- I think it is one of those -- childcare has gotten so expensive, and what generally happens is if there aren't -- if there isn't access to informal care so extended family, grandparents and the like, it brings people out of the workforce. You know, it leads to one spouse, usually the woman, dropping out of the workforce to take care of their kids, and, you know, we can imagine doing better on this front.

Dr. Gould.

Ms. Gould. Yes, absolutely I agree with everything he said, and it is absolutely the case that if we make childcare more affordable, provide high-quality options for parents, you are going to see an increase in labor force participation. You are going to see an increase in people's ability to work and, you know, provide more for their families.

Mr. Schneider. And if I can add just in my last couple of seconds, when we do see people drop out of the workforce, even temporarily for a couple years, it is hard for those folks to get back on track. They never catch up in many respects. So there is an impact. My time has expired, and I yield back. I thank the committee.

Chairman Neal. I thank the gentleman.

I recognize the gentleman from New York, Mr. Suozzi, to inquire.

Mr. Suozzi. Thank you, Mr. Chairman, for holding this hearing.

Thank you to the witnesses. You had a marathon session here, and thank you so much for being here for this long time and for preparing for today.

Dr. Holtz-Eakin, earlier today you testified that tax cuts don't pay for themselves. Is that correct?

Mr. Holtz-Eakin. Yes.

Mr. Suozzi. And so there is going to be a projection of $2.3 billion increase, $2.3 trillion increase in the deficit because of these tax cuts and the way this tax bill was passed, $2.3 billion increase. And where does that money go? Last year, we saw a half a billion dollar increase in stock buybacks in the United States of America. Are you aware of that, Mr. Oh?

Mr. Oh. I have seen a lot of numbers, and they tend to range between $500 billion and a trillion dollars in buybacks.

Mr. Suozzi. Okay. A trillion dollars. Dividends are up. The wealthiest 10 percent of Americans got the largest percentage of the tax cut. This money -- it is like spending $2.3 billion additional over the next 10 years -- is going to these places. That is where it ends up going in the long run. So this hearing today is the 2017 tax law and who was left behind, and I am going to argue that the working people of America have been left behind for a long time, quite frankly. It is not new. It has been going on for a long time because, since 1982, the stock market has gone up 1,200 percent. Since 1982, the GDP has gone up 600 percent. And workers' real wages have gone up 20 percent. So corporations and shareholders have been doing great, but working people have been left behind, and despite spending $2.3 billion in additional deficit spending, we are not doing anything to help the workers' wages real wages go up in any kind of significant way. So I would argue that the working people of America have been left behind.

Ms. Abramowitz, you talked about the postcard form that is going to be used -- is being used right now as part of this. And we saw pictures of it used by the GOP and the President even throughout the whole process last year, and it was this little nice little postcard. I thought it looked very attractive. But as you pointed out, there are six more forms.

Ms. Abramowitz. Just the outer label.

Mr. Suozzi. And have you heard that errors have been going up at the IRS?

Ms. Abramowitz. Errors in terms of processing returns? I think we are still early in the filing season.

Mr. Suozzi. Let me tell you the taxpayers advocate testified at another hearing we had in Oversight, and she said the errors by filers have gone up 200 percent so far with the new tax filings, 200 percent increase in errors. So there was no simplification. So that is just wrong. There has been a 200 percent increase in errors. And just so everybody knows, so you are armed with these facts, is that when you call the IRS, only 17 percent of the calls get answered. And people wait on the phone for 18 minutes before their phone call is answered.

Ms. Abramowitz. I would suggest that the 18 minutes is a very optimistic number.

Mr. Suozzi. Well, most people drop off. They only answer 17 percent of the calls.

Most people drop off because they are waiting for so long to get their calls answered. So we hear all this railing about the IRS and the previous administration, but the new administration is making it worse. They didn't simplify things. They made things worse with this postcard and all the backup forms and the change in the process.

People have been left behind are people in my district, which has one of the highest percentages of people using the State and local tax deduction. I am not going to go into the whole thing again here today, but I want you to know that 176 counties in the United States of America have a State and local tax deduction higher than $10,000 per year. 176. And 49 of the 50 highest State and local tax deduction utilizers are in New York, New Jersey, and California. Now do you think that is a coincidence, or do you think that was done on purpose? No answer. Okay. That is all right. You don't have to answer that particular question.

One other group that has been left behind are charities and not-for-profits because as hard as it is to imagine, as part of this tax bill, there is a new tax on charities and not-for-profits. If you are a religious institution, you are a church, you are a synagogue, you are a mosque, and you give parking permits to your employees or if you give them transportation allowances, they have to pay taxes on it now, and not just the cost of the taxes, but now you have to hire an accountant who will help you fill out tax forms. That seems like they have been left behind, that they were really not considered during this process. Would you agree with that?

Mr. Shelton, what do you think? You look like a church-going guy. Had you heard that before that not-for-profits are going to have to pay this additional tax?

Mr. Shelton. Yes, I have, and I come from New York, too, so I know what you are talking about when it comes to State and local tax deductions.

Mr. Suozzi. Well, Mr. Shelton, my time has expired, but I hope, in New York, we can get together some time and discuss this further. Thank you very much.

Chairman Neal. I thank the gentleman.

Let me recognize the gentleman from California, Mr. Panetta, to inquire.

Mr. Panetta. Thank you, Mr. Chairman. I appreciate this opportunity.

And, Ranking Member Brady, ladies and gentlemen witnesses, thank you very much for being here. I appreciate your time. I appreciate your preparation for being here as well.

I want to talk just a little bit right now with Mr. Oh in regards to your knowledge or process -- in regards to the process of the tax bills that were done in 1986 and 2017. As you know, this recent tax bill in 2017 had zero hearings, correct?

Mr. Oh. That is my understanding.

Mr. Panetta. All right. And back in 1986, what was done is you had 30 hearings over 26 days just in the House of Representatives, correct?

Mr. Oh. Sounds correct.

Mr. Panetta. And then, in the United States Senate, there were 36 hearings in 45 days, correct?

Mr. Oh. I trust your numbers.

Mr. Panetta. Okay. All right. But those sound correct, though, right?

Mr. Oh. There were a lot of hearings around the 1986 act, that I can confirm.

Mr. Panetta. Yet, even then, they still had fixes to that bill, as you said in 1987, 1990 and 1993.

Mr. Oh. That is right.

Mr. Panetta. Do you foresee fixes being done to this bill?

Mr. Oh. I hope so, and it is part of the reason I agreed to come here is because I am hoping that this is the first step towards making some fixes to this bill.

Mr. Panetta. Thank you. Now, you testified that households, those earning less than

$50,000 will save about $200, and those earning over a million will save about $64,000, correct?

Mr. Oh. That is right.

Mr. Panetta. And how many times more did you say that those millionaire households will have saved --

Mr. Oh. I round it to 300, but it is more like 320.

Mr. Panetta. 320 more.

Mr. Oh. Times more.

Mr. Panetta. Can you explain how that distribution will become even more unequal over time?

Mr. Oh. Sure. So there are a number of provisions in the tax bill that are scheduled to sunset in 2025, and I think your colleague, Mr. Boyle, mentioned the fact that, by 2027, which is the last year for which we have projections, something like 83 percent of the tax benefits are going to the top 1 percent, yes.

Mr. Panetta. Moving on. Thank you, Mr. Oh.

Ms. Abramowitz, you mentioned early on about how this is going to affect vulnerable immigrant populations. Can you elaborate on that?

Ms. Abramowitz. Yes. I want to reiterate that many people believe immigrants are not taxpayers, and the truth is statistically they are. These are people who come to this country, they want to be a part of this country, and they eventually want to have the benefits of citizenship so they are paying tax, but they pay tax at much higher rates than the rest of us do.

Mr. Panetta. Why is that?

Ms. Abramowitz. Because a lot of the benefits that are available to U.S. taxpayers are not available to them.

Mr. Panetta. And is that because -- has that been a traditional thing, or is that just because of the 2017 tax bill?

Ms. Abramowitz. 2017 just added another wrinkle. The EITC has not been available for -- since the inception, but the child tax credit has now been changed and you now need a Social Security number for children. And you might say, well, that is just the child tax credit, but, of course, the child tax credit has been increased, and as we mentioned, you know, supplants to some extent the dependency exemption. So it has the effect of perhaps increasing the cost to the immigrant taxpayer. And I do want to reiterate here, also, that immigrants very often for a lot of reasons having to do with immigration law, are classified as contractors rather than as employees, and they are also paying this very steep Social Security tax as self-employed people.

Mr. Panetta. Look, I come from the central coast of California where there is lot of agriculture, a lot of specialty crop agriculture where we rely on immigrants not just for that industry, but in our community and in our culture, to be frank, and so I appreciate you bringing this up as a topic because I see it every day, how important it is to have immigrants continuing to be a part of our country, and, therefore, you know, these types of changes, especially with the child tax credit, only hurts our future and only hurts our communities, and so thank you very much. I yield back my time.

Chairman Neal. I thank the gentleman.

Let me recognize the gentlelady from Florida, Mrs. Murphy, to inquire.

Mrs. Murphy. Thank you, Mr. Chairman, and thank you to all the witnesses for your testimony. By way of introduction I represent a district in central Florida where I don't think people think in partisan absolutes, especially on matters of tax. As you know, tax policy affects everyone regardless of political affiliation. I am also co-chair of the Blue Dog Coalition, where we prioritize fiscal discipline by both parties because of the threat that excessive debts and debt pose to our economy, our security, and our children's future.

The CBO projected the 2017 Republican tax law will increase our national debt by $1.5 trillion over the next decade. And it was clear from the start that Republicans didn't want Democratic input and didn't really attempt a fiscally responsible approach to tax reform. I think that is a really missed opportunity. Instead, the Republicans hastily crafted and jammed through a partisan bill that primarily benefits the wealthiest in this country without doing enough to help working families and small businesses. And the result of this process and approach is a law that is filled with technical errors and an uncertain future because purely partisan laws tend to engender changes when there is a shift in political power.

But here we are and we need to focus on the future and we need to understand what is in the bill and where improvements need to be made both large and small. And as Dr. Holtz-Eakin has testified, this bill sent a message to the American corporations. But I wonder what message it sent to working families? Instead of providing the full extent of these tax cuts to large corporations and the highest income earners, could Congress have done things differently to help working families? For example, could Congress have made the childcare more affordable by enhancing the child and dependent care tax credit and increasing the income exclusion? In full disclosure, I have a bill introduced both in the last Congress and this Congress to do just this.

Professor Abramowitz, do you agree that this was a missed opportunity, and what are some other examples of ways Congress can do more to help working families through the Tax Code?

Ms. Abramowitz. Again, absolutely. Currently, the childcare or dependent care tax credit is not refundable so it has no use to anybody who is in a -- would only benefit from a refundable credit. Secondly, I think that anything we can do to enhance childcare to improve, again, the health, the education, and the safety of children, because we know a lot of children of the working poor are in questionable childcare circumstances, is something we ought to be doing as a society.

I think, also, that we ought to think about income supplements generally. We are looking at the earned income tax credit, the child tax credit, the dependent care expense credit, and I think it sort of -- individually, they all have merit, but I think we also ought to think about the whole package and how best we can, you know, use our resources to make life the way it can be -- as best it could be for those who are struggling each day.

Mrs. Murphy. Thank you.

And, Professor Oh, at first blush, the increase in the standard deduction does appear to benefit working families who don't itemize, but can you explain why these benefits are diminished by other provisions in the law, namely the repeal of personal exemptions?

Mr. Oh. I am happy to. So just to revisit my favorite example, we have, let's say, a family of four, and what we have basically done is taken the personal exemptions for the children and rolled them into something like the child tax credit and expansion of the child tax credit, and what we have done with the personal exemptions for the two parents is to roll them into the standard deduction. And this is the reason why, you know, even though we have expanded the child tax credit, even though we have expanded the standard deduction, when you look at the distributional charts, you see very little tax cuts going to low-income families.

Mrs. Murphy. Thank you.

And, Dr. Gould, the tax law is one of the major reasons why annual deficits will soon top a trillion dollars. As the gap between revenues and spending continues to grow, there is going to be immense pressure on Congress to reduce critical investments in defense and domestic priorities like health and transportation and housing. Can you explain how those cuts would hurt working families?

Ms. Gould. Sure. If there is that building political pressure, as you say, to cut spending, it would indeed do harm to working families. Without programs -- you know, if you have cuts to Social Security, Medicare, Medicaid, food stamps, and the ITC, those programs are vital to working families. And without them, American families would not be able to get the healthcare, food, or housing they require to take care of their health needs or feed and shelter themselves and their families, so it is critically important.

Mrs. Murphy. Thank you. And I yield back the remainder of my time.

Chairman Neal. I thank the gentlelady.

Let me recognize the gentleman from Texas, Mr. Arrington, to inquire.

Mr. Arrington. Thank you, Mr. Chairman.

I have heard, and thank you witnesses for hanging in there with us. I know it has been a long hearing. But real quick, I have been hearing about this sort of cuts to safety net programs like Medicare. Did you know that the ACA, ObamaCare, cut something like $800 billion from Medicare? Is that a problem for you as well, or is it -- does that hurt poor people when you cut hundreds of billions of dollars, no? ACA?

Ms. Gould. I am not aware.

Mr. Arrington. Mr. Oh, did you know that Medicare was cut to fund ObamaCare?

Mr. Oh. I did not know that. I am not an expert --

Mr. Arrington. Did anybody on the panel know that? Nobody wants to answer that, and I can appreciate why. Do you all believe that this is the greatest, strongest, most prosperous, most dynamic economy in the world, maybe the history of the world? I am talking about the U.S. economy. Yes, no, go down the line. Dr. Gould, yes or no, the American economy.

Ms. Gould. We have certainly seen improvements in the economy in the last few years.

Mr. Arrington. In the history of the world, is this one of the greatest economies, Mr. Oh, yes or no?

Mr. Oh. I think I can agree with that statement.

Mr. Arrington. Okay. Mr. Shelton.

Mr. Shelton. It depends if you are sitting on Wall Street or Main Street.

Mr. Arrington. Well, tell me what it is like to be a worker as part of your union where you have a multiemployer pension program that is 45 percent funded. So when I think about the outlook on the worker, I think about the multiemployer pension programs. I know there are a couple that your organization has negotiated on behalf of your workers, and their unfunded liability -- and I have got the data here -- they are underfunded by 50 percent. Now you all aren't the only ones, but is that a problem to you when you think about the outlook and the future for the worker for the working person, the working family? Are you concerned about that?

Mr. Shelton. It is obviously a problem, but I have very few, if any, multiemployer pension plans.

Mr. Arrington. I have got two right here that CWA pension plan negotiated by your union, and they are underwater by over 50 percent. That is they have an unfunded liability of greater than 50 percent, and it is thousands of employees who are counting on this for their retirement. That is a problem. Do you agree with that?

Mr. Shelton. Absolutely.

Mr. Arrington. Okay. So I am more concerned about that than I am about people keeping their own money that they worked hard for because fundamentally I don't see that as government's money; I see it as the American people's money. Now government cost something. We have to have revenue to run this government. It is not cheap. But I am concerned about that. Do you believe, Mr. Shelton, that the free enterprise system is the best economic system that at least we have seen thus far in our world's history?

Mr. Shelton. Yes.

Mr. Arrington. Do you believe that Ms. -- and I am sorry if I can't pronounce your name.

Ms. Abramowitz. Abramowitz. Yes, I do, but not completely --

Chairman Neal. Turn your microphone on, please.

Mr. Arrington. Do you believe that in this free enterprise system and this wonderful economy, Mr. Oh, that you agreed is one of the most powerful, most dynamic, most prosperous economies in the world, what do you attribute that success to, do you attribute it to government, or do you attribute it to the American people? If you had two choices, A and B, multiple choice.

Mr. Oh. I would attribute them to both. You know, the American people are powerful force, but there is an important role for government in governing free markets.

Mr. Arrington. What about you, Mr. Shelton, do you think that the greatest economy in the world is attributed to government or to free people exchanging in an open market, their ideas, their products, their services? Here is what is what I am --

Mr. Shelton. Both.

Mr. Arrington. -- getting at. I am not trying to get cute or play games with you. We gave greater freedom into the marketplace. We limited the role of government, and we unleashed the unlimited potential of the American people. We unleashed the American spirit, and the response has been phenomenal. And it is inarguable. The economy is growing, millions of jobs, unemployment breaking every record, performing at the highest levels, and wages, wages are up. Mr. Holtz-Eakin, wages are up, and in 2018, and they are up the most on the sort of lowest spectrum of the income earners. Is that true?

Mr. Holtz-Eakin. That is the CPS data in my testimony.

Mr. Arrington. Is that a fact?

Mr. Holtz-Eakin. Yes.

Mr. Arrington. Ms. Abramowitz, do you think that is a good thing? Do you agree that that fact, that trajectory is good for this country, it is good for America, and we ought to cheer for our country and our families that are doing better because the boats are rising on this tide? Do you agree?

Ms. Abramowitz. I can't disagree that rising wages are a good thing.

Mr. Arrington. Would you agree, Mr. Shelton?

Mr. Shelton. Rising wages are always a good thing.

Mr. Arrington. God bless America. Man, I am feeling better already.

Mr. Oh, do you agree?

Mr. Oh. I do. I do.

Mr. Arrington. Dr. Gould, I am running out of time. Hey, thank you for your time.

Mr. Chairman, thank you for this hearing. I think the future looks better and brighter in my mind after this hearing.

Chairman Neal. We thank the gentleman.

With that, let me recognize the gentleman from California, Mr. Gomez, to inquire.

Mr. Gomez. Thank you, Mr. Chairman.

I have been sitting here -- I get to listen to everything. That is one of the benefits of almost going last. I got to hear just a lot of the comments, and one of the things that I think is pretty obvious is that the benefits primarily of this tax bill went to the wealthiest individuals in the country and the largest corporations.

Somebody -- we are not saying that, you know, working class folks didn't benefit at all, but it is more of the attitude of the minority than the majority Republicans.

Somebody -- one of my colleagues said: Something is better than nothing.

That is the point, that they just got something. They weren't the main beneficiaries of this tax plan, and I see it as the modern day version of "Let them eat cake." You know, we will live wealthy and on the hog, and everybody else will get the crumbs whatever is left.

So let me continue. The day the Republicans passed their tax plan, there was a televised celebration in the White House Rose Garden. Do you all remember that? I think we all remember that. And before the GOP took their victory lap around 1600 Pennsylvania Avenue, they made the following promises about their tax bill, that it would reduce deficits, help the middle and working class, and pay for itself.

Professor Oh, do you remember those promises?

Mr. Oh. I do remember them.

Mr. Gomez. And in your professional opinion, were those promises kept?

Mr. Oh. Not yet.

Mr. Gomez. Not yet. When I think back to those who celebrated the passage of the GOP's tax plan, I noticed that those who saw it as a victory were part of an elite class of Americans who represented the wealthiest in the country. And why wouldn't they celebrate? The benefits of the massive corporate tax cut passthrough deductions, reduction in estate and gift taxes, and cutting of the top marginal rate, they all flow primarily to the wealthy.

Professor Oh, would you agree with that assertion?

Mr. Oh. I would.

Mr. Gomez. In your professional opinion, are corporations using their tax benefits to help the middle and working class?

Mr. Oh. That is a complicated issue. We have seen a lot of stock buybacks, which is somewhat unsurprising given what most economists thought in terms of access to capital in the U.S. How those benefits actually inure to the American people I think depends on time. You know, going back to some of the testimony we heard earlier, we just need more time and more data to figure out exactly how those will play out.

Mr. Gomez. Mr. Shelton, do you think those benefit the working and middle class?

Mr. Shelton. I haven't seen it. You know, all the employers that we deal with --

Mr. Gomez. No, thank you, and I appreciate it.

Mr. Shelton. -- have a lot of stock buybacks, but that is about it.

Mr. Gomez. You are seeing some go mainly to buy back stocks, some even leading to laying off workers, and then rewards wealthy shareholders. When I think about this tax plaque, the winners are clearly the haves, and the losers are the clearly the have-nots, and I think of people who can actually like afford to buy a yacht versus the people that clean the yachts. In your professional opinion, professor, who would be considered the primary beneficiary of the GOP tax bill, a constituent of mine who makes roughly $40,000 a year or let's say one of my committee colleagues Rep. Vern Buchanan, whose net worth is roughly $73.9 million, and on the same day his party passed this bill and he voted for it, he bought a yacht similar to the one that is on the screen, similar to this one. Who would benefit?

And before I move on, before I actually let you answer that question, Mr. Chairman, I ask for unanimous consent to enter into the record "GOP lawmaker bought multimillion dollar yacht on the same day he voted for GOP tax bill."

Chairman Neal. Yes.

Mr. Gomez. Thank you.

Mr. Oh.

Mr. Oh. So I don't want to call out individual people, but I can say that the general beneficiaries of this tax bill on average were households that earn more than a million dollars per year. Actually, in general, wealthier households. So I mean I guess the cutoff you can use maybe is even $500,000, but those are the households that benefited most.

Mr. Gomez. And I know that we have wealthy Democrats, as well, but I like to point for the record that 189 Democrats, every single Democrat, voted no on this Republican tax bill because they understood that the benefits would go mainly to the wealthiest individuals. Somebody -- Gene Sperling actually said 60-plus percent would go to the top one-tenth of 1 percent in America, the wealthiest individuals and not the people that are struggling to make ends meet to pay their mortgage or put their kids through school. Thank you and I yield back.

Chairman Neal. I thank the gentleman.

And Mr. Horsford is recognized to inquire.

Mr. Horsford. Thank you, Mr. Chairman, and thank you for your patience here after more than 4 hours, actually about 4 and a half hours. I really appreciate your time today.

The GOP Congress passed corporate tax cuts and tax cuts for the wealthiest and the most well connected adding $1.8 trillion to the deficit over time. Now to pay for their tax cuts for the rich, they want to balance the budget on the backs of seniors, children, and the poor by proposing devastating cuts to Medicare, Social Security, the Affordable Care Act, and Medicaid.

On top of that, the tax cuts for small businesses and the one-time bonuses for working people were temporary while the tax cuts for big corporations and the wealthy were permanent. Why?

I want to use my time to share the story of one of my constituents who were directly impacted by the so-called Tax Cuts and Jobs Act and who are now having to navigate new tax forms and new tax law challenges.

Mr. Chairman, I would like to ask unanimous consent to enter into the record an article titled "I owe how much? Americans shocked by impact of new tax law."

Chairman Neal. So ordered.

[The information follows:]

Mr. Horsford. Thank you.

Jodie from Las Vegas, who is a retired military personnel and a former VA Federal worker wrote to me sharing his experience this filing season, and he told me I could share his story here today. Jodie went from receiving a small refund, generally about $350 on average in past years, to owing more than $3,600 this year. You see, in late 2017, Jodie was diagnosed with vascular disease, which forced him into a medical retirement from the VA. He has relied on Social Security disability insurance payments of $671 a month since. Because of this unforeseen circumstance, Jodie took two loans out on his thrift savings plan, a defined contribution plan for the United States Civil Service employees, which covered his family's expenses for a while.

Unfortunately, Jodie's SSDI benefit is taxable because he has another source of income, retired military benefits. Those benefits coupled with his two TSP withdrawals resulted in a $3,600 tax bill. This is half of Jodie's family's monthly budget. Further, Jodie and his wife found out that the increased standard deduction in the Republican tax law eliminated the benefits they once received for their family's charitable donations to organizations like Goodwill or the Catholic Church. Is this who the GOP looked out for? I think not.

The GOP tax scam helped the wealthy and well connected and stuck middle-class workers and families with the bill.

Dr. Abramowitz, can you discuss how the tax bill could have been drafted to help a family like Jodie's instead of hurting it?

Ms. Abramowitz. Yes.

Chairman Neal. Put your microphone on, please, Ms. Abramowitz.

Ms. Abramowitz. Listening to the description of the family, it struck me, before we even think about what the tax bill did in 2017, if we were thinking about what we could do aspirationally, I am listening to this poor family; as a result of unemployment, they had to take first loans from their pension accounts, and I presume they were unable to pay them back, and, therefore, their loans became income for them in the year last year, this current year. And I also presume that they might have paid a penalty because they hadn't reached the age of 59 and a half. And I want to raise something that is not in the 2017 bill at all but something we see all the time that I think Congress should be aware of.

We incentivize retirement savings, and we don't want people to take it out too early. So we impose this penalty tax. The exceptions to the penalty tax are for education, for buying a first home, for actual out-of-pocket medical expenses. But this family is so reminiscent of those that I see in my clinic all the time: people who are out of work and unable to buy the groceries, unable to pay the rent. If they take out loans for that purpose, I don't have a problem paying the basic income tax, but the notion of a penalty tax on top of that is something I think Congress ought to rethink. Is that a better place to provide relief, perhaps, than buying a new home?

Mr. Horsford. Thank you.

Thank you, Mr. Chairman. I yield back.

Chairman Neal. I thank the gentleman.

Today's hearing has been the hearing that never took place. These are all issues that we should have thoroughly considered and heard expert witness on before Congress passed a $2.3 trillion tax giveaway, not after. The committee will continue to scrutinize the 2017 tax law and seek to better understand what these hastily made changes to our tax system meant for the American taxpayer.

Please be advised that members have 2 weeks to submit written testimony to the committee and to raise questions as well. Those questions and your answers will be part of the formal hearing accord.

And, with that, the committee stands adjourned.

[Whereupon, at 2:32 p.m., the committee was adjourned.]

Questions for the Record

Dr. Holtz-Eakin response to Rep. Kevin Brady

Dr. Oh Response to Stephanie Murphy

Submissions for the Record

Minnesota Council of Foundations

Ms. Tara Register

Michigan Nonprofit Association

Coalition for a Prosperous America

American Citizens Abroad Inc.

Center for Association Leadership

Bond Dealers of America

Professor Caroline Bruckner, American University

Church Alliance

Council on Foundations

LPL Financial LLC

Philanthropy Massachusetts

Libin Zhang

Actors' Equity Association

Mazars USA

Center for Fiscal Equality

NFIB

Public Citizen

Association of Art Museum Directors

National Council of Non-Profits

United Philanthropy Forum

Economic Policy Institute

Credit Union National Association