Hearing on Perspectives on the Need for Tax Reform

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Hearing on Perspectives on the Need for Tax Reform

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

The subcommittee met, pursuant to call, at 2:18 p.m., in Room 1100, Longworth House Office Building, Hon. Charles Boustany [chairman of the subcommittee] presiding.

Chairman Boustany. The subcommittee will come to order. Welcome to the Committee on Ways and Means, Subcommittee on Tax Policy's hearing on perspectives on the need for tax reform. Today, the subcommittee will hold a hearing to explore the drivers that are motivating the persistent calls for the reform of our broken Tax Code.

At the highest level, that need can be seen in our lackluster economy over the last 8 years in the absence of robust projections for economic growth looking forward. Since the recovery began in 2009, real GDP growth has averaged just 1.8 percent, far below the pre-recession average of 3.5 percent.

Going forward, CBO projects potential growth of just 2 percent. While these shortfalls may seem small, they result in trillions of dollars of lost output and thousands of dollars of lost income for families. Slow growth is a choice, but it is an unacceptable choice, and our bleak economic future demands tax reform.

Tax reform also is an imperative for small and large businesses alike. Our Tax Code simply isn't competitive anymore. We have the highest corporate tax rate in the industrialized world, and a 50-year old international tax approach.

While the U.S. tax rules become more and more outdated, our international partners are moving full steam ahead to become even more competitive. And our inaction is costing us. American businesses are losing ground. American companies are getting acquired by foreign companies. New business startups are lagging. Companies can't expand as rapidly as they should, and capital investment is restrained.

The need for tax reform is further evident in the mind-numbing complexities of the Tax Code and the enormous compliance burdens it imposes on families and businesses in this country. Today's Tax Code consists of about 2.4 million words, and roughly 7.7 million words of regulations and countless more pages of case law, publications, and other guidance.

Is it any wonder that taxpayers are frustrated, especially when they are paying more than $31 billion annually on software and professional tax preparation services just to figure out their taxes? Americans deserve a simple straightforward tax system that does not waste their valuable time or their money.

Today, we have a very impressive panel of witnesses who will share their perspectives on the need for comprehensive tax reform. With the input the committee receives from today's witnesses and from stakeholders across the board, the committee has a responsibility to respond with a strong tax reform plan that is built for growth. We must harness these motivators for reform in order to advance the work to develop a new Tax Code that is ready for the next President to sign in 2017.

To accomplish that goal, we should also consider ways to motivate tax reform from within Congress, approaches like the Tax Code Termination Act introduced by our colleague, Chairman Goodlatte. In the words of Grover Norquist, president of Americans for Tax Reform, quote, "The idea here is simple. Unite the proponents of many competing replacement tax schemes to support legislation terminating the existing Tax Code by a certain time period to force action," end quote.

Mr. Norquist and Chairman Goodlatte are right about this. We need to look at every avenue to catalyze the process within Congress and get a tax reform bill over the finish line.

Without objection, Mr. Norquist's full statement will be made part of the record.

Chairman Boustany. Before I turn to Mr. Neal for his opening remarks, let me thank our witnesses for taking time today from your busy schedules to be with us. We really appreciate it. We certainly look forward to hearing your testimony.

I am now pleased to yield to the distinguished ranking member, Mr. Neal, for purposes of an open statement.

Mr. Neal. Thank you, Dr. Boustany.

Mr. Chairman, I want to thank you for calling this hearing on Perspectives on the Need For Tax Reform. As you stated in your opening comments, the focus of this hearing is on the need for tax reform, but in particular, for economic growth.

None of us can be encouraged by the Federal Reserve's recent suggestion that economic growth is going to be in the vicinity of 2 percent for perhaps the next decade. I agree with the whole notion of business expansion, job creation, and investment, and we all agree, certainly, on the challenges of the current Code. Where we tend to disagree is on the road forward.

One of things that is nice about the panelists we have selected, they have been here many times in the past, and they are all of first class thinking.

I agree with the goals that you have stated, and clearly applaud your commitment to hearing from these individuals in search of the best tax policies. These esteemed witnesses will testify on the need for tax reform, and I do not doubt the ferocity of their testimony. However, we should note that we have heard from them many times in the past on the same issue -- issues. And we have had a chance, I think, beginning with at least the piece that Chairman Camp put out to discuss it in more detail.

We almost know what these witnesses are going to say, and I fear that we need to help them help us to break out of the impasse in which we find ourselves. I hold to the position that tax policy cannot be done on the basis of political philosophy and needs to be based upon policy philosophy.

Mr. Chairman, I believe that we must expand our gaze going forward. We also should hear from the American public. And to your point, which I think is entirely correct, we should hear what the presidential aspirants have to say now, not just after that individual takes the oath of office. We need to hear from middle class families. We need to talk about expanding the child credit. We need to talk about how individuals qualify for EITC. The Tax Code's expansive reach touches everyone across this great county. As such, it demands a thorough examination to ensure when we fix it, we are doing our best job.

If I might say, I think we have examined it in great detail time and again. But this will also include listening to the very people that the Code touches. Reforming our Tax Code remains of the utmost importance. I look forward to working with you to ensure that the Code will create jobs, promote economic growth, and once again help to grow the middle class. Thank you, Mr. Chairman.

Mr. Boustany. I thank the gentleman. Today's witness panel includes a number of leading experts on the conditions driving the urgent need to reform our broken Tax Code. We have Douglas Holtz-Eakin, president of the American Action Forum. From 2001 through 2002, Dr. Holtz-Eakin was chief economist on President Bush's Council of Economic Advisers. From 2003 to 2005, he served as director of the Congressional Budget Office.

Next, we have J.D. Foster, vice president of economic policy division and deputy chief economist at the U.S. Chamber of Commerce. Dr. Foster has previously served as economic counsel on the U.S. Department of Treasury, Office of Tax Policy, and as chief economist at the Office of Management and Budget for President Bush.

Scott Hodge is the current president of the Tax Foundation. Prior to joining the Tax Foundation, Mr. Hodge served as director of tax and budget policy at Citizens for a Sound Economy. He also spent 10 years as a fellow at the Heritage Foundation.

And Martin Sullivan is the chief economist and contributing editor for Tax Analysts, daily and weekly publications. Previously, Dr. Sullivan has served as a tax economist at both the U.S. Department of Treasury, and Joint Committee on Taxation.

Gentlemen, we really appreciate you being here. I know this is one of many times that you have appeared before the full committee and subcommittees, and we certainly appreciate you being here today. And we will begin with Dr. Holtz-Eakin. You may begin, sir.

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

Mr. Holtz-Eakin. Thank you, Chairman Boustany, Ranking Member Neal, and members of the committee. I appreciate the opportunity to be here today. You have a written statement. Let me simply emphasize three main points, and I look forward to your questions.

Those points are that tax reform is an opportunity to improve the long-term trend for economic growth, that it is an opportunity to improve our international competitiveness and affect headquarter's decisions, and finally, it is an opportunity to restore lost faith in the Tax Code, and I want to say a little bit about each.

The challenge of economic growth, I think, is the paramount challenge at this time. And to frame it, remember that from the end of World War II to 2007, the U.S. economy grew rapidly enough, 3.2 percent a year on average, that even with population growth, GDP per capita, roughly measured the standard of living, doubled roughly every 35 years. So in one working career, you could see a doubling of the standard of living, and that put American dream within the reach of many Americans, whatever it was to them.

If we have 2 percent trend of economic growth, and you roll in projected population growth, you double the income per capita every 75 years. And I think that just puts the American dream too far over the horizon and that we have to focus on improving growth.

There is great potential to do that. We know from some of the studies cited in my written testimony that the Tax Reform Act of 1986 contributed to better economic growth. That is looking at a real world effort. We know from work of Allen Auerbach and many of his colleagues, that if you were to do an income-style tax reform, you could raise GDP by something like a little under 5 percent. If you did a consumed income tax with a great deal of clarity and discipline, you could raise it by as much as 9 percent.

So there is an opportunity there to contribute to better economic growth, which I believe is the top issue, and you ought to focus on it.

The second is the international competitiveness, with which you are very familiar. The U.S. has a very high statutory rate, highest in the developed world. It also has a very high effective rate. If you look at the computations, it looks like the U.S. is about 28 percent versus 19 or 20 percent for our competitors. And our effective tax rate is higher than 53 out of 58 competitor countries, and it puts us at a tremendous disadvantage. That is compounded by our cling to worldwide base for our international tax system.

Our competitor countries in the OECD have been moving from a worldwide to something more like a territorial, roughly one country per year. We remain the last country clinging to worldwide system, and it has produced a competitive disadvantage. It has produced an incentive to defer funds and keep them locked offshore, and it has produced this terrible situation where when any two companies merge or acquire across borders, when you run the numbers, the headquarters end up outside the United States. And the only way to fix that is to fix the Tax Code and do tax reform.

The section 385 rulemaking by the Treasury is not a solution. It is making things worse. And indeed, we want to make this a place where people want to locate their investment. Inbound investment is good for the United States. It is not something we should fear. We should have a tax system that incentivizes it.

And then, the last issue is the issue of lost faith in the Tax Code. The U.S. has relied, from its inception, on voluntary compliance with the Tax Code. But as the complexity has risen, as the administrative costs have risen, and as the tails of people paying zero taxes have sort of proliferated, there is a real sense that I don't know if everyone is playing fair, why should I play fair? Tax reform is a chance to clear that out, and to restore faith in the tax system is something that Americans comply with and that they used to support public policy goals.

I think those three things should be the focus. You have lots of criteria for tax reform. They can be growth, they can be income distribution, they can be complexity, simplicity, administrative and compliance costs. I think you should focus on growth competitiveness and restoring that faith. You can't do everything. You have other policy tools on the spending side to do deal with other issues. I think those are things to focus on, and I hope that this is the last time I testify on the need for tax reform, and I thank you for the chance to do it.

Chairman Boustany. We thank you.

Dr. Foster, you may proceed.

STATEMENT OF DR. J.D. FOSTER, VICE PRESIDENT, ECONOMIC POLICY DIVISION AD DEPUTY CHIEF ECONOMIST, U.S. CHAMBER OF COMMERCE

Mr. Foster. Thank you, Mr. Chairman, Ranking Member Neal, members of the committee. My name is J.D. Foster. I am the Vice President in Economic Policy and Deputy Chief Economist at the U.S. Chamber of Commerce.

I would venture to say that in the decade since the last major tax reform was enacted, the Ways and Means Committee has held scores of hearings and had thousands of hours of testimony and debate on the need for comprehensive tax reform. In retrospect, it is a daunting task to think that one could add to that mountain of evidence. I am sure my co-panelists will equip themselves well in trying to do so.

Little has really changed over the course of these many years relevant to comprehensive tax reform, little except the urgency for tax reform has itself grown, and the price of inaction has grown higher, as the relative economic strength of other nations and their businesses has grown rapidly.

A related difference from the past is the apparent dimming of America's economic future to which you alluded. The weakest economic recovery in the modern era continues but just barely, and it is now showing distinct signs of slowing further. In the most recent quarters, the economy has slipped from a pedestrian 2 percent growth to 1.4 percent, and the most recently, to 0.5 percent. This is not a good sign.

This comprehensive tax reform moves forward in fits and starts. It should always move forward with improving economic growth as the primary focus, not the simplification or improving transparency, or these other issues commonly raised are unimportant, they are important. But as the saying goes, they don't feed the bulldog. The only thing that really drives tax reform making the whole effort worthwhile is economic growth.

The concept of economic growth is something of an abstraction. Gross domestic product is something we commonly cite, and the reality is few people really know what it means, and in any event, it is an imperfect measure of the economy. More critically, businesses, American businesses, workers, and families don't live in a world of abstractions. They deal with real issues day to day.

In communicating the need for comprehensive tax reform then, the choices made in developing legislation something more real is needed, something which regular people can relate to.

What does "grow the economy" really mean in simple English? Well, in simple English, it means more small businesses, more medium-sized businesses, more big businesses all doing more business. It is as simple as that. The U.S. economy doesn't grow until businesses are growing in number and size. Washington policies would result in more jobs, higher wages, and more opportunities if the frame of reference involved a stronger focus on the business environment.

We would do better if Congress stopped believing its wisdom superior to that of individuals and businesses participating in markets channeling those actions.

Comprehensive tax reform can play a very constructive role. What do businesses do to grow the economy? Very simply, they make more stuff people want. They hire more workers to make more stuff. They pay their workers better because they can and because they must to have a quality and quantity of workers needed to make more stuff. Businesses invest in new technology so they can have -- do a better job of making stuff and making better stuff. They invest in new machines and facilities so they can make more stuff in the future, and to incorporate the new make-better-stuff technology in their production today. Businesses want a return for their investors, so the investors are willing to continue to invest, so businesses can make more stuff. You will notice a trend here. And yes, along the way, businesses collect a lot of tax.

The businesses play a central role in the symphony of commerce. They raise capital, pay owners, buy stuff from other businesses, hire and pay workers, and the income paid out is the income that is then used by consumers to buy the stuff businesses make. It is a system where everybody contributes something, and everybody who contributes, gets something. It is a system of coordination guided by markets and prices and a system where competition drives everyone to do better in some way or another.

Why, then, if a growing economy is all about growing businesses, is the economy not growing as it should? Have American businesses lost their edge? Has the American entrepreneurial spirit dimmed? No, it has not. The economy isn't growing as it should because for businesses to grow normally, they need government policies, including tax policy that are at least benign for the economic environment. Businesses generally don't need government to be their partner or to help. They mostly just need government to get the basics right and then get out of the way.

And this is where comprehensive tax reform comes in with an unwavering focus on creating a better business environment. That means an unwavering focus on improving economic growth. Now, economists have a lot of fancy theories and ideas about how economies grow and don't grow. At some point in time, it is important to take a step back from all the fancy theories to consider basic realties. The basic reality is that a growing economy results from businesses doing well what businesses do naturally, and that depends on the government creating an environment where businesses can flourish.

Comprehensive tax reform focused squarely on improving economic performance would go a long way toward creating that environment. Thank you, Mr. Chairman.

Chairman Boustany. Thank you, Dr. Foster.

Dr. Hodge, you may proceed.

STATEMENT OF SCOTT HODGE, PRESIDENT, TAX FOUNDATION

Mr. Hodge. Thank you very much, Mr. Chairman, Mr. Neal, members of the committee. I want to focus my testimony today on the economic cost of tax complexity, which is a new topic for me today for this committee. I thought we would change it up a little bit this time around.

In addition to robbing us of about 8.9 billion hours, and more than $400 billion in lost productivity, tax complexity punishes success and hard work, which robs the economy of its ability to create jobs and better living standards. Over the past few months, Tax Foundation economists have been measuring the cost of complex tax provisions using our taxes and growth macroeconomic model. And in 2 weeks, we will publish nearly 100 of these case studies in a new book called, "Options for Reforming America's Tax Code," and I hope that these case studies provide you some do's and don'ts as you think about how to reform the tax system.

And we find that much of the tax complexity in, say, our individual Tax Code results from our attempts to make the system more progressive, either overtly through graduated tax brackets, or subtly through backdoor phaseouts and clawbacks. And high marginal tax rates matter to work incentives and dampen economic growth. Economists refer to these high marginal rates as success taxes.

For example, we can make our current seven-bracket tax rate system simpler, more pro growth and still progressive, simply by reducing the number of brackets to 3, 10, 15 and 35 percent. And compared to that kind of an economic system, our model finds that the current Tax Code effectively reduces the long run level of GDP by 1.4 percent, lowers after tax incomes by an average of 3 percent, and costs the economy about 1 million jobs.

You know, our policy's aim at helping the working poor can also have unintended consequences. The complex structure of the EITC has the ironic effect of encouraging more work as the subsidy phases in, but then discouraging work effort as the subsidy phases out as -- because it penalizes workers for every dollar that they earn above the poverty line.

However, we can reduce these tax penalties with a slower phaseout rate for the EITC. And compared to that kind of a, what I would call fairy EITC, our model finds that the current rules lower after tax incomes by more than 1 percent and costs the economy 164,000 jobs.

I think we all want to simplify the number of itemized deductions and loopholes in the Tax Code, but we ought to use those savings to lower tax rates across the board. We found that if you were to eliminate most itemized deductions, except for the charitable deduction, home mortgage interest deduction, and use those revenues to lower tax rates across the board by 10 percent, it would increase GDP by about 0.6 percent and create 577,000 jobs.

On the business side, as we have already heard, everyone knows that the U.S. has the highest corporate tax rate in the industrialized world. Only Chad and the United Arab Emirates impose a higher corporate tax rate than we do, and we have an obsolete territorial system. So moving to a lower rate and -- or we have an absolute worldwide, and moving to a territorial system would greatly simplify the tax system and make the U.S. more competitive.

But just as importantly, we should replace our immensely complicated depreciation and cost recovery system with a much simpler system of full expensing of capital investments. Dollar for dollar, full expensing is one of the most pro-growth tax simplifications that Congress could enact.

By our estimates, moving to a full expensing would boost GDP by over 5 percent, boost wages by over 4 percent, and increase the number of jobs by a million.

Over the past year, Tax Foundation economists have gained special insights into what kind of tax policies boost economic growth, wages, jobs, and investment, and we have learned what not to do as well. We have scored the tax plans of every presidential candidate, as well as numerous tax plans proposed by Members of Congress, including some on this committee.

And during this experience, we modeled every conceivable tax reform plan you can think of, flat tax, fair tax, Bradford X tax, value-added tax, and numerous plans that mix and match many of those features.

And to one degree or another, these plans, the plans that produce the most economic growth tend to incorporate some of the lessons we have outlined here today. They simplify the Tax Code, they reduce marginal tax rates, they reduce taxes on capital, they reduce or eliminate the double taxation of savings and investment, and they move toward a neutral consumption tax base.

So to wrap up, I hope that members of this committee, as well as your fellow lawmakers, take some of these lessons at heart and move us down the road to fundamental tax reform as soon as possible. Thanks for your time. I welcome any questions you may have.

Chairman Boustany. Thank you, Dr. Hodge.

Dr. Sullivan, you may proceed.

STATEMENT OF DR. MARTIN SULLIVAN, CHIEF ECONOMIST, TAX ANALYSTS

Mr. Sullivan. Good afternoon, Chairman Boustany, Ranking Member Neal, members of the committee, thank you for the privilege of appearing before you today.

Tax reform presents many challenges for this subcommittee, but I believe in the current environment, the most critical of these challenges is reducing the harmful economic effects of the corporation tax, and doing so in a manner that is both fiscally responsible and does not reduce the progressivity of the tax system.

Economists of all stripes have long recognized the shortcomings of the corporate tax, but in recent times, these problems have gotten much worse. In the olden days, these fellows will remember, the economic damage caused by the corporate tax was relatively small. The concern back then was that a U.S. corporation like GM or GE might reduce capital spending by a few percentage points if we raised the corporate tax. And in the olden days, most of the burden of the corporate tax was on shareholders who were at the top of the income scale.

In our modern globalized economy, job-creating capital is highly mobile. Now, high corporate tax rates can induce both domestic and foreign multi-nationals to shift large chunks of their production and research out of the United States, and as a result, the burden of the corporate tax now falls increasingly on workers in the form of lost jobs and lower wages. And over time, these ill effects will only get worse.

The rest of the world understands this. Every other major country has reduced its corporate tax rate. Most notably, in its latest budget, the United Kingdom has announced it will cut its corporate rate to 17 percent by 2020. In stark contrast, taking into effect State corporate taxes, U.S. corporate tax rate is over 39 percent, the highest in the world.

Criticizing the corporate tax is very easy. The hard part is figuring out how to pay for a lower corporate rate. The tepid response to Chairman Camp's tax reform plan pretty much proves that revenue neutrality within the corporate sector is not a useful guiding principle for 21st century tax reform. To promote long-term growth, we need to downsize our most economically damaging tax and substitute it with revenue from other sources.

One option would be for the United States to follow the example of other nations and adopt a value-added tax. It would greatly enhance U.S. competitiveness if we could replace revenue from the capital repelling corporate tax with a highly efficient consumption tax.

Alternatively, replacing the corporate tax with a business cash flow tax with border tax adjustments, as proposed by President Bush's tax reform panel in 2005, would entirely eliminate the tax incentive to shift production out of the United States.

Another job-creating approach would be to shift tax away from corporations and on to investors by increasing taxes on capital gains and dividends. The reason for doing this is simple. When you raise taxes on corporations, investments -- investment moves to lower tax jurisdictions. When you raise taxes on investors, they could move, but they usually don't.

Yet another approach for improving international competitiveness would be to raise taxes on immobile capital, such as real estate, to pay for reductions on mobile capital such as investment and manufacturing.

On the international side, we need to banish the lockout effect from our international tax rules. To the extent we impose tax on foreign profits, we should levy that tax as profits are earned, not when they are distributed to the U.S. parent. We also need tough earning stripping rules. It makes no sense that foreign headquartered multinationals doing business in the United States should be tax advantaged over U.S. companies. We should also consider, as both President Obama and Donald Trump have proposed, limiting deductions on excessive corporate borrowing. This would equalize the treatment of corporate debt and equity, and provide revenue for reducing the corporate tax rate.

In conclusion, I would like to stress, for the economy's sake, corporate tax reform should be both fiscally responsible and bipartisan. Corporate rate cuts should be fully paid for on a permanent basis without gimmicks or overly optimistic assumptions about growth and dynamic scoring.

Reckless budgeting not only spooks the bond markets, it greatly dilutes the positive supply side effects of business tax cuts because there is a high probability those cuts will be rescinded when the rosy budget scenarios are not realized. And when it comes to corporate taxation, we don't need a seesaw battle between the political left and the political right. If one party is able to enact its tax agenda by a narrow margin, there is a high probability there will be a major change right after the next election.

Corporate tax reform should be bipartisan, not simply because it is nice for both parties to get along, but because tax policy that is the outcome of bipartisan compromise reduces uncertainty, and uncertainty is a major impediment to investment and long-term economic growth.

Thank you, Mr. Chairman. I will be glad to answer any questions.

Chairman Boustany. I thank you all for your excellent testimony, and we will now proceed with a question and answer session, and I will start.

I have long felt that as a country, we don't have a coherent foreign economic policy which looks at the strength of our own economy, domestically, and promotes growth here, and it also promotes top-of-the-line competitiveness abroad to put us in a strong economic position to lead. I just fundamentally believe that. And I have become increasingly concerned, over the last several years, that what we have as a Tax Code is a major contributor to that, and we have to start with fundamental tax reform.

But -- and I think all of you know, based on some of the work and things that I have written lately in a lot of my statement, I am really concerned about the competitive climate American companies here are facing, as well as abroad, and how this affects growth in the United States. And the recent global developments are very disturbing in my mind because if you look at OECD BEPS, State aid coming out of Europe, these investigations, they are clearly targeting American job creators overseas seeking to grab tax profits retroactively, increase the cost of doing business abroad. And our inertia in this, and Congress' inability or unwillingness to act rather than just simply talk about this is a problem.

At home, I mean -- and frankly, because of the inertia, the administration took it upon itself to issue the recent 385 regulations, and I think these are punitive. They are actually, they are hurting American companies, and it is not just American companies that are large and trying to do business abroad, but it is also hurting companies and businesses here in the United States, making the United States less competitive, and a less attractive place to do business and invest.

And I think, you know, yes, you guys have been in front of the committee for quite a while, numerous testimony -- episodes of testimony. We have been just beating this dead horse. We have got to act and -- but I wanted to at least have a clarifying moment, and this serves as that clarifying moment. In fact, my friend, the ranking member and I joked a little bit about this earlier to the extent that we could probably have a unanimous consent agreement here let's just go reform the Tax Code and be done with it, but the fact is -- you are there, right?

Mr. Neal. Yeah.

Chairman Boustany. There you go.

So what -- I mean, in light of what I just said about competitiveness and need for a coherent foreign economic policy for the United States to put us in a very competitive position, which encompasses not only growth here at home, but competitiveness abroad, would each of you just briefly comment on that in the time I have got left here?

Mr. Hodge. Well, Mr. Chairman, I think we have reached a point in which either we define our tax base or the Europeans will. And right now --

Chairman Boustany. And they are doing it.

Mr. Hodge. -- our major competitors are defining our tax base, and as you mentioned, they are trying to plunder it, and I think that is a real danger, not only to the economy, but also to the competitiveness of the United States. And the sooner that we move toward a competitive international tax system and lower the rate, as Mr. Sullivan has mentioned, as dramatically as possible, I would say around a 20 -- 15 to 20 percent in Federal corporate tax rate, the better. And the sooner that we will stop the hemorrhaging of profits abroad, we will stop the inversions, we will stop the plundering of our tax base, but it is up to us and we need to move quickly because they are not waiting for us.

Chairman Boustany. Thank you. Dr. Holtz-Eakin.

Mr. Holtz-Eakin. I think, you know, we need to recognize that. We have to stop playing defense. It is not a matter of just keeping the headquarters here or keeping our tax base or -- we need to aggressively make this a place where people want to be, so that we attract global companies from abroad that are highly successful, and that we increase the pace of economic growth. And I think the challenge, frankly, is that when we did the Tax Reform Act in 1986, it began in the late 1970s with people like Dick Gephardt and Bill Bradley saying the Tax Code is hurting the average American. It is harming the economy, so that Joe, you know, Handyman is not getting what he should.

We need the public education that says on a bipartisan basis, a better Tax Code contributes to a better standard of living in the United States, and we want to go get that for Americans. And if we just look we are playing defense to hold on to things for big corporations, I don't think we are going to make the sale.

Chairman Boustany. Thank you. Dr. Foster.

Mr. Foster. Thank you, Mr. Chairman. One way to summarize a component of Dr. Sullivan's testimony is if you treat capital poorly, it is going to leave. Right now the Europeans are treating capital poorly. They are going to suffer a penalty for that. We need to treat capital better. We need to encourage it to come to this country.

After the 1986 Tax Reform Act, the United States was the leader in tax policy worldwide. We, then, basically sat on our hands for three decades. We made a few changes at the margins, but didn't do very much. The rest of the world kept changing. They took the lead that we started with and kept doing it, and they continue to do it today with further rate reductions and so forth.

As Dr. Holtz-Eakin said, we cannot play defense on this. We are already so far behind. It is more than just playing catch-up. If we have want to lead, if we want our economy to grow at faster than the 2 percent that Mr. Neal mentioned, we have to make this a place capital wants to come to and a place where we allocate capital wisely. So it is not just about making it a friendly place, but making it a rational place. We are not picking winners and losers. We are going to say we are going to have a neutral Tax Code, and we can all argue a little bit out on the margins what that means, but we understand the basic concept.

We don't want to pick winners and losers. We are not going to do it through the Tax Code. We will let the markets figure out where the capital can go, but we want capital to understand, it is welcome here.

Chairman Boustany. Dr. Sullivan, you want to comment or --

Mr. Sullivan. I would just add that I think the other panelists are absolutely correct. We want the United States to be a place that attracts capital, but we also have to be realistic about two impediments. Dr. Holtz-Eakin mentioned educating the American public. Look at what is going on now in this current election. Look at the economic populism. If anything, the American public will be less tolerant of business tax cuts now than they have ever been before, so we are actually moving in the wrong direction in that -- unfortunately, in that dimension.

And we have to think about the appearances of profit shifting, of tax shelters that are caught -- whether they are just or unjust, how they are affecting the public's attitude towards business tax reduction. And the other thing we have to be very concerned about, and realistic about, is our budget deficits, which are going to be growing over the next decade. So it is one thing to want to lower the corporate tax rate. The hard part, of course, is finding out -- is making the tough choices and finding the revenue to pay for that.

Chairman Boustany. Thank you. Mr. Neal.

Mr. Neal. Thank you, Mr. Chairman. To your point about the amount of time we have spent on this. I feel like I went to high school with all you guys. This is when the conversation started. But I also think it is a mindset that the four of you, given your institutional memories, would reinforce, and that is, Congress is made up more and more today of crusaders as opposed to legislators. I mean, the inability to hear what anybody else has to say about something that might work at any given time.

So the ideology creates the intransigence. And so Dave Camp puts out a model, and that afternoon, 52 members of his own side torpedo the model. You know, there was at least a time where we would have taken a look at that and said, well, maybe we can shape that part of it that they object to and that they might be more receptive to that down the road. But it is instant opposition. And we find ourselves back to the impasse on Tax Code where we, once again, all agree with the nature of the problem but none of us necessarily agree with the nature of what we need to do on the solution side.

But let me speak to a moment on the issue of dynamic scoring. Really it was Dick Armey earlier in the 1990s who kind of hatched the idea in front of the Congress about dynamic scoring. One of the problems with dynamic scoring is it is always about tax cuts, where we find, again, the intransigence of trying to do a major highway bill.

And I would submit that the way that the highway bill was done at the end of the session, not something that we ought to be crowing about, pretty poor way to do infrastructure. But at the same time, I have been pushing the idea, what about if we are going to exempt the notion of dynamic scoring as it relates to tax relief, what about the idea of using dynamic scoring for some investment in spending on long-held needs the America.

And I would like the four of you to maybe speak to that directly, and then I am going to get around to the effective tax rate, because I think that bears consideration as well. So we can start from the -- Mr. Holtz-Eakin, and move to the other side.

Mr. Holtz-Eakin. As you know, I am capable of going on at length about dynamic scoring. I will spare you.

Mr. Neal. Well, I didn't ask your favorite question today. I rehearsed it long and hard, but I didn't ask you because I knew what your answer was going to be.

Mr. Holtz-Eakin. Because tax cuts don't pay for themselves, and I knew you were going to ask that. You always ask me that.

So I recently wrote a paper with Michael Mandel at Progressive Policy Institute on Dynamic Scoring of Infrastructure Spending, and there is no reason why dynamic scoring, which is simply good policy analysis, should apply to just one side of the budget. There are the usual implementation problems on the spending side as they are on the tax side, but I think it is something that has merit, and that certainly ought to be considered. And if you are going to have chairmen who have the power to say this is an economically significant piece of legislation, it should be dynamically scored, that should apply there as well.

Mr. Neal. Dr. Foster.

Mr. Foster. Well, I think the first thing one has to note is, we talk about dynamic scoring and analysis, I have testified on it many times and studied it at great length, but the reality is we are in a very preliminary stage of understanding how to do dynamic analysis of tax policy. The Tax Foundation model is the state of the art, and they are in the process of learning how to do it.

That said, there is no reason why the full range of policies -- once the economic science can support the analysis, there is no reason for the full range of Federal policy not to be subject to that kind of analysis. When you are looking at legislation, if there is something a model can tell you about its economic consequences, you should have that information.

Mr. Neal. Mr. Hodge.

Mr. Hodge. Well, as you know, Mr. Neal, the Tax Foundation does have a dynamic tax model. And one of the lessons that I try to teach people, and I do a lecture on it, we actually do public and private demonstrations, live demonstrations of the model so that people can see how it works. We pull back the curtain so that there is -- it is not a black box. Well, actually, we can do -- we would be delighted to do one here if you would like.

But one of the things I try to point out to people is that the important element, or the important reason why you want to do dynamic scoring is because every tax change affects the economy differently. And what dynamic scoring does is it gives you an opportunity to understand the nuance differences between them.

For instance, we took five different tax cuts that all had the same score of about $40 billion a year on a static basis, but doing it dynamically, you understand that a child tax credit has no impact on economic growth, but moving to full expensing actually has a substantially positive impact on our economic growth and can almost pay for itself over time. You want to understand those differences.

We have also been responsive to folks who say, Well, you ought to do spending as well. And we are in the process of building out our tax model to what is known as a general equilibrium model so we can model the macroeconomic effects of spending as well, and we hope to have that portion of the model finished by the end of the year.

Mr. Neal. Would you let Mr. Sullivan answer the question as well?

Mr. Hodge. My apologies for --

Mr. Neal. No, that is fine.

Mr. Sullivan. Well, I would agree with Scott that the models are very good for educating members on which policies some -- you know, there is a whole range of economic policies, tax policies, some are better than others.

But I think there are biases in the models. And it is not that the modelers are biased, but models that you can produce wide ranges of estimates. You can't emphasize enough the uncertainty. I could take you into a library and show you shelves of books that support high elasticity with lots of economic growth, and I can take you to another shelf of books that show you the exact opposite. So the uncertainty factor, I think, can't be emphasized enough.

Chairman Boustany. Mr. Hodge, you want to make -- or Dr. Hodge, you want to make another comment?

Mr. Hodge. Yeah. I want to point out that while there are differences among the models, they are all -- they all tend to point in the same direction. So that our model, the JCT's model, you know, John Diamond's model at Rice University, all tend to point in the same direction, so they are not giving you competing estimates. They are all -- they may be in a range, but if they all say that a policy promotes growth, it will promote growth. If they all say it has negative impact on growth, you can be sure of that. They may be a range, but at least you will have the confidence that all of these models are saying roughly the same thing.

Chairman Boustany. Thank you. Dr. Holtz-Eakin, briefly.

Mr. Holtz-Eakin. Real briefly, because I have said this to this group before. There is no more uncertainty in dynamic scoring than static scoring. And I can tell you all the terrible stories of my time in CBO scoring terrorism risk insurance, or death benefits for those killed in Iraq prior to the invasion, those things are fundamentally uncertain. There is nothing about this that should be considered different.

Chairman Boustany. Thank you. Mr. Reichert.

Mr. Reichert. Thank you, Mr. Chairman. So I really like the way, Dr. Foster, that you went into, you know, some language that people really understand, because you are talking to an old cop here. I am not a tax attorney or a CPA. I am just fortunate enough to be on this committee and learn from you and all these other smart people here.

So you know, I think it is good that we put this in language where the average person can understand this and figure it out, because they do know, really, deep down what we need, and that is to simplify the Tax Code, right. They all feel, my constituents feel that -- and I feel, over my career, that I have been working for the Tax Code. The Tax Code certainly is not working for me, and I think we need to turn that around so the Tax Code works for America, works for American workers, and American companies, and I think you have shared some ideas here that -- and hopefully, we will get a chance to read the book coming out, Mr. Hodge, and get some -- and get some further ideas.

But you know, the whole -- the whole idea of businesses -- more businesses, growing businesses can make more stuff, to sell more stuff, to buy more stuff, to hire more people to make more stuff, people get, and I get that. What they don't get are terms like repatriation, inversion, innovation box, you know, dynamic scoring, none of that makes sense.

Now, I have learned those, about those things over the past few years being on this committee, but if you had told me years ago as a cop driving around in my patrol car that I would have been going through the Tax Code line by line in my career some time, I would have shot myself in the foot, but I am happy to be here today.

So I mean, it is complicated, and you all know that as well. Look how hard this has been for us to get to a point, you know, where we actually -- I mean, we had this conversation yesterday in a hearing where we, as a panel, really need to come together, and this has got to be a bipartisan effort, like Dr. Sullivan has mentioned. Otherwise, it doesn't mean anything.

Certainty is one of the things I hear back in my district all the time. If my business had certainty, if my family had certainty, and I could make these decisions and we can move forward and be productive and be, you know, optimistic about the future.

So there is some things, too, that, you know, are occurring that are kind of out of Congress' hand, and you mentioned the competitiveness issue of the U.S. system and how, you know, and sort of following up on Dr. Boustany's, the chairman's comments, and encouraging capital in the U.S., I am curious what your thoughts are on the impact of some of the administration's recent decisions, especially the 385 guidance. And maybe, Dr. Holtz-Eakin, you can comment on that?

Mr. Holtz-Eakin. I think what the administration has done under section 385 might best be characterized as desperate, but it is certainly not good tax policy, and is, in the long run, quite counterproductive. Their rulemaking has been predicated on the notion that they are going to stop deals that have been entered into in mergers and acquisitions. And if I am a foreign investor looking to locate someplace, the last place I want to go is a place where the rules change in midstream or after the fact. That is not good policymaking. And, you know, they can decide to defend why they did it, but I think it is a damaging step from the point of view of high quality tax policy.

Mr. Reichert. So your point is it is the uncertainty issue again and --

Mr. Holtz-Eakin. Or worse. They are certain that we are going to get them once they get here. That is not a good message to send.

Mr. Reichert. Yeah. Mr. Foster.

Mr. Foster. Thank you, sir. I think the -- something to keep in mind, at the U.S. Chamber, we -- when this regulation came out, we quickly reached out to our members to ask them what does this mean for you? Weeks and weeks later, they are still going through the process of trying to figure out what it means to them. These are the smartest people in the corporate tax world, and as you know, there is a lot of smart people in that world, and every day there is another, oh, my gosh, look what that does. Another transaction, another normal business relationship suddenly is exposed. Another ownership pattern that is perfectly normal, it has nothing to do with the kinds of loopholes or behaviors that one might associate with bad behavior, perfectly normal transactions and arrangements are now subject and questioned.

The administration wants to move very quickly to finalize this regulation, as we understand. Well, they need to understand it will be many, many weeks before the people who are subject to this regulation know what it means, and many weeks more before they can formulate any kind of comment on what it would mean, and perhaps there are actually a few things that the wizards at the Treasury Department haven't quite thought of yet.

Mr. Reichert. Okay. I yield back. Thank you, Mr. Chairman.

Chairman Boustany. I thank the gentleman.

Mr. Doggett, you are recognized.

Mr. Doggett. Mr. Chairman, and thank you, members. Thanks to each of our witnesses for your comments.

Mr. Hodge, if I understand, you believe, on the business side, we should simplify our Code by permitting businesses to expense immediately all assets that they might acquire instead of depreciating them, regardless of the amount, or the useable life of the asset?

Mr. Hodge. That is correct.

Mr. Doggett. And on the individual side, you believe that we should replace deductions with a larger standard deduction but eliminate itemized deductions?

Mr. Hodge. I think that would greatly simplify the Code. Yes, definitely.

Mr. Doggett. So you oppose the home mortgage interest deduction?

Mr. Hodge. We have looked at the economics of it. Economists are on different sides of that issue.

Mr. Doggett. What side are you on?

Mr. Hodge. I would trade that off for a lower rate. I think you would have better economic performance.

Mr. Doggett. Is the same true of charitable deductions?

Mr. Hodge. It would, yes.

Mr. Doggett. And is the same true of a deduction for State and local income and sales tax?

Mr. Hodge. That one especially, I think, should be eliminated for lower rates immediately.

Mr. Doggett. Thank you. Dr. Sullivan, directing your attention, especially to one of your concluding realistic recommendations. If I understand it, if your favored approach of substituting a value-added tax for the corporate tax doesn't get adopted anytime soon, you have emphasized the importance of assuring that any changes in corporate rates are paid for on a permanent basis without gimmicks or overly optimistic assumptions.

So you believe, to use the term we are most familiar with, that any changes in our corporate tax structure, be they limited to one type of business entity, or one type of business transaction, ought to be revenue neutral?

Mr. Sullivan. Yes.

Mr. Doggett. And Dr. Holtz-Eakin, do you believe the same that changes in corporate taxes should be revenue neutral?

Mr. Holtz-Eakin. No. I think they should be budget neutral, so you could do the offsets on the spending side. I think that would actually be quite desirable.

Mr. Doggett. You would do it on the spending side, and I am sure I know the position of our other witnesses on that. With reference to how one achieves revenue neutrality, Mr. Camp was not richly rewarded for being willing to say how, but he did suggest on -- as part of his proposal, tax pay-fors that included changing the way advertising expenses are charged, changing accelerated depreciation, a problem, I guess, Mr. Hodge would eliminate for us, and repealing last-in/first-out inventory. Are those changes that you think are pay-fors we should be adopting, Mr. Sullivan? Dr. Sullivan?

Mr. Sullivan. I think that accelerated depreciation is something that does promote economic growth. If we moved towards expensing, that would help promote economic growth. So we -- I think one thing we have learned from the recent debate on tax reform and from the dynamic scoring coming out of the joint committee is that we need lower rates that helps promote economic growth. Expensing helps promote economic growth.

And so once you take out accelerated depreciation as a revenue raiser, you are really running out of base broadeners inside the corporate tax. So that is why we need to look outside the corporate tax for additional revenues. And one -- I think one possibility that is getting a lot of attention is looking at raising the taxes on capital gains and dividends in order to pay for a lower corporate rate because that would maintain the progressivity of the tax system.

Mr. Doggett. You also refer, perhaps in somewhat more neutral terms than the chairman, to the OECD-based erosion, the BEPS project. And again, from a realistic standpoint that substantial value creation, sales and other indicators in a country is becoming increasingly the worldwide standard among advanced economies. Is that your view, and what is your perspective on the base erosion project?

Mr. Sullivan. Well, I think what we are seeing, the base -- the fundamental -- you know, it is very complicated, thousands of pages long. But I think the two things that you are seeing from the base erosion, the BEPS project is, one, we want to get rid of cash box, tax haven companies where there is no economic activity, but a lot of profits toward it, and I think the BEPS project is going to make a lot of progress along those lines.

Mr. Doggett. You think it is positive?

Mr. Sullivan. Yes, because of -- that, in the long run, we -- it is not helping U.S. businesses to have the terrible appearance of not -- of stateless income and --

Mr. Doggett. Stateless income.

Mr. Sullivan. -- abusive tax planning.

Mr. Doggett. Thank you. I certainly agree.

Chairman Boustany. We thank the gentleman. Mr. Kelly.

Mr. Kelly. Thank you, Chairman. Thank you all for being here. But I do think this is kind of recurring, right. We just keep talking about this, and I don't know if it was the sheriff that said it was somebody that said there was an old saying you keep shooting yourself in the foot and wonder why you are limping.

Look, we have been talking about this for so long. Maybe some of you that can go back in time, in 1986, it was really tax reform. What was the magic then? What was so obvious then that is so clouded now?

Mr. Holtz-Eakin. As I said earlier, the 1986 reform started in the late 1970s with people on both sides of the aisle, the Dick Gephardts, Bill Bradleys, the Democratic side, the Alvin Ross, Jack Kemps on the Republican side and others, Art Laffers, talking about the damaging impact of the U.S. tax system and how this was something that was hurting average Americans.

It took a decade of public education, and then it took a sitting President to run for re-election on the promise of doing tax reform, as Ronald Reagan did, and it took probably three or four legislative deaths and a pretty good beer-infused break in an Irish pub to get it done. It is really hard, but I think the essential piece there was the bipartisan nature. I want to emphasize that. I think Mr. Sullivan is right about that. And the public education.

Tax reform for the elites, businesses getting something for them that doesn't appear to be connected to the average American, is not going to fly.

Mr. Kelly. Okay. So looking at Mr. Neal, the idea is to get more Irish legislators. Is that right?

Mr. Holtz-Eakin. We know that it is not just going to the pub, because they tried that.

Chairman Boustany. It is really about the beer.

Mr. Neal. Sure, we got that part of it down pretty good.

Mr. Kelly. Mr. Foster. Anybody, because this is --

Mr. Foster. Yes, sir.

Mr. Kelly. -- so reoccurring that --

Mr. Foster. What Doug Holtz-Eakin said about the history is terribly important. I date the 1986 Act's birth with a hearing of the Joint Economic Committee chaired by then-Senator Lloyd Bentsen of Texas, who began an exploration of the question of the capital gains tax, and it was that discussion which then led to legislation, which then led to further discussion and so forth, culminating 8 years later in the 1986 Tax Reform Act, which was, in fact, a bipartisan process.

One of the interesting aspects of that is they -- the proponents on both sides that Doug mentioned, had to still live down to an essential. That is what I tried to do in my testimony. What is comprehensive tax reform about, and as I described it, it is more businesses doing more business. They had to still live down to lower rates, a broader base. It was something everyone could understand. And as long as you adhered to that mantra and the product reflected that, you were successful, and that was something that both sides could agree on. It is still the correct mantra.

Mr. Kelly. Let me just ask it because we are going to run out of time here, but you know, if this was an athletic team or if this were a business, and you had an opportunity to look at everybody else that you compete against. I mean, really a deep dive into what it is that is allowing them to capture market, it would be hard to be sitting here today and saying we still don't quite understand why these people are leaving the United States. They just must be un-American or selfish or something.

Do you remember the Pogo comic strip in the 1950s? Another Irishman, a guy named Walt Kelly, Pogo said we have met the enemy, he is us. But I look at you all, and you all can go real deep into -- listen, I am just a guy that tried to find the best people to do the job and then stay out of their way and let them do it.

I am not like Mr. Renacci who understands taxes or loves taxes. I never understood them. I never loved paying them, but I did it anyways. The purpose of you being here today, though, is to, again, reiterate, this is like Captain Obvious, we are losing at the global level, and we can look around us about what everybody else is doing to capture our markets, and we are sitting here thinking what would it take for us to wake up?

And so the question about 1986 was, a House working with the Senate working with the White House where everybody had the same goal, and that was to take advantage of all the things that we have, one-fifth to the world's fresh water, an ability to feed ourselves without having to rely on anybody else, more sources of energy that anybody in the world. We could build geopolitical relationships that would end some of this craziness that is going on, and we are sitting here and still trying to figure out what is the problem?

I mean, isn't it so obvious? You guys must get to the point where you feel like you are hitting yourself in the head with a hammer, and the only reason you do it is because when you stop, it makes you feel better, but this is just insane.

So I can't tell you how much I appreciate you being here. You don't need a lecture from me. Listen, you guys are deeper than the Pacific Ocean when it comes to tax policy. I am just a guy that is looking at it and thinking, I really do know what the problem is. It is people like us sitting here not able to get along with other people like us serving the American people and their best needs. It is pretty obvious.

No response from everybody. I know you all are shaking your head. Yeah. Okay. All right. We are all together. Let's go. Let's go get them.

Chairman Boustany. Mr. Renacci. Follow that.

Mr. Renacci. Thank you, Mr. Chairman. Well, first, I am going to correct my colleague, Mr. Kelly. It is not that I like taxes. I had to live with taxes for 30 years, and because of that, I learned the system. And I have to say that I even went all the way back. I was thinking, I actually was involved in my first CPA firm prior to the 1985 and 1986 changes, so I got to see prior and I got to see the changes and had to live through all that as well.

But I am going to ask you all some yes or no questions because I want to run through some things, and then I have got some questions that might take a little longer. But first question. I think it is important to understand who bears the burden of our high corporate rate. Isn't it true that the burden of the corporate income tax does not ultimately fall on corporations but, rather, on the people, the customers, the workers, the investors?

And the reason I ask that question, I say that to people, they look at me, they don't understand what I am saying. But ultimately, I try and tell them, a business will not be in business if it doesn't pass on its corporate tax. So would you all agree, I take it, yes or no, across the panel?

Mr. Eakin.

Mr. Holtz-Eakin. Yes.

Mr. Foster. Yes.

Mr. Hodge. Yes.

Mr. Sullivan. Yes and then some.

Mr. Renacci. That was easy. It is clear that we have an outdated and anticompetitive Tax Code. And it is also clear how harmful corporate income taxes are to economic growth. Would moving to a consumption-based tax system be more pro-growth than a reform that sticks with the traditional income-based system?

Mr. Holtz-Eakin. Yes.

Mr. Foster. Yes.

Mr. Hodge. Yes.

Mr. Sullivan. Yes.

Mr. Renacci. Wow. Okay. Next question. Would a zero corporate income tax with a single-digit consumption tax give us the most competitive tax system in the world?

Mr. Holtz-Eakin. Yes.

Mr. Foster. That would depend on everything else going on. That's too general a question.

Mr. Renacci. That is all right. I don't expect all yeses.

Mr. Hodge. Yes.

Mr. Sullivan. Yes, if it is paid for.

Mr. Renacci. Okay. Over the last 3 decades, the average marginal corporate income tax rate among OECD countries has fallen from 48 percent to under 25 percent, and since 2000, we are one of only three of the 34 OECD countries that has not cut their corporate tax rate. Given that other OECD countries have a national level consumption tax, would other OECD countries have been able to cut their corporate income tax rates without increasing their VAT, value added tax, or the GST, goods and services tax? So would they have been able to cut their taxes without increasing the VAT or the GST tax?

Mr. Hodge. Some have and some haven't. Canada, for instance, has cut their corporate tax rate without raising their GST. Some other countries, I think the U.K. may have ticked it up a little bit.

Mr. Renacci. How did they pay for it? I guess that is why I am asking the question.

Mr. Hodge. Yeah, Marty?

Mr. Sullivan. They raised a lot of other taxes. They have a bank tax. They reduced their depreciation allowances. They have a carbon tax. So they looked at other sources of revenue to pay for what is going to be a 17 percent rate.

Mr. Hodge. But the Canadians, on the other hand, I have seen their corporate tax revenue's fairly stable, I would say.

Mr. Sullivan. Yeah.

Mr. Hodge. And a lot of it is because of profit shifting out of the United States to Canada. So they have been the beneficiary of our high tax rate by lowering theirs.

Mr. Renacci. Okay. I got to keep moving. Would raising the standard deduction and eliminating most itemized deductions provide a simple tax system for individuals without discouraging work and investment?

Mr. Hodge. It depends.

Mr. Holtz-Eakin. Yeah. Depends how you do it.

Mr. Sullivan. Yeah.

Mr. Renacci. Okay. Everybody is kind of shaking their head. Depends, yes. I mean, again, I am just trying to say --

Mr. Sullivan. It would certainly simplify it.

Mr. Renacci. -- most people say if we simplify it --

Mr. Hodge. I think that is one of the entries in our book, and you will know in 2 weeks when we release it.

Mr. Holtz-Eakin. So the mantra is low rate, broad base. You are keeping the same narrow base in a different form, or the raise.

Mr. Renacci. Okay. So let's go to this. So has the model of an entity-based tax with fully expensing been adopted by any other OECD country?

Mr. Hodge. Say that again.

Mr. Renacci. A model of an entity-based tax with fully expensing been adopted by any OECD country?

Mr. Holtz-Eakin. I don't think so.

Mr. Foster. I don't think so.

Mr. Hodge. I don't think so.

Mr. Sullivan. I don't think so, no.

Mr. Renacci. The answer is no. I just wanted to see if you would agree to it.

Mr. Hodge. This is a test.

Mr. Renacci. So let me ask the question about fully expensing. I don't have a lot of time left on fully expensing. Because, look, I am a big believer in fully expensing, but here is the downside and this is from living in the real world. I always use Mr. Kelly as my example. He has a car dealership, I have a car dealership. I have cash, he has no cash. I can buy my dealership, he can't buy the dealership. He has to lease it, I can buy. I am going to fully expense my building. I am not going to pay any taxes. He is going to lease his building. He is going to pay taxes.

Fully expensing is good in the sense if you have cash. It hurts the guy who doesn't have cash. That is coming from a guy who started his business with no cash. Tell me if you agree or disagree with that. This is when you stump the economists.

Mr. Foster. I think I mostly disagree, because you leased it from a company that expensed it. So the savings from the leasing company expensing that building, then get passed through to you in a competitive market.

Mr. Hodge. Right.

Mr. Renacci. But that is not the case, because I will pay -- so I will give you a better example. And I know I am running out of time. I was in the industry. I was in the nursing home industry. I had 23 facilities. I had $120 million in assets. I would have expensed those fully and I wouldn't have paid a dime of tax over 20 years. The guy who had the lease and had no cash, he would have been paying taxes. Somebody has to pay taxes in the fully expensing model. It is the guy who can't fully expense. And --

Mr. Holtz-Eakin. That is right, because we want the people who are making the investment, even if it is the leasing company, to have the appropriate tax incentives.

Mr. Renacci. So the --

Mr. Holtz-Eakin. If you want a Tax Code designed for growth, you have to reward people generating growth. And the leasing company that builds the facility is doing it.

Mr. Renacci. The only issue there is that Mr. Kelly, if he had 12 to 23 dealerships and I had 23, he could not be able to compete with me. We will leave it there. I know I am running out of time.

I yield back.

Chairman Boustany. I thank the gentleman.

Mr. Reed.

Mr. Reed. Well, thank you, Mr. Chairman, and thank you to the panel for kind of taking up my counterpoint to Mr. Renacci's point that we had that conversation not too long ago. So I appreciate those comments.

You know, we are talking a lot here today about business reform. I want to focus a little bit more maybe on the individual side too as we deal with this issue. Seems to be a broad agreement as where we need to go on the business side. But I want to really stand up for the folks back in my district, for example, Western New York, a rural district. I want to talk about the mom-and-pops. I want to talk about the individuals there that are struggling under this broken Tax Code.

So could any of you, as we deal with the goals of tax reform, as we deal with that, why do the individuals back in my district need tax reform today? Can you give me examples of what they are dealing with that maybe we need to highlight and be aware of as we go forward in tax reform?

Mr. Hodge, Mr. Sullivan. We will go with Mr. Sullivan.

Mr. Sullivan. I think the most important thing for small business and the easy -- is simplification. All the data show that, you know, we all want simplification. Large businesses want simplification, individuals want simplification. But for small businesses, it is very expensive for them, and I think the best thing we could do for small business is tax simplification.

Mr. Reed. Tax simplification. In order to achieve tax simplification for the small businesses or the individuals, where should the priority be focused? I mean, obviously, we are talking about raising the standard deduction, full expensing rather than keeping track of archaic depreciation schedules and everything else. Would you agree those are types of concepts we should be looking at in regards to individual and small business?

Mr. Eakin.

Mr. Holtz-Eakin. I think those things are important. If you think about all the discussion of sort of base broadening on the corporate side, that is going to flow over to the passthrough entities who are, in the end, the moms-and-pops. If they are not worrying about a thousand special tax rules that deal with advertising and foreign sales and this and that, then they just have a nice simple base with low rates, cash accounting, it will be much easier for them to comply.

Mr. Reed. And so going along those lines, and especially since a lot of folks down here down in D.C. are struggling with the handcuffs of revenue neutral, distributionally neutral and those types of conversations, how do you quantify that simplification for -- like when I had a small business, I will tell you one of the things that frustrated me, when I dealt with my accountant, he would say, hey, Tom, I need you to find XYZ. All right, hold on. I got to stop everything I am doing. I have to go over here. Two weeks later, I get him the stuff. And the one time he said, oh, I forgot to tell you, I already had that information. I almost fired him on the spot. But that was a whole other situation.

But how do you quantify those hours that I spent in the basement looking for receipts for an accountant that were really it was just because he needed to comply with a complex Code? How do you quantify that? How do we do a better job of putting a number on that?

Mr. Hodge.

Mr. Hodge. Well, actually, I put a number on that in my testimony. New data has come out of Reginfo, it is out of OIRA, that calculates the time in which we comply with OIRA's paperwork. And they have an account of all the provisions of the Tax Code and how many hours that we take as a Nation to fill out those forms. It now adds up to $409 billion a year.

Mr. Reed. Amen. So in your experience dealing in, Mr. Holtz-Eakin, I know on the CBO side, and you guys dealing with joint tax, what has been your experience with joint tax and their score mechanisms and their rules on scoring? Have they been really good at quantifying the hundreds of billions of dollars in simplification benefit that we are going to be seeing?

Mr. Holtz-Eakin. I can't speak for the joint committee, but the CBO is not good at that, doesn't even try.

Mr. Reed. Thank you. I thought that was the case.

Mr. Hodge. And they are not in our economic model. Those are a side calculation from our macroeconomic model.

Mr. Reed. And that is one of the things I think I have to wrestle with down here in Washington getting in my relatively short time here since 2010, is recognizing we need good policy to lead this conversation. And a lot of times we wrestle in D.C., in this Beltway bubble, with the handcuffs of the score as opposed to recognizing there are going to be these other consequences, positive consequences of tax reform that really should be brought into the debate and say, look, if you want to hit me with the score, let me just hit you with the commonsense. Let me just hit you with the benefit that I am going to hear from my residents of having a simpler, easier Code to deal with.

Is that a fair -- is that a fair commonsense position to be able to take back to the district and say, this is why we are doing what we are doing?

Mr. Holtz-Eakin. I think that is very important because in the end, scores are measures of the budget cost of policy.

Mr. Reed. Right.

Mr. Holtz-Eakin. They don't say anything about the benefits. You have to talk about the benefits because that is why you are doing it.

Mr. Reed. And in 1986, did they do a good job? Is that a lesson we can learn from the 1986 reform? Did they do a good job of getting that out there?

Mr. Hodge. No.

Mr. Foster. No.

Mr. Holtz-Eakin. No.

Mr. Sullivan. No.

Mr. Reed. And how best can we get that information out there, other than through the organizations, various organizations you represent? How do we get that out there?

Mr. Holtz-Eakin. I would argue it is you and all of your colleagues talking it at home. You know, for example, the point Mr. Sullivan made about the fact that our corporation income tax is increasingly hurting the wages of workers. They have a stake in getting this done, but they don't know it. And you are the best way to educate them of that.

Mr. Reed. And I appreciate that and I exactly agree with you.

So with that I yield back. Thank you, Mr. Chairman.

Chairman Boustany. I thank the gentleman.

Mrs. Noem, you are recognized.

Mrs. Noem. Mr. Sullivan, I found your testimony interesting. It says: As difficult as it has been in the past to enact stand-alone business tax cuts, the political environment now is probably less favorable to business tax relief than at any other time in living memory. And then you go into talking about kind of the political environment that we are living in this year. And it makes me think about other countries because they have, obviously, enacted business tax reform. Do they not have a political environment in these countries that has demonized businesses?

Mr. Sullivan. You know, it is a puzzling question, because on the one hand in other countries, the outrage over loopholes and profit shifting is even larger, like in the U.K. --

Mrs. Noem. Right.

Mr. Sullivan. -- it is a very, very big political issue. It is a front-burner issue. But on the other hand, the United Kingdom is able to have a 17 percent corporate tax rate.

Mrs. Noem. Right. Right.

Mr. Sullivan. So it is a little bit puzzling. And the only thing, only suggestion I can make is, I think what the U.K., and I was just in Ireland, what they have done is they have really focused on cracking down on loopholes, on what their voters perceive as being abuse. So they get that out of the way and then they can focus on providing tax benefits that really make a difference. So clearing, it is not just a matter of broadening the base and lowering the rates.

Mrs. Noem. Well, somebody said that earlier. I think it was Mr. Foster said the mantra is lower rates, broader base. And my question I wrote, does that still work? I mean, is that still enough?

Mr. Foster. Enough as a way of communicating, yes. I think people can understand that. You have to elaborate a little bit, have a discussion. Okay, what does broadening the base really mean, because people will get a little nervous when you talk about that. So you explain what it means and what it doesn't mean. But then it is an expression they can sort of get and then you just say it again. And, oh, yeah, I remember, they were talking about that. That is a good concept.

It does work because it is something that people can understand. And you can elaborate on it just a little bit without getting into a lot of detail to reassure them that it doesn't mean that they are going to lose something they really care about.

Mrs. Noem. Well, we use a lot of words when we talk about tax reform. We use simplicity, complexity, efficiency. Does growth still trump everything? Should we evaluate every single proposal that comes before this committee -- and we have to keep our priorities straight. So should our number one priority be what gives you the most growth? You all agree with that?

Mr. Hodge. I believe absolutely.

Mr. Foster. Absolutely.

Mr. Sullivan. Absolutely.

Mr. Holtz-Eakin. Absolutely. It is the paramount issue of the time.

Mrs. Noem. Mr. Hodge, you did your modeling that you talked about. You have run many of the candidate's plans through your modeling. What is the one thing that surprised you the most from watching all of those different plans? And I would be interested in seeing you run some of the plans that people have on this committee that have sponsored running through your modeling process too.

What surprised you the most about the plans that you saw going through the modeling process, and what gave you great growth results when you ran them through the modeling process?

Mr. Hodge. Well, here is the political irony, that the tax changes that produce the most economic growth, and that is really cutting the cost of capital, are the least politically popular that you can imagine, cutting the corporate tax rate, moving to full expensing, integrating the corporate or business income tax system. Whereas the tax cuts or tax changes that are most popular, cutting individual tax rates, child tax credits, education credits, have the least impact on economic growth.

So that is the one challenge that you are going to have, is going out and trying to sell comprehensive tax reform in a way that is both politically popular but most pro-growth, and it is a real challenge.

In 1986, they put an emphasis on cutting individual tax rates and, actually, it pushed some of the economic burden over on businesses. And I don't think it had quite the growth effect it could have had had they not done some of that shifting.

Mrs. Noem. Mr. Foster, you said in your testimony that tax reform should ensure industry-specific neutrality. What do you mean by that? Because there is no way to do tax reform -- I don't agree that tax reform should be viewed through the lens of neutrality just because how much more complicated do we make the Tax Code in our provisions when we are constantly trying to keep everything equal for everybody? So tell me a little bit about what you mean. I know about not specifically hitting this industry hard because we hate this industry and the way it delivers energy or certain specifics, but what did you mean by putting that in your testimony?

Mr. Foster. What I meant is a specific form of neutrality. So we are not talking about revenue nor distributional. We are talking about economic neutrality. What we have today is an economy that is incredibly complicated and a Tax Code that is incredibly complicated. The two intermixing in sometimes very unfortunate ways. We have a system now where the Tax Code is dictating where businesses should invest and how they should operate. That is the nonneutral.

Mrs. Noem. Okay.

Mr. Foster. What I am talking about is getting rid of all of that.

Mrs. Noem. That is what I wanted to clarify. Is there anything new today that you guys have -- I am out of time, I realize -- but something from the last time you testified before this committee, is there something new that you have learned since then that you believe needs to be a part of our tax reform discussions? Or do you feel like you are just back here delivering the same message?

Mr. Hodge. Well, the estimates on the hourly time that it takes to comply with the Tax Code has been increased by 50 percent, according to the most recent estimates.

Mrs. Noem. Okay.

Mr. Hodge. That is a shame. Time is the most precious thing that we have as human beings because we can't get it back. And the more time we comply with the Tax Code, I think is immoral.

Mrs. Noem. Okay.

Mr. Hodge. And we can't get that time back. And I think you have an obligation to reduce the amount of time that we have complying with the tax system so that we can have more time for ourselves.

Mrs. Noem. As a mom who is in Washington, D.C. away from her children every single week hoping we can do tax reform, which is the reason I came here, I totally understand what you are saying. I am tired of wasting time too.

I yield back, Mr. Chairman.

Chairman Boustany. Thank you.

Gentlemen, we thank you for your testimony. It has been helpful. I hope we will now start the ball rolling on substance on tax reform. That is my hope. I think all of us share that goal. But we do thank you for being here to spur us on with the need for tax reform.

Please be advised that members will have 2 weeks to submit written questions to be answered later in writing. Those questions and your answers will be made part of the formal record.

And with that, the subcommittee stands adjourned.

[Whereupon, at 3:35 p.m., the subcommittee was adjourned.]

Public Submissions for the Record