Second Member Day Hearing on Fundamental Tax Reform Proposals

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COMMITTEE ON WAYS AND MEANS

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C O N T E N T S

Second Member Day Hearing on Fundamental Tax Reform Proposals

U.S. House of Representatives,
Committee on Ways and Means,
Washington, D.C.

The subcommittee met, pursuant to notice, at 3:34 p.m., in Room 1100, Longworth House Office Building, Hon. Charles W. Boustany, Jr. [Chairman of the Subcommittee] presiding.

*Chairman Boustany. Subcommittee will come to order. Today the Subcommittee on Tax Policy will hold the second in a series of hearings to focus on fundamental tax reform. At the last hearing we concentrated on Member proposals that would reform the U.S. tax system by moving away from an income tax-based system to a cash flow or consumption as the basis for taxation.

This afternoon we will look at tax reform proposals within the context of an income tax system. And we are honored to have two of our esteemed colleagues here today to testify about bills they have developed to reform our current income tax system, reforms that fundamentally change our complex, unfair, and outdated tax code to make it more conducive to economic growth.

These are important ideas, and our colleagues have invested time and energy to develop and put them forward. I appreciate the seriousness of their commitment to advancing a pro-growth tax system for the 21st century.

We are also fortunate to have a second panel with Tom Barthold, Chief of Staff of the Joint Committee on Taxation. Mr. Barthold will help us explore key considerations and broad-based tax reform. He will use our former chairman's tax reform plan, Dave Camp's plan, as an illustration of the kinds of choices that must be made in fundamental income tax reform. I know that discussion will be very beneficial to the subcommittee.

Our hearing today is particularly timely, given that the deadline for individuals to file their tax returns is fast approaching. This year is a bit unusual because of the calendar. Tax Day is officially April 18th, which gives taxpayers a few more days to complete their annual tax filing obligation. But even that extra weekend is cold comfort when faced with all the forms, schedules, worksheets, and special rules that make up our broken tax code.

Tax reform should minimize the burden on American taxpayers so the billions of hours and tens of billions of dollars they spend on tax compliance today could be freed up and dedicated to creating a growing, vibrant economy.

As I said at our first hearing last month on this, our efforts on tax reform require that we take a fresh look and consider all ideas and proposals, including those being presented today. Ultimately, the Ways and Means Committee must weave the most pro-growth concepts and ideas into a bold plan that fundamentally and comprehensively reforms our tax system. This hearing continues that effort, and the subcommittee will continue to solicit and evaluate all ideas as we will build consensus for a path forward.

Thank you again to each of our witnesses for taking time from your busy schedules to be with us today, and we look forward to hearing about your bold proposals.

*Chairman Boustany. And now I would yield to the distinguished ranking member, Mr. Neal, for the purposes of an opening statement.

*Mr. Neal. Thank you, Mr. Chairman, and I want to again acknowledge your efforts in calling this hearing today on income tax reform proposals. It is the second hearing that we have had in a month, and I do not believe, as you know -- and we have discussed privately as well as professionally -- that we are really any closer to reforming our broken and inefficient tax code.

Time is of the essence, Mr. Chairman. The American people are imploring us to act. We need to replace our current code with one that promotes job growth, lifts wages for all workers, and grows the middle class.

The Panama Papers have highlighted the urgent need to crack down on those who engage in exotic tax schemes nationally and internationally in order to evade paying their share. If the recent wave of inversions were not enough to spur this Committee to action, perhaps the Panama Papers will.

Mr. Chairman, at the very least I hope that we can use this Subcommittee to hold hearings on these recent revelations. Reforming our tax code remains of the utmost importance. I look forward to hearing from our witnesses today on -- as they offer their ideas and plans on how to create jobs, promote economic growth, and address those that knowingly and willfully engage in tax avoidance and tax evasion. Thank you, Mr. Chairman.

*Chairman Boustany. I thank the gentleman. We have a distinguished panel today. We will start with two of our fellow members of the House of Representatives. And first we have the Honorable Bob Goodlatte, representing the Sixth District of Virginia. He will be testifying about H.R. 27, the Tax Code Termination Act, which would terminate the Internal Revenue Code by the end of 2019, with any new federal tax system adhering to a set of principles that promotes simplicity and fairness.

And next we will hear from the Honorable Roger Williams, representing the 25th District of Texas. He will be testifying about a suite of bills that represent the Jumpstart America Act, which would consolidate individual tax rates, lower the corporate tax rate, and encourage business investment through immediate expensing.

Each of your tax reform bills will be made part of the formal hearing record. Traditionally, the committee allots five minutes to each witness to deliver oral remarks. I might be a little lenient on this, but not too lenient, so we can get on with this.

But we will now begin with our good friend, Representative Goodlatte.

STATEMENT OF THE HON. BOB GOODLATTE, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF VIRGINIA

*Mr. Goodlatte. Well, thank you, Chairman Boustany and Ranking Member Neal. It is an honor to be here, and I appreciate the opportunity to testify before the committee today.

You need look no further than Article 1, Section 8 of the Constitution, which grants that Congress shall have the power to lay and collect taxes, to see the role of this legislative body in crafting our nation's tax policy. The American people have entrusted us with a great responsibility. Our constituents rightfully expect us to spend their hard-earned tax dollars responsibly, but they also expect that we collect tax revenues fairly, simply, and in a way that does not hinder job growth.

Both sides of the federal ledger, revenues and expenditures, should reflect the fact that the American people are owners of this country, not just customers. For far too long, an unacceptable, complex tax code has remained the law of the land. Is it not enough that we collect the taxes we do from our neighbors, that we must also spend more of their resources complying with the tax code itself?

Tax Day is quite possibly the day that most reminds us of this unfairness. Citizens across the country will have spent weeks -- and in some cases months -- completing their tax returns by next Monday. They will devote billions of hours complying with the tax code, and will spend billions of hard-earned dollars on tax software, tax preparers, and other expenses related to collecting and filing their federal income taxes.

I recommend the House Committee on Ways and Means -- I commend -- for holding this hearing in advance of Tax Day. There is no time like the present to find real solutions to this complex problem.

While there are many in Congress with ideas for what a new tax system looks like, I have introduced legislation that would set a foundation to ensure we follow through with creating one. The Tax Code Termination Act simply puts a date certain on the expiration of our current tax code and, with a simple structure, directs Congress to establish a new tax system before that expiration. The bill is as simple as it sounds.

First it sets December 31, 2019 as the sunset date for our current tax code with exceptions for self-employment taxes, federal insurance contribution taxes, and railroad retirement. Seniors health and retirement programs need to be debated and addressed separately and in a manner that isn't clouded by countless other issues and interests.

Second, it outlines a simple framework for a new tax system, one that applies a low rate to all Americans, provides tax relief for working Americans, protects the rights of taxpayers, and reduces collection abuses, eliminates the bias against savings and investment, promotes economic growth and job creation, and does not penalize marriage or families. To be clear, this legislation does not choose one proposal over another.

Third, the Tax Code Termination Act declares that a new tax system should be approved by July 4, 2019. And lastly, the bill requires a two-thirds majority for a change in these dates.

This legislation has twice passed the House of Representatives in the 105th and 106th Congresses, and is supported this Congress by 130 Members of the House, who all support different plans and ideas for tax reform. I am also proud to have the support of several members of the Ways and Means Committee, including Chairman Brady and Subcommittee Chairman Boustany.

I have been proud to introduce this legislation for the past few congresses, and it would be my honor to work with each of you to see this legislation passed by the 114th Congress. I have yet to hear an argument for maintaining our current tax code, but I hear argument after argument for why we need a new one.

Comprehensive tax reform will not come overnight, but we should not delay taking a first step. Setting a date certain to implement a new tax system by 2020 will provide a real timeline for debating and approving a new tax system for our nation.

Thank you for the opportunity to testify and I will be happy to answer any questions.

[The statement of Mr. Goodlatte follows:]

*Chairman Boustany. I thank the gentleman.

Mr. Williams, you may proceed.

STATEMENT OF THE HON. ROGER WILLIAMS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

*Mr. Williams. Thank you, Mr. Chairman, for allowing me to testify this afternoon. Mr. Chairman, my tax plan, simply titled, "Jumpstart America," focuses on a business perspective tax reform. Other tax reform measures might focus on loopholes or pick winners and losers; mine does not. Frankly, we must begin to empower America's great assets, the small business community, the last real hope to turning our economy around and cashflow America.

Last Congress, when the conversation on tax reform began to take shape, I asked myself what areas were important to me, someone who is a second-generation small business owner with over

44 years of experience still owning my business, and someone who has just about seen it all when it comes to our national economy. I remember dollar gasoline, I remember 20 percent interest. I remember the '88 meltdown. We all remember 9/11. And I can tell you that Main Street America is hurting more now than ever before.

As I traveled around my district, and even since my first election, I talked to my fellow small business owners, I talked to manufacturing sector people. I talked to people in distribution, my friends in the oil and gas industry, and frankly, the average American entrepreneur just starting out.

So, Mr. Chairman, this is what I hear. First, they want a simplified tax code, both on the individual and corporate side. While there is debate on just how long it is, I think we can all agree the tax code needs to be simplified. H.R. 2842, the Individual Rate Simplification Act, brings the personal code down to 20 percent for the first million and 30 percent for everything over a million. As many of the Members already know here today, business owners often use their personal tax returns as a flow-through for their companies. Taking the individual tax rate to a simple 20 percent creates a unified business income tax rate which is globally competitive.

Next, all businesses, big or small, want to spend less time on taxes. According to a poll conducted by the National Federal of Independent Businesses, most surveyed wanted a less complex tax system. Small business owners in particular found it frustrating to devote much of their time to taxes when they could instead focus on revenues and their company.

H.R. 2946, the Incentive Corporate America Act, reduces the corporate tax rate to 20 percent. The United States current rate is around 39 percent, the highest statutory rate of any developed country in the free world. As we have seen over the last few years, companies are literally moving their headquarters to avoid rates. That is wrong and un-American. Lowering the tax rate would incentivize corporations to move their businesses back to the U.S., helping us to regain our competitive edge in the global economy.

The next set of bills focuses on moving to a cashflow tax base. H.R. 3017, the Invest in America Act, cuts the capital gains and dividends to 15 percent.

H.R. 3213, the Fixed Asset Relief Act, allows 100 percent expensing of fixed assets, providing businesses the ability to deduct tangible personal property from the tax base in their year of purchase. Instead of having to schedule out deductions, a small business owner will be able to take the entire deduction immediately. As someone who has personally done this, I can tell you this is a game changer. Bonus depreciation reduces the tax bias against investment and allows businesses to create new jobs and put more people to work.

Finally, H.R. 3216, the Paycheck Relief Act, reduces the payroll tax for not only the employee, but also the employer, by 2 percent. From 2011 to 2012, employees enjoyed a reduced rate that helped boost take-home pay for Americans. In addition, if future administrations want to empower small business owners who employ half the private-sector jobs, combining a reduction in employee payroll taxes is crucial.

In 2010 the CBO explained that the Congress, by cutting the payroll taxes, would boost employment more if given to the employer, as well.

If these three bills sound familiar, well, they are not new ideas. Capital gains and dividend rates at 15 percent, accelerated depreciation on assets, and lowering the payroll tax all have been used before to help jumpstart America economy in the past. And I believe it will help jumpstart America again.

The next pillar of my tax reform plan deals with keeping America competitive with other nations. We absolutely need to lower the repatriation tax rate in this nation to five percent, while making it permanent not on a one-time holiday basis. H.R. 3083, the Bring Jobs Back to America Act, is self-explanatory. It creates more jobs and brings jobs back to America we never had.

In addition, this plan recommends not eliminating last in/first out as an accounting method, or using an international method that puts American companies at a disadvantage. Industries that use the LIFO accounting method include car dealers, the beer and wine distributors, and almost anyone in the manufacturing industry, also in oil and gas. Although proponents of doing away with the LIFO point to $100 billion pot of money -- a carry-forward, as we call it -- I assure you any LIFO will destroy American companies and kill Main Street [sic].

In addition, using international financing reporting standards or eliminating LIFO all together will not solve America's debt problem. Frankly, I was extremely disappointed to see LIFO used as a pay-for in the bill produced by the committee's former chairman last time. Over the last year I have worked closely with members of the LIFO Coalition that advocate that LIFO not be used as a revenue offset in any tax plan moving forward. I hope their message is clear.

Mr. Chairman, lastly I would like to conclude that the bill is very personal to me. Under the leadership of Chairman Brady, the House just last year passed H.R. 1105, a bill that would repeal the estate tax. I would like to take a moment to tell members of this Committee a quick story.

In 1939 a young man started a car dealership to realize the American Dream. When he died that dealership was passed to his son, along with a death tax liability. A mere three days after the father's death, the IRS came to collect and wanted 55 percent of the value of the business. His son nearly declared bankruptcy, but was fortunate to gather enough resources to keep the business afloat and save hundreds of jobs. The son still runs his dealership and employs over 100 people. Mr. Chairman, that son is me.

My story, unfortunately, is not uncommon, as many farmers and ranchers in my district have similar stories. Let's end this tax once and for all. And I appreciate your continued support.

So, in closing, Mr. Chairman, I spent the last two years talking about this tax reform plan. And although my staff might be tired of it, I hope you can tell that I am very passionate about it. Jumpstart has the support of Douglas Holtz-Eakin, the former director of the Congressional Budget Office, and former FDIC chairman, Don Powell, who said the plan was a thoughtful, common-sense approach to one of the most important issues facing America.

Last month I was honored to have Grover Norquist's Americans for Tax Reform call my plan a model for pro-growth tax reform. I encourage the committee to consider cashflow, pro-growth, pro-business-friendly tax reform ideas when considering tax reform in the future.

I want to again thank you for allowing me this time this afternoon, and I welcome any questions you may have. Thank you.

*Chairman Boustany. Well, we thank -- I want to thank both our colleagues for bringing these important ideas forward. And to my friend from Texas, I would say that you -- thanks for sharing your personal story with us. I think it is important to understand the real-life consequences of our tax policies, so I want to thank you for that. And I thank you for bringing these pro-growth ideas forward. They are very important, and should be incorporated in what we do.

And to my friend from Virginia, clearly you are trying to impart a sense of urgency with Congress to move forward. And I was having that conversation with my colleague here, the ranking member of the subcommittee, about the need for urgency to do something, because the problems are mounting rapidly. Whether it is a small business here in the U.S. or a U.S.-headquartered company with subsidiaries around the world, U.S. business is under assault, and U.S. business needs tax relief.

So I just want to thank both of you.

And with that, Mr. Neal, if you have a few comments or questions?

*Mr. Neal. Thanks, Mr. Chairman. I thought that the way that we acted on incremental tax reform at the end of the year is probably not the best way to do it. But nonetheless, it provided some momentum. And I think that it was actually a pretty skilled bipartisan piece of legislation, and I think there is an opportunity here to go forward. Whether or not the lesson of incrementalism or a much broader tax package can be accomplished I think is something we are going to have to continue to discuss and debate. And -- but I did think that, at the end of the year, we found a way forward with, really, minimal controversy.

*Chairman Boustany. Mr. Reichert?

*Mr. Reichert. Thank you, Mr. Chairman. I just have a comment. I was going to ask a question, but your testimony answered it for me from both of you. Thank you for your hard work.

To me, tax reform is really about -- it is a pro-growth effort that creates an environment where businesses can grow and, obviously, create jobs. Your ideas and thoughts that you shared with us today, I think, fall directly in line with what I envision tax reform to be. And I look forward to working with both of you and thank you for your hard work and thank you for your testimony today.

*Chairman Boustany. Mr. Thompson. Nothing? Okay. Mr. Kelly? No? Mr. Renacci?

*Mr. Renacci. A question.

*Chairman Boustany. Yes.

*Mr. Renacci. Thank you, Mr. Chairman, and thank you for holding the hearing.

I want to re-emphasize how important it is to understand who bears the burden of high corporate tax rates. I mean I have said it before, I will say it again: the burden of corporate tax does not ultimately fall on the corporations, it is borne by the people, either customers, investors, or workers. Larry Kudlow re-emphasized this point in a column he authored just last week: "Companies don't just pay corporate taxes out of their own pockets. They pass it along in the form of lower wages and benefits to workforce, higher prices for consumers, and low stock valuations for investors."

So, with that, I have often said we have to look at our corporate tax rate, and I am a big believer we have to reduce that, just to be competitive, worldwide.

I have sensed some Members here today understand this, and I am grateful they are here, really, to discuss their ideas.

Mr. Goodlatte, urgency, I agree with you. We have to have reasons and be forced -- you know, forcing Congress and the Administration to act on tax reform. We have been talking about it, we need to get it done. It is nearly impossible to defend the status quo, the problem.

However, when you want to talk about the importance of taxpayers having some level of certainty and predictability, I would be extremely concerned that we have a deadline and we don't have an answer, and we bring uncertainty and unpredictability really to the taxpayer. We saw that in the extenders. Every two years we extended, we brought uncertainty, we had unpredictability, we had deadlines, we forced deadlines, and all we did was extend, extend, extend, until most recently, when we had the PATH Act and had some permanency to it.

So, I guess I would just ask you. What are your thoughts there? Because I am not big on deadlines. In fact, I had a bill last year in -- as far as the user fee gas tax. It said we had -- Congress had two years, and if they didn't come up with an answer, that the gas tax would go up. And everybody got upset that -- nobody wanted to have a deadline. So explain to me your thoughts on, you know, the downside of forcing a deadline when we have to make sure we have an answer.

*Mr. Goodlatte. Well, this deadline is quite a ways into the future, and it is really designed to move tax reform to the front burner. We don't have to wait anywhere near that deadline if we come up with -- and, you know, it can be any kind of tax reform. We don't specify whether it is a flat income tax or a consumption-based tax, or a major overhaul of our current tax structure like the excellent one just described by my colleague from Texas. But the problem is everybody here agrees that our current tax code really stinks, but nobody has anywhere close to the consensus on how to do substantial tax reform.

I agree with the gentleman from Massachusetts, that a small amount of progress was made at the end of last year. But compared to what needs to be done, not just with regard to our corporate rates but the complexity of the tax code, the disincentives to invest in this country and so on, we need to move it to the front burner.

And so, I think the only way you are going to get that kind of focus and put it to the front burner is to say to folks, "This is our top priority." Because as soon as you say we are ending the current tax code by a certain date, you are going to accomplish that goal. And that is going to focus everybody on, well, what are you going to do to avoid that uncertainty three, four years down the road from now?

And that is why I think it is important for us to take this stand now, to move it to the front burner and deal with it now, so we don't get to the point that you are making well, and that is that what if you get right up to the end of 2019 and you didn't have anything done? You would have created greater uncertainty.

*Mr. Renacci. I agree with you. And again, the only issue I continue to go back to is we extended the highway bill, we extended a highway infrastructure bill 33 times. So that is the problem --

*Mr. Goodlatte. This will require a super-majority to extend it beyond 2019.

*Mr. Renacci. I understand.

*Mr. Goodlatte. I think it will focus the mind. That is the goal.

*Mr. Renacci. I understand. Mr. Williams, I also agree with some of the concepts you put forward in your package of bills. I do have a couple of questions.

I have also had a couple ideas for tax reform. And as soon as you get it scored either conventionally or dynamic scoring, you realize that there are some serious issues with it. Have you had your proposal scored to see what the effects are of the dynamic -- or even a conventional?

*Mr. Williams. We have had it unofficially dynamic scored. That is -- and basically, what we see is that for two years your revenue may go down, but after that it climbs because you are putting more people to work, you are heading toward your five percent unemployment, four percent growth.

And, I mean, that is the last thing we have to do. We have tried a lot of things that haven't worked, zero percent and stimulus. Job creators are the ones left to rely on getting people back to work again and create more revenue. And we can put this plan to use and it will generate more income and hopefully reduce some debt along the way.

*Mr. Renacci. Well, I am a big believer we have to lower taxes. I just want to make sure we get it scored and see what the score is.

One other thing. You have in your bill, the Paycheck Relief Act, the bill reduces payroll taxes by two percent. That is -- is that two percent for both employers and employees? But the other thing I want to bring up is the Social Security Trust Fund is projected to be insolvent in less than 20 years. Do you have the data detailing the impact of cutting the payroll taxes and the amount that it would have on the solvency of the Social Security Trust Fund?

*Mr. Goodlatte. Well, we have got to fix those accounts, but I will tell you this. I believe that we can have more people paying in the system if we get more people to work. And the employee is going to have more money in their pocket, we know that. And the employer is going to have more money, because he doesn't have to match that. And when we have more money, most businesses don't save. They spend, they hire people, they create jobs.

And, you know, eventually, you have one person paying, I guess. But we have -- this gives you more customers buying into the system, generating more revenue.

*Mr. Renacci. Thank you. I yield back.

*Chairman Boustany. Mr. Holding?

*Mr. Holding. Thank you. I want to thank my colleagues, Chairman Goodlatte and Mr. Williams, for being here today and discussing their income-based proposals for reforming the tax code. I also want to thank Chairman Boustany for holding this hearing. You know, we really need to encourage the kind of bold thinking, innovative proposals we have discussed over the past two hearings that we have had now.

As has been made clear today, and in the numerous other hearings we have had, our tax code has become overly complicated and uncompetitive, compared to foreign jurisdictions. We have seen other jurisdictions lower their rate. In some cases, like the United Kingdom, over and over again. I think they just lowered it in the last budget to 17 percent. And foreign jurisdictions have increased incentives to draw businesses to their shores. And yet we have failed to act to keep pace.

So, Chairman Goodlatte, I applaud your efforts to lock Congress into a deadline and drive action on overhauling the tax code.

*Mr. Holding. Thank you.

And Chairman Goodlatte, I would like to direct a question to you. Earlier this morning we held a markup here in the Ways and Means Committee on a number of IRS oversight bills. And in your proposal you specifically single out the need for the tax code to protect the rights of taxpayers and reduce collection abuses, which is definitely an important goal, I think, of all of us.

In your role as chairman of the Judiciary Committee what issues or concerns have you seen with regard to these abuses? And how do you think we should shape the tax code to adequately protect our citizens?

*Mr. Goodlatte. Well, I think it is very important that the Congress maintain very active oversight over the Internal Revenue Service. Other branches of the agency, as well. But the trust of the public in the tax system to be fair is of paramount importance. And I think some of that has been lost in recent years, particularly with regard to scandals such as the targeting by the IRS of certain types of organizations as to whether or not they could qualify for certain tax statuses. And the evidence, I think, is quite strong that that took place and, therefore, engenders a sense of unfairness on the part of the public as to how our tax code, which is extraordinarily complex to begin with, is being administered, isn't being fairly administered with regard to each and every citizen, each and every taxpayer of our country.

So, we take that very seriously in the Judiciary Committee, and we hope that the same thing will be true here in the Ways and Means Committee, where I know you have investigated some of the same matters.

*Mr. Holding. Thank you. Thank you, Mr. Chairman, and thank you, Mr. Chairman. I yield back.

*Chairman Boustany. Mr. Tiberi?

*Mr. Tiberi. Thank you, Mr. Chairman. I apologize for being late. I had some constituents here.

I appreciate both of you testifying. I really don't have any questions. But, Mr. Williams, I was excited to see 3213, the expensing provisions. As you know, we passed a bill out of this Committee onto the House floor that became law, expanding 179 and making it permanent. And 50 percent bonus depreciation for 5 years. And I was excited to see your proposal about expensing, as well. So good luck with that.

*Mr. Williams. Thank you.

*Mr. Tiberi. I think you are on the wrong -- right track.

*Mr. Williams. Let's make it work.

*Mr. Tiberi. Yes, thank you. Thank you both.

*Chairman Boustany. I thank the gentleman.

Well, I want to thank both of our colleagues for bringing these ideas forward. And rest assured we are going to take these under consideration as we move forward. And I do appreciate, Mr. Goodlatte, your sense of urgency. I think those of us on the committee share that, and are hopeful that we can continue to move the needle forward with regard to getting tax reform done.

So, with that, we will move on to the second panel, and we thank you. I should also say be advised that over the next two weeks Members may have some additional questions they may submit in writing to you, and we ask that you make those answers promptly so we can make them part of the record. We thank you.

[Pause.]

*Chairman Boustany. Now we will hear from our second panel in the person of the Chief of Staff of the Joint Committee on Taxation, Mr. Tom Barthold. Mr. Barthold will discuss considerations in broad-based income tax reform using former Ways and Means Chairman Dave Camp's Tax Reform Act of 2014 for illustration. The committee has received your written statement, and it will be made part of the formal record. And so you will have five minutes to proceed, as is customary.

And I know you have been with us pretty much all day, Mr. Barthold, so we appreciate you returning for this Subcommittee hearing.

STATEMENT OF THOMAS BARTHOLD, CHIEF OF STAFF, JOINT COMMITTEE ON TAXATION

*Mr. Barthold. Well, thank you very much, Chairman Boustany and Mr. Neal, members of the subcommittee.

The chairman and ranking member asked me if I could just -- if I could use former Chairman Camp's H.R. 1 as an example of broad-based income tax reform. I think it is a good example that highlights a number of the important questions that face the Members in considering any tax reform proposal.

Just in analyzing any tax system or any reform there is really kind of four key questions that we are always asking: does the tax system or reform promote economic efficiency; does it promote growth; is the system fair; is the tax system administrable, both for the taxpayer and the tax administrator, the Internal Revenue Service.

In crafting any tax reform proposal, there are tradeoffs because, often, a proposal that promotes efficiency we might determine isn't as fair as we would like. And so we are always trading off one goal against another.

Now, another factor that was dealt with by former Chairman Camp, in crafting his proposal, is he added on additional constraints. He wanted his proposal to be revenue neutral, as conventionally estimated. He wanted to maintain approximately the distribution of tax burdens. He wanted to not have a shift in business taxes between flow-through businesses, C corporations, and from domestic C corporations to multinational enterprises. So there is a number of different constraints, and I think you can see a lot of the tradeoffs if we just tick through, as my testimony does, the outcomes as expressed in H.R. 1.

On the individual side, H.R. 1 achieved a rate reduction. It reduced effective marginal tax rates on individual income tax to 10 percent, 15 percent, and 35 percent, while maintaining a 40 percent deduction for dividends and capital gains. So that produced effective tax rates commensurately of 6 percent, 15 percent, and 21 percent.

Well, reducing rates generally costs the treasury revenues. How is that achieved -- how was that offset? Base broadening. H.R. 1 repealed all deductions for state and local taxes, modified a number of other deductions, such as the charitable deduction, mortgage interest deduction, deduction for moving expenses. Repealed the dependent care credit. Repealed all of the non-business energy personal credits, repealed or modified a number of other exclusions, such as some of the exclusions for employee fringe benefits.

Now, in addition to broadening the base to achieve lower rates, a number of these decisions also had the effect of increasing the simplicity of the individual income tax. Repealing a number of different credits and deductions means there is less paperwork required. We are not choosing between different possibilities. That promotes economic efficiency. But explicitly to improve simplification, H.R. 1 also repealed the individual income tax. It consolidated the American Opportunity Tax Credit.

On the business side, H.R. 1 again reduced the corporate income tax rate to 25 percent, further reduced the tax rate for a number of corporate taxpayers by repealing the Alternative Minimum Tax while maintaining a fairly strong research credit. Again, rate reductions tend to cost money. How was this achieved? Well, the base broadening.

The H.R. 1 repealed bonus -- allowed bonus depreciation to expire and required straight-line depreciation over the ADS recovery periods. It required amortization at 50 percent of advertising expenses over a 10-year period. It required amortization of research expenses. It repealed LIFO, which was just noted on the last panel. It phased out the present law deduction for our domestic manufacturing under Section 199.

Now again, base broadening in this context served multiple purposes. To the extent that certain activities are favored and these distinctions were repealed, that improved economic efficiency and neutrality.

In cross-border taxation, again, you see H.R. 1 established a 95 percent participation exemption system. That has the effect of reducing the residual U.S. tax liability on foreign source income earned through CFCs, effectively again lowering the rate of tax applicable for repatriated foreign source income.

However, the bill achieved this in part by establishing a new category of subpart F income, foreign based company intangible income, that, while taxed at a reduced rate of 15 percent, had the effect of broadening the amount of tax base currently subject to U.S. tax.

If I may take an extra 30 seconds? Well, what was the overall effect? Did H.R. 1 meet its goals? H.R. 1 was roughly revenue neutral, raising $3 billion over the budget period. I think that it is important to note that in context that is out of over a 10-year budget estimate of over $20 billion in -- $20 trillion, excuse me, in individual income tax receipts and $4 trillion in corporate tax receipts.

Distributionally, the average tax rates under present law, and as we estimated them for H.R. 1, were roughly the same. And to refer to the note that Mr. Renacci had made, our analysis does assume that the corporate tax burden is borne by individuals, that corporations are not entities of themselves in terms of a tax burden.

And on the growth front, you -- I am sure you remember from the materials that we put out that we estimated that H.R. 1 would be likely to increase real gross domestic product by between a tenth of a percent and 1.6 percent by the end of the budget period.

Happy to answer any more detailed questions that the Members have. And I think what you see in H.R. 1 was a lot of tradeoffs in base broadening, tradeoffs between simplicity, tradeoffs between neutrality. Thank you.

*Chairman Boustany. Well, we thank you for that very succinct analysis of H.R. 1, Chairman Camp's draft.

And one of the things we hear over and over from our constituents, especially small business owners, is about the complexity of the tax code, how mind-numbingly complicated it is. And of course, that adds cost with compliance and so forth.

One of the challenges I think we are struggling with a little bit is if you look at how to measure -- how do you measure simplification, which is -- you know, it is not as -- it is not like revenue, where you have a clear estimate, both in a static or dynamic sense of where your revenue is going to fall in a tax bill. How do you -- from your perspective, how do you look at simplification and the economic and financial benefits that ensue from simplification? How do you model that in tax reform?

*Mr. Barthold. Well, with difficulty, for one, Mr. Chairman. There is a number of different ways that economists and other analysts have looked at the complexity of the Internal Revenue Code and simplification.

One way in which we have is we have required the Internal Revenue Service to make estimates of the amount of time and effort it takes to complete certain forms. So if we wanted to target certain simplifications, we could look at how much effort goes into compliance with certain aspects of the code. And we have estimates provided by the Internal Revenue Service and others in terms of dollars, of time.

Another area in which we try to assess simplification to assist the Members is from the 1998 IRS Reform and Restructuring Act. My colleagues and I are required to report, as part of a committee report to this Committee and the Finance Committee, a complexity analysis if there is a provision that it in a bill that would have widespread applicability. To do that we talk about the number of taxpayers affected, the amount of additional record-keeping that might be required, the number of new forms. We seek an assessment from the Internal Revenue Service on what they think it would take. And so this is information that we try to gather to enable the Members to make judgments to get back to the tradeoff point that I made.

Sometimes, to reach your -- to reach a goal of fairness, you might say we want to preclude a benefit to certain upper-income taxpayers. Well, to do that, we have to define who, and then we have to have a test. And that leads to a more complex form than if we just said, "Here is a benefit, everyone can have it." And that is a tradeoff between simplicity and other policy goals that the committee members may have.

*Chairman Boustany. And in looking at pro-growth tax reform, you know, what will spur economic growth and job creation, which is something we are all concerned about right now, what areas of the code do you think we ought to focus on?

*Mr. Barthold. Well, it is not my place to pick and choose different areas. I can talk about work that we have done in the past. And I think H.R. 1, again, demonstrates some of the possibilities and some of the tradeoffs.

To go back to base-broadening, in the corporate and business area a goal of H.R. 1 was to reduce tax rates. Reducing tax rates increases the after-tax return to your business investment. That is obviously pro-growth. On the other hand, in H.R. 1, part of how we achieved increasing -- I mean reducing tax rates was to slow cost recovery, slow cost recovery somewhat on research, on intangibles in terms of advertising, and in terms of tangible property. We lengthened the depreciation recovery periods.

In classic economic analysis, the after-tax return, the profitability of an investment, depends not just on the top-line tax rate, but also on the cost recovery schedule. It is always better if we can recover costs faster. That is one reason the committee in the past has enacted bonus depreciation, to try and encourage additional investment. So the tradeoff made in H.R. 1 was slow the cost recovery but reduce the rate. Those two things work in opposite directions. Of course, if we did both in the same direction, then there is a bigger revenue loss during the budget period, which may lead to another policy concern that the Members would have.

*Chairman Boustany. I thank you. Mr. Neal?

*Mr. Neal. Thank you, Mr. Chairman.

Mr. Barthold, I think the dilemma was highlighted by the last panel. And essentially, Mr. Williams's proposal didn't do any base-broadening. And the second part of it was that he highlighted his disagreement with Chairman Camp's proposal. And that is one of the reasons it is so difficult to do reform, because people will take one part today, rather than taking a look for the longer term, in talking about what has to be done with fundamental tax reform.

And I must tell you I thought Camp gets plaudits for putting out a model. And I think, on a bipartisan basis, he did a terrific job of including Democrats. And there was really a free-wheeling conversation about the need to make some major changes in the tax system.

And I -- the day before I think it is fair to say now the two of us carefully rehearsed what he was going to say about my Alternative Minimum Tax efforts, and he couldn't have been any better about it. He said, "I am going to finish off Alternative Minimum Tax tomorrow and I am going to give you the credit for it in public." And, I mean, I think that is kind of the basis of what you need to do with tax reform.

And I think that, as we have discussed this -- and I think the four criteria that you laid out, right on target. I would add one more, by the way. What improves the quality of life for all Americans? Kind of the fifth one. But I thought the four that you laid out were terrific challenges and goals for all of us.

But I must tell you, based on long service on this Committee, I think that what we ended up doing at the end of last year is more likely where we are headed, unless we put something out that is bold, and ask Members to refrain from commenting on it immediately, and digesting it for a couple of days. Before Dave Camp's proposal had been in the hands of Democrats, his own party pounced. And it is -- an example is you lay out all of these issues about broadening the base, and I listen very carefully, because I think that you are right on target as you described it. But you also described just how hard it is to do, without specifically mentioning it.

So, I was very happy with many parts of the Camp proposal, and others that I think that we could have worked to improve. But in the end, if you really want tax reform, you are going to have to swallow some things you don't like. Thank you, Mr. Chairman.

*Chairman Boustany. I thank the gentleman. Mr. Reichert?

*Mr. Reichert. Thank you, Mr. Chairman.

Mr. Barthold, you mentioned in your testimony some of the challenges we have had, as a committee, and that we -- some of the challenges we faced, some difficult questions that we were presented with in pursuit of comprehensive tax reform.

But since the release of former Chairman Camp's draft, there have been some significant changes. First, we have increased the information available to Members about the economic impact of major tax changes by requiring dynamic scoring. Second, we passed the President -- and the President signed into law the Protecting Americans from Tax Hikes legislation that made key provisions in a tax code permanent.

I was hoping that you might be able to give us your impression of the potential impact of these changes as we move forward and examine comprehensive reform.

*Mr. Barthold. Well, at -- thank you, Mr. Reichert. Let me note, as I did note at the very end, we had provided a macro-economic analysis of H.R. 1. And under House rules, we have, for bills reported by the Ways and Means Committee, been providing macro-economic analysis since 2003.

So, trying to provide that extra information to help the Members make assessments of what direction they want to take policy is not new for us. The change that you just noted is that, rather than provide a range of outcomes, what economists refer to in economic jargon as "sensitivity analysis," you have asked us to provide essentially a point estimate, which is what we do on conventional estimates. But I wanted to note that the capability is there, and we have been trying to dutifully provide that information to the Members.

Also, you are correct. There are a number of things that Congress did last year, which were different, or reflected pieces of what may have been in H.R. 1. As noted in my testimony that I submitted, H.R. 1 would have modified expensing under Section 179. The PATH Act at the end of last year actually went beyond the levels that were proposed in H.R. 1.

I had noted that H.R. 1 would have let bonus depreciation expire. The PATH Act extended it and put it on a longer term footing. As I just discussed with the Chairman, as a general matter costs -- more rapid cost recovery is seen as a pro-growth initiative.

Another pro-growth aspect of the PATH Act which is roughly in line with part of what was in H.R. 1 was a permanent research credit, based on the alternative simplified research credit model. Again, that is another pro-growth initiative.

*Mr. Reichert. Okay. You have described the changes and some of the benefits. How do you see that helping us in getting to a --

*Mr. Barthold. In getting to tax reform?

*Mr. Reichert. Yes. Can you answer that one?

*Mr. Barthold. It is really not for me to --

*Mr. Reichert. If we help ourselves?

[Laughter.]

*Mr. Barthold. The difficult job is handled on your side of the dais.

*Mr. Reichert. All right. I will talk to you away from the dais here for a little bit. Thank you. I yield back.

*Chairman Boustany. Mr. Renacci?

*Mr. Renacci. Thank you, Mr. Chairman. Thank you, Mr. Barthold, for being here with us so long today.

You mentioned what I said earlier. Do you agree that corporations really do not ultimately pay the burden of the corporate tax, but they pass it on to the customers or, actually, it ends up being lower wages or benefits to the work force, lower stock valuations? Do you agree with that?

*Mr. Barthold. I have been an economist for a long time, and it is longstanding economic dogma that individuals bear taxes. In our analysis -- and if you want to read it in its -- all its guts and glory, we have a description of how we distribute business tax burdens. But we assess the incidents of these taxes as affecting both the owners of the capital investment and, over the longer term, labor. And that is because, if you diminish capital investment, that diminishes future possibility of productivity growth from having more and better capital. And productivity growth is a key driver of wage growth.

So, we see the incidents and we think the empirical economic literature supports that the incidents is borne by owners of capital and by labor.

*Mr. Renacci. So actually dropping the corporate tax rate --

*Mr. Barthold. So the short answer to your question is yes.

*Mr. Renacci. Yes. So dropping the corporate rate would actually be one way of having some pro-growth out of corporations, because they would reinvest it back in employees, growth in their business.

*Mr. Barthold. As I noted in answer to the Chairman's question, lower tax rates are -- always increase the return to investment, and that means we should see more investment, more growth.

*Mr. Renacci. Do you have an idea what the total percentage of corporate tax receipts are, compared to the overall receipts of the U.S. Treasury?

*Mr. Barthold. Well, off the top of my head, since I didn't look up the payroll tax projections, no. But I did note in the testimony that I submitted that over the next 10 years the Congressional Budget Office is estimating that corporate income tax receipts will be $4 trillion. Individual income tax receipts will be over $21 trillion.

So, if you think of the income tax as a whole, corporate tax receipts themselves are really barely 15 percent of the total income tax pie. Our biggest source, as you are aware, of funding the Federal Government is the individual income tax, followed by payroll taxes.

*Mr. Renacci. So, has anybody ever asked a question if you eliminated the corporate income tax and eliminated the cost to the IRS to -- if you eliminated the revenues from the corporate income tax and eliminated the costs to do all the receipts and collections and follow up, what the net cost would be to the Federal Government?

*Mr. Barthold. Not recently, to my knowledge. And if a Member had made a request, you know that we treat any Member request as confidential, so I couldn't comment on that, but --

*Mr. Renacci. I just wondered, because it is -- when it is such a small amount, I wonder if there has been some thought to --

*Mr. Barthold. Well -- although, Mr. Renacci, I should point out -- and this was a point that was made by the prior panel and is reflected in the estimates that I cited -- there is a substantial amount of business income, as you are aware, that is taxed through the individual income tax.

*Mr. Renacci. Right.

*Mr. Barthold. And so, when you say just repeal the corporate income tax, it is -- how do you want to treat the income that is earned at the corporate level then becomes a question. So it is kind of like what to do --

*Mr. Renacci. Right.

*Mr. Barthold. What to do next?

*Mr. Renacci. That is why I asked the question. I was just wondering if anybody had ever gone that direction.

*Mr. Barthold. People are thinking -- people talk about that, and we talk with Members about that.

*Mr. Renacci. Yes. When you -- you were here for Mr. Goodlatte's proposal. Do you think setting a drop-dead date would bring uncertainty and unpredictability to long-term business planning, and really could disrupt business activity, going forward?

*Mr. Barthold. Really, not -- probably really not appropriate for me to make a judgement on that, at least without a lot further study. So wouldn't want to shoot from the hip.

[Laughter.]

*Mr. Renacci. In your testimony you said that H.R. 1 was roughly revenue neutral compared to the 10-year baseline revenue projections. We have done some things since H.R. 1. We did the PATH Act and other things. Do you know what the -- how much the baseline has changed since some of the things have passed?

*Mr. Barthold. I do not have with me how the baseline has changed. The baseline, as reported by the Congressional Budget Office, which, you know, we can look up, reflects two factors: one, the PATH Act, in terms of receipts; but also the underlying macro-economics, some of which are independent of the PATH Act. The projection of interest rates, you know, Fed policy, other policies, all of that goes into the projections of receipts.

I don't think I'm answering your question.

*Mr. Renacci. No, but I just know we are probably a little bit off of the revenue neutral --

*Mr. Barthold. Well, if your question was if we were to re-estimate H.R. 1 today --

*Mr. Renacci. Right, that is --

*Mr. Barthold. -- what would it be, again -- well, one, I have not done that. There would be some questions that I would want to ask someone who would make that request, and it would go back to the points that -- one of the points that I just made. We -- the Congress, in the PATH Act, was more expansive in terms of its extension of Section 179. Would we want to go back to H.R. 1's level, which would mean pare back on that? So would you want to do just a pure let's look at H.R. 1 compared to where we are, or is it kind of an H.R. 1 modified?

If that were of interest to the committee, certainly that is part of the reason my colleagues and I are here. We could work on that.

*Mr. Renacci. All right. Thank you, Mr. Barthold. I yield back.

*Chairman Boustany. I thank the gentleman. Mr. Holding?

*Mr. Holding. Thank you, Mr. Chairman. Mr. Barthold, thank you again for being here. You testified twice in one day.

Chairman Camp introduced his proposal formally in December of 2014. And even in that short period since the bill's introduction, we have seen a huge change in the international tax base. So, as other countries have enacted lower tax rates and favorable business incentives, we have seen a large rise in base erosion here at home.

So, as we look to overhaul the tax code, to lower the rate and broaden the base, and remain competitive internationally, how does this increase in base erosion impact our tax reform proposals? And does JCT take this increase into account when scoring comprehensive packages?

*Mr. Barthold. Let me start, Mr. Holding, with your last question. Do we take into account what is going on in terms of trends in base erosion and receipts? Simple answer is yes. I mean we have consulted with our colleagues at the Congressional Budget Office in what to think about activities that have been happening abroad or in this country, what trends have been over the past several years, and which we hope have helped them in making their projections of corporate receipts.

If you look in detail at their corporate receipts, they do show a modest decline in corporate receipts, or at least no growth, although they project the overall economy to be growing. So they are reflecting something missing from the corporate tax base if the economy is growing and corporate receipts aren't growing. That baseline is the fundamental against which we measure any change that the Members might propose in terms of changing corporate taxation.

So the short answer is yes, we take into account those trends as best we can. We try to stay abreast of possibilities and what might be happening, both in terms of assessing what the baseline is, but also how U.S. taxpayers respond to a proposed change that the Members might have. My colleagues meet regularly when we can with taxpayers to discuss partly how they see things, how they play things, how they respond, what their planned responses are to some of the actions that are being taken by foreign governments.

*Mr. Holding. Thank you. So, in Chairman Camp's plan, what steps did he take to address base erosion? And, given the increase in base erosion, would these steps that he took still be as effective today?

*Mr. Barthold. That is an interesting and difficult question, Mr. Holding. The primary base erosion aspect of H.R. 1 related to the -- one of the last points that I highlighted, and that was establishing this new category of subpart F income that was referred to as foreign base company intangible income.

What a number of you and your colleagues have identified and other analysts have identified is that intangible property, be it, you know, brand naming or be it ownership of patents, is sometimes transferred abroad to lower income tax jurisdictions. And then the income, much of the income, may be properly attributable to, you know, this brilliant idea, this patent. And so that is a form of base erosion, even if a lot of the work in developing that patent occurred in the United States.

Well, that is what the notion of foreign based company intangible income in H.R. 1 was about. It tried to say a business enterprise will have income from its investment activities of two sorts. There is investment activities of building a factory, putting machinery in place, you know, training the workers, and then some of the investment is in coming up with a brilliant idea and a new product. And that is the intangible piece. And H.R. 1 tried to put a measure on the intangible piece and tax it at a lower rate, both to encourage the intangible piece to stay in the United States, but also to say you can't just have the intangible piece go off to another country and have effectively a very low rate of tax.

Now, as to whether the effectiveness of that prospectively -- have to think some more. But that is what the base company intangible income proposal in H.R. 1 was all about.

*Mr. Holding. Thank you very much.

Thank you, Mr. Chairman.

*Chairman Boustany. Mr. Kelly?

*Mr. Kelly. Thank you, Chairman.

Mr. Barthold, thank you. You have had a pretty full day. I am looking at your background. So you came here in 1987. That was right after the last major tax reform. So you are coming up on 30 years. You must be a phenomenal patriot to come in here every day and look at this. And I would just imagine, in these 30 years, you have probably looked at just about every possible angle of what it is that we are trying to do.

And at the end of the day, the only way this is ever going to change -- because change only takes place during a time of crisis or tragedy. And I would certainly say that where we are today as a country, we can continue to debate this -- and this goes back to the Middle Ages where we are trying to figure out how many angels we can fit on the head of a pin and not actually coming up with any answers.

So I am just -- I tell you, I am stunned by your devotion to this nation, and running the models on all of these things to tell people why it would work or why it wouldn't work, and watching a decline of the greatest nation the world has ever known because, politically, we can't move on to save this country. I am absolutely stunned.

And I have heard so many -- I am glad Mr. Goodlatte came in. And I would just say when you set a deadline there is a reason why they call it a dead line. There is just something about this that I have watched now -- thank God I have only been here for five years. I had to survive in the private sector, where you could never do this stuff and survive. You could talk about when you used to be in business and how you didn't respond to a tragedy or a crisis. And see, I can remember the day I went out of business. I knew it was coming. But you know what? I just figured, hey, you know what? It will work itself out.

Really, I don't have so much a question, other than maybe it is just the form of government that we have, or we have this constant rotation, and people come and go. You have not. You came and stayed. I want to ask you. In your 30-year career have you seen anything you would have said, "If they could have done this right now, this would have made a difference"?

I know we are trying to do -- the revenue neutral part gets to me because it -- what the hell, revenue neutral? I don't want it to be revenue neutral. I want to see revenues go up. But the only way you get revenues to go up is look at the field you are playing on, and the competition you are playing against. And, my God, I would love to be someplace else in the world here, because just watch what the United States is doing, and we are so easy to game. It is just incredible. We are having our pocket picked every day, and we are sitting back and saying, "It is okay, we just haven't agreed on how we are going to fix it."

Is there anything in your 30 years that you would look back on and say, "This was a moment in time that something could have changed and never changed, and it was because policy always gets trumped" -- no pun intended -- "by politics"?

[Laughter.]

*Mr. Kelly. Everything here is about a political stance and not about a policy stance. So just help me to understand how the heck you have sat here for 30 years and listened to all these brilliant minds come up with nothing.

*Mr. Barthold. Mr. Kelly, first of all, let me --

*Mr. Kelly. This is not a gotcha question, by the way.

[Laughter.]

*Mr. Barthold. Oh, well, let me thank you for your kind words. I have been here for a while, but I -- in my current position I have tremendous support from a lot of really good colleagues, a couple of whom are seated behind me.

Now, if over that period there had been some things where I thought they should have done that, it is really not appropriate for me in this forum to offer that.

*Mr. Kelly. You should run for office.

[Laughter.]

*Mr. Kelly. But I am sincere about this, I mean, because everybody I serve with -- I go back home and people tell me, "John, how do you stand it down there?" And I say, "You know what? I have not run into one person who said to me, 'You know, the reason I got elected was to ruin this country.'" I haven't seen -- everybody says, "I want to come here, I want to help, I want to make it better. Geez, I wish it wasn't an election year."

So, I really admire you for what you have been able to do, and your staff is a tremendous staff. I am telling you, you are truly patriots, and you are truly dedicated to this country. And so is every Member sitting here right now today.

I mean one of the most common talking points when you are running for election is tax reform. But the part we -- pro-growth tax reform, why should we never look for something that is neutral when it comes to revenue? We need a hell of a lot -- excuse me, you are not allowed to say that, right? We need a lot more money than what we are generating right now. When you continue to borrow at the rates we are borrowing and saying, "Geez, even though we have a record" -- we -- what was it, 3.4 trillion last year in revenues, and we can't live within that? I mean there is a lot more things that we have to tweak.

But I just want -- first of all, I want to thank you for your appearance today in both these things. And in your steadfast commitment to this country, to run the traps for people, to let them know the pluses and minuses and where we need to go. I just really do. I admire you for sitting and watching this for 30 years, knowing how great the nation could be.

*Mr. Barthold. Well --

*Mr. Kelly. And it is not because we don't want it to be great, it is just because there is other factors in it. And I really do believe we are at a crisis right now. It is going to be -- the change is going to have to take place, because we are truly at a point of crisis or tragedy. I just would hate to be the one that said, "I knew it, but I didn't love my kids, my grandkids enough to do anything about it. I really wanted to stay in office a little bit longer."

So thank you so much, Chairman. Thanks for holding the hearing. I really appreciate this, but I think we have kicked this horse so long it ain't going to move.

*Chairman Boustany. Well, Mr. Kelly, I am thankful to you for bringing some energy to the hearing this afternoon.

Secondly, I want to thank you for thanking Mr. Barthold for his service. I think we all join you in that.

And thirdly, you forgot to thank Mr. Neal for 28 years of service to this Committee.

*Mr. Kelly. Would the chairman yield?

*Chairman Boustany. I will yield.

*Mr. Kelly. Mr. Neal, thank you so much.

[Laughter.]

*Mr. Kelly. From one Irishman to another. So we will go out and have a pint or two or three to celebrate it. Thank you.

*Chairman Boustany. Mr. Tiberi?

*Mr. Tiberi. I am not worthy. Wow. Why do I have to go after you? Now I know how Renacci feels on a regular basis.

[Laughter.]

*Mr. Tiberi. Mr. Barthold, thanks for your service, as well. You obviously know my interest in expensing. You have already spoken very clearly about the PATH Act and differences of how Section 179 was dealt with in the Camp draft and how we pursued it in the PATH Act and bonus depreciation at 50 percent. I wanted to make it permanent.

You probably also know the Tax Foundation found that permanent 50 percent bonus depreciation, according to their analysis, would increase our country's GDP by over one percent, increase wages, and create over 200,000 jobs. They also found that full expensing would increase GDP by over five percent. As Mr. Kelly said, we have kicked this horse around quite a bit in terms of what -- in terms of making the tax code more competitive to businesses and individuals, obviously.

So, back last year, a U.S. manufacturer, auto manufacturer, said to us that -- said to me that we -- that they decided on the basis of bonus depreciation to build plants here in America, rather than elsewhere. And now we have got this five-year window that I think is going to be quite helpful.

Your analysis, JCT's analysis of bonus depreciation, is different than the Tax Foundation's higher growth model. But you did find in your analysis of my bonus depreciation bill -- you may not remember -- that it would raise worker productivity, it would raise wages, it would raise employment levels and economic output.

So, from that basis, as you look forward when we at some point do comprehensive tax reform, how do you view expensing as a piece of the puzzle to deal with those issues that we talk about we are trying to do, whether it is increase wages, increase productivity, increase GDP growth?

*Mr. Barthold. Well, thank you, Mr. Tiberi. Expensing? Again, I will use the economic jargon of cost of capital. Rapid cost recovery, expensing, reduces the cost of capital that encourages investment that can be pro-growth. There are issues with expensing, in terms of an overall analysis because, just as there is tradeoffs, as talking in terms of different tax policy goals, in the macro-economy there can be tradeoffs in terms of the government's cashflow and the need to borrow.

In very simple terms, if there is expensing, we expense all tangible investments next year, it would dramatically lower business tax receipts. Absent other changes that the Congress might choose, it would probably run a larger deficit. We would have to finance the larger deficit. And depending upon what the monetary policy -- you know, monetary stance is, that can drive up interest rates, real interest costs.

Real interest costs are a negative in the cost-to-capital calculation. So there can be some tugback against the positive from expensing from what goes on in the broader economy. We try and reflect that in our macro-economic models.

The cost to capital has got a lot of different components in it, so it will involve a number of the tradeoffs that you make when you --

*Mr. Tiberi. How do you model that from this perspective? Let me go at it another way. So you have a farmer in Ohio, and expensing is a big deal of -- because of cashflow purposes. So your -- that farmer is not going to move his or her farm to Ireland or Australia. But we have seen other types of employers move their employment base outside of the United States to, let's say, Ireland.

Back to my thought process of competitiveness. And we have talked about this a lot. Isn't there, though, a way to model with respect to what you just said, if there is a company here that makes things in America? And we are uncompetitive, our tax code is uncompetitive. So expensing will allow them to be more competitive.

So, rather than go -- there is, obviously, other factors to Ireland -- no disrespect to Mr. Neal or Mr. Kelly -- to Ireland to -- this company or the headquarters having expensing. Wouldn't that be a pro-growth, but -- pro-revenue into the U.S. treasury, because you are losing the revenue because they are putting their facility now overseas? And expensing might be a way to make them more competitive here, the cost recovery.

*Mr. Barthold. Oh, I don't think anything that I had said disagreed with your analysis. I was trying to --

*Mr. Tiberi. No, no, I am sorry --

*Mr. Barthold. -- a broader context.

*Mr. Tiberi. Sorry to interrupt, but let me -- I am trying to -- I understand it creates deficits if the business is static, meaning it can't move. Do you look at it that way, versus one that can move?

*Mr. Barthold. No, sir. We try to look at where tangible and, as I was referring to in H.R. 1, where the tangible and the intangible investments occur and are located.

So we try to look at the macro-economic assessment, both in terms of movement of tangible investments abroad, intangible investments abroad. Or tangible investments occurring more frequently in the United States, intangible investments occurring more frequently in the United States. It is difficult modeling. The empirical work and the economic literature is not hard and fast on this, but we tried to account for these differences.

We also tried -- you mentioned a farmer in Ohio. You also have a Procter and Gamble in Ohio. We try to distinguish between the flow-through, the smaller enterprises would be your farmer, and the multinational enterprises, such as your Procter and Gamble. And we assign -- we essentially are estimating that they have different behavioral responses to what we do -- or what you do.

*Chairman Boustany. I thank the gentleman.

Mrs. Noem?

*Mrs. Noem. Thank you, Mr. Chairman. And since Mr. Kelly asked my question word for word, I will go a different direction. That is exactly what I was going to say.

But I am a -- sitting here today in Congress, specifically just because of the tax code. When I was a college student my dad was killed in an accident, and I quit school, took over the operation, but got a bill in the mail from the IRS that said I owed the Federal Government money because we had a tragedy in our family. And it made me mad. I didn't understand how we could have a law in this country that would take a family's business away, or try to, because all of the sudden we owed it money when we didn't have money in the bank to pay those taxes. We had equity, we had land and cattle, but no money to pay the taxes.

So that is why I am here. And since I have been here, and I have been in so many different conversations with people that talk about the reason you make changes to the tax code or put in exemptions or incentives or whatever the provision may be, is to encourage people to do the right thing, the favorable behavior, to provide an incentive for them to invest or save. But yet, over the years, as we have done that over and over again, the tax code has become more and more complicated, and it has grown.

And you, have you been at Joint Tax for 30 years? How -- what was the year you actually came to JCT?

*Mr. Barthold. I started in the summer of 1987, Mrs. Noem.

*Mrs. Noem. So you have a very interesting perspective on the growth that we have seen over the years. And I am curious to see if you truly do believe that all these new provisions that we come with, pieces of legislation that incentivize good behavior, truly are a benefit to the people here in this country. Because cost and compliance and the burden of this complicated code is -- and I am asking you to be a little philosophical, I know. But I also think you probably have some facts you can think of where you have seen people bring provisions to change our tax code that has actually ended up in creating a more burdensome system for them. I was wondering if you would speak to that for me.

*Mr. Barthold. Well, in very general terms, Mrs. Noem, the role of the Joint Committee staff is we try to provide analysis and information to you, the Members, so that you can make the decisions. I mean the job on your side of the dais is more difficult than ours, because I can present -- if you have a proposal, I can comment on, well, how is this in terms of economic efficiency, or is this pro-growth, or what it might mean in terms --

*Mrs. Noem. What is your definition of pro-growth?

*Mr. Barthold. Pro-growth would be whether it increases the rate of growth of gross domestic product of U.S. economy.

*Mrs. Noem. But you don't have any threshold, it is just if it does or if it doesn't.

*Mr. Barthold. It would -- is it moving you in the right direction, qualitatively. I mean we would try -- if you have a specific proposal, we would try and analyze it quantitatively --

*Mrs. Noem. And is cost of compliance --

*Mr. Barthold. We try to -- as I was explaining to Mr. Boustany, we try and talk about compliance effects, we try and point those out to Members if something would be difficult to -- for the IRS to administer, or for taxpayers to comply with. These are all points that we try to bring to Members when you craft your proposals.

Then, talking about what has happened over 30 years, Members have made the tradeoff of the sort that I have -- you know, that I have described.

*Mrs. Noem. Do you have a formula where you get to a point where 10, 15 different provisions add a complication to the code where it then makes the taxpayer hire a professional, have increased costs, just to be able to make sure they are doing something correctly? Do you take that into account, the compounding effect of numerous provisions that may impact an individual trying to pay their taxes?

*Mr. Barthold. In terms of -- we try to account for that in terms of the baseline, to begin with, because if we have developed a revenue system that is very complicated, difficult to comply with, we may see compliance rates diminish, and that will show up, just in terms of baseline receipts.

As we develop new -- or as we -- I keep saying "we," but it is from working with committee members -- as you develop proposals, we try to provide you information on how different proposals you have might interact with each other. What might it mean in terms of the complexity? Are they working in the same direction? Do they require overlapping and different reporting requirements? So that is all information that we try to bring to you.

So the general answer is yes, we try to offer those assessments. But there is not a magic modeling of saying, "If I add up a whole bunch of different proposals this way, it leads to, you know, a" --

*Mrs. Noem. But that is the tipping point.

*Mr. Barthold. -- "result that I can quantify," and that if I add them up a different way or drop one or two, that I can -- it is difficult to quantify complexity.

*Mrs. Noem. We like to talk about the growth of the tax code each year. You know, this many more provisions, regulations, pages added to the tax code. Do you know the growth in the time that you have been at JCT?

*Mr. Barthold. No one has ever asked me that. And no, I don't.

*Mrs. Noem. It would be interesting. Thank you for your time.

I yield back, Mr. Chairman.

*Chairman Boustany. I thank the gentlelady. Mr. Neal, you had a couple of follow-ups?

*Mr. Neal. Just to wrap up on my isolated side, the -- I think one of the things to recall here -- and it is very difficult sometimes to transmit to new Members that the political system right now in America is holding back economic growth. It is stunting economic growth. It is the uncertainty, it is the ambiguity. And certainly it, I think, constitutes a lack of confidence that the American people have in many aspects of our political system.

And I highlight, based on Mrs. Noem's comments, that in the late 1990s we were witnessing growth in some instances north of 7 percent. Twenty-three million jobs means that federal revenue went through the roof. And as federal revenue goes through the roof, social spending goes through the floor. And what is left out of the discussion frequently is to do tax reform you need money. And we were staring at enormous surpluses at that time: 1998 was the year we could have done tax reform; we spent a year in that Congress on impeachment.

And it stifles confidence that the public has, regardless of what party you are from, and many of the theories that are purported, when there was a broad opportunity to have enough money to ameliorate some of what would have been deemed losers in tax reform, and helping them transition, to build that bridge. And I think that this Committee has a special responsibility to try to get it right.

And I will say once more I think David Camp really tried to get it right. And that doesn't mean we agreed with everything he said and did. But I got to tell you he was the first person to put something out since 1986. Plaudits.

Thank you, Mr. Chairman.

*Chairman Boustany. Well, I agree, and I think the importance now is for the committee to build on what Chairman Camp did, and continue to take additional ideas forward. But we have to act. We can't continue just to talk about it. So, in that spirit, hopefully we can all work together to get tax reform done.

Mr. Barthold, thank you for being with us this afternoon on top of the long session this morning. We appreciate your insights and what you bring to the committee. Thank you for your service as we look forward to building consensus, to move toward comprehensive tax reform, and we certainly will be relying very heavily on you and your team.

Also, please be advised that Members will have two weeks to submit additional questions. And your answers will be made part of that record. And with that, the subcommittee stands adjourned.

[Whereupon, at 4:54 p.m., the subcommittee was adjourned.]

Public Submissions for the Record