FIELD HEARING ON THE SUCCESS OF PRO-GROWTH, PRO-WORKER TAX POLICY IN THE AMERICAN MIDWEST

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTEENTH CONGRESS

SECOND SESSION

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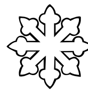

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United States House Committee on
Ways & Means
CHAIRMAN JASON SMITH

FOR IMMEDIATE RELEASE CONTACT: 202-225-3625
August 7, 2024
No. FC-31

Chairman Smith Announces Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest

House Committee on Ways and Means Chairman Jason Smith (MO-08) announced today that the Committee will hold a field hearing to highlight the positive impact and importance of the Trump Tax Cuts for American families, farmers, workers, and small businesses. The hearing will take place at **9:00 AM (Central Standard Time) on Friday, August 16, 2024, at the Iowa State Fair** in Des Moines, Iowa.

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

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

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

Please ATTACH your submission as a Microsoft Word document in compliance with the formatting requirements listed below, **by the close of business on Friday, August 30, 2024**. For questions, or if you encounter technical problems, please call (202) 225-3625.

FORMATTING REQUIREMENTS:

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

comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed but will be maintained in the Committee files for review and use by the Committee.

All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Please indicate the title of the hearing as the subject line in your submission. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

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

ACCOMMODATIONS:

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

Note: All Committee advisories and news releases are available on the Committee website at http://www.waysandmeans.house.gov/.

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THE SUCCESS OF PRO-GROWTH, PRO-WORKER TAX POLICY IN THE AMERICAN MIDWEST

FRIDAY, AUGUST 16, 2024

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The committee met, pursuant to call, at 9:01 a.m., Central, Oman Family Youth Inn, Logan Avenue, Iowa State Fairgrounds, Des Moines, Iowa, Hon. Jason Smith [chairman of the committee] presiding.

Chairman SMITH. The committee will come to order.

Without objection, the gentlewoman from Iowa, Mrs. Hinson, the gentlewoman from Iowa, Dr. Miller-Meeks, and the gentleman from Iowa, Mr. Nunn, are authorized to participate in the hearing and ask questions today.

Good morning, and welcome to everyone who is joining us today at the Iowa State Fair.

I want to thank my good friend, Randy Feenstra, for hosting us in his home State. Randy is a true champion for rural America and small towns because it is where he is from. I can tell you that when he is in D.C., he always brings Iowa with him. It is not Missouri, but it is Iowa, so——

Mr. FEENSTRA. A little better.

Chairman SMITH. We also have the entire Iowa House delegation joining us today. Few delegations are as good as the one up here about banding together to fight for their home state and for their communities.

I do want to take a minute just to express my disappointment that not one of our Democrat colleagues have joined us here today on the committee. This is our second field hearing in a row where none have made the effort to join us in conducting our committee business outside the marble halls of Washington, D.C.

We are here to sit down and have a conversation with working people about the need to protect Americans from a $4.6 trillion in tax hikes that will happen the end of next year. You would think that would merit at least one Democrat showing up to listen. With proper notice, multiple weeks, there are still empty chairs.

The State Fair couldn't be more different than the halls of Congress, and that is exactly why we are here, to listen to regular people, people who run a small business, work their farm, or folks just trying to make ends meet for their families.

Part of the problem is every dollar you earn is taxed over and over again. Just think about all the taxes you pay every day. You pay property tax on your house. You pay taxes on the land you own and work. Your car and the gas to fill it up to get to your job or to use on your farm are taxed. Taxes on your employer means a smaller paycheck for you. That paycheck is taxed by Washington, and then taxed again buying groceries and other basics for your family. Once you stop working, your retirement is taxed. Even after death, Uncle Sam still wants his cut, and he wants your grieving family members to pay it.

Republicans look at working families and want to make it easier to help them get ahead. And we know that a smaller government, less regulations, and less taxation is the way to do that.

Under President Trump, we passed a tax cut that benefited the working class. After that tax cut, people making less than $100,000 got, on average, a 16 percent cut in their tax bill to the government, while the top one percent actually saw their share of taxes go up. Workers in the bottom 10 percent saw 50 percent faster wage growth than people in the highest 10 percent. When working families prosper, America prospers.

Five million jobs were created after enactment of the Trump tax cuts. Investment rose over 20 percent. We ended the decades' long trend of American businesses moving their headquarters and jobs overseas.

The lesson we should take from the Trump tax cuts is that when we put working families first, help small businesses succeed, and give Americans the tools to outcompete China, America will win.

Democrats in Washington, including Vice President Harris, they don't see it that way. They look at working families, and they see an ATM to fund their big government spending. That is why President Biden and Vice President Harris have both separately promised to let these beneficial tax cuts expire in order to raise taxes on all Americans, every single American.

Vice President Harris has actually gone so far to call it a day one priority to repeal the Trump tax cuts in their entirety. Letting the Trump tax cuts expire would mean the average family of four earning $75,000 or less a year would face a $1,500 tax increase. That means smaller paychecks for families already struggling to make ends meet because of inflation that has gone up more than 20.3 percent in the last 3.5 years.

The Child Tax Credit would be slashed in half. The guaranteed deduction would be cut in half. The death tax exemption would also be slashed in half, especially hurting farmers in states like Iowa and Missouri. Small and family run businesses, like so many farms are, would see their tax burden climb to 43.4 percent, making it harder to compete against larger corporations paying a 21 percent tax rate.

So other than tax increases, what exactly are the tax priorities of the other side? As I said, none of my Democrat colleagues are here to answer that question. But if they were, my guess is they would be celebrating that today, that this very day actually marks the 2-year anniversary of the so-called Inflation Reduction Act becoming law. Democrats stuffed that bill with $650 billion in special interest tax breaks for the wealthy, their donors, big banks, billion-

dollar companies, and China. Despite its name, the Inflation Reduction Act has done nothing to lower prices from where they were 2 years ago. It would be better named the Inflation Expansion Act.

None of this would have happened without Vice President Harris' tie-breaking vote in the Senate. As the tie-breaking vote, she helped usher through a $10 trillion increase in government spending in just their first two years in office. This is the Democrats' plan for America, higher prices and higher taxes for the little guy and welfare for the wealthy and well-connected.

That is why Republicans on this committee have formed tax teams and are traveling all over the country to build on the successful Trump tax cuts and stop the $7 trillion Biden-Harris tax hike. We have held over 60 meetings so far, with many more on the way. And just yesterday, the Rural America Tax Team led by Chairman Smith traveled through Nebraska and western Iowa to hear how the Tax Code can help farmers and small towns.

I want to thank the witnesses for all being here today and sharing how the Trump tax cuts made a difference for you and your community.

We also want to hear from everyone in attendance. There will be clipboards that our teams will pass out throughout the process we ask that you submit for the record. We will enter those into the official House record of the hearing and take those back with us to Washington as we consider how to build on the successes of the prior tax cuts.

I am pleased to recognize our generous host, our good friend, Congressman Feenstra, for 1 minute.

Mr. FEENSTRA. Thank you, Chairman Smith.

I want to thank my colleagues for coming. We have taken Congress out of D.C. and brought it to the breadbasket of the world, to the Midwest, to Iowa, and I want to thank you for being here.

I want to thank our witnesses for coming today. I want to thank Karen, Sarah, Jolene, Steve, and Lana for taking the time to answer the questions that we might have.

This is so important for us as a state, for the Midwest. You think about what we have, from cattle to hogs, to dairy to eggs, to turkeys, to biofuels, to corn and soybeans. This is so important. This is our way of life that we are going to talk about today. But our way of life is affected when the tax cuts that happened in 2017 go away.

I think of our families, where we doubled the standard deduction in 2017. We doubled the Child Tax Credit for our families. I think of the small businesses and agricultural community that does the 199A, pass-through credit, got a 20 percent discount. They got interest expensing reduced, got 179 depreciation increased. It goes on and on. But all these things go away and all have a dramatic affect for our families, for our small businesses, for our main streets. And when they are affected, our schools are affected, our hospitals are affected, and so many other things. That is why it is so important that we have this discussion today.

And, finally, I just want to say, I ushered through in 2018, when the Tax Cuts and Jobs Act was passed, I ushered it through the Iowa Senate where we did the largest tax cut at that time in Iowa history. Well, I will say this: I did it in the Iowa Senate, being

chair of the Ways and Means, and I will come through again for each Iowan to make sure that these tax cuts continue to be cut as we move forward.

Thank you so much, Chairman.

Thanks, everyone, for being here.

Chairman SMITH. Thank you.

I am pleased to recognize the gentlewoman from Iowa, Mrs. Hinson.

Mrs. HINSON. Thank you, Mr. Chairman. Thank you for coming back to the State Fair, repeat customer. This is the second year in the row Mr. Chairman has been here.

Thank you to our witnesses and to everyone in the audience for coming out to talk about these important issues that affect our businesses here, our farmers, our producers, and working families. We are going to highlight a lot of those really important issues today.

Mr. Chairman, I was struck by what you said about the agenda coming out of the Harris administration, Harris-Biden administration, and they will raise your taxes. I serve on the House Appropriations Committee, so thank you for letting me sit in as a guest today. But our committee is responsible for, hopefully, judiciously spending your tax dollars.

I think there is a philosophical difference happening right now in Washington, D.C. We believe that that is your money, not the government's money. But our ranking member on that committee said just a few months ago in our markups this year, we do not have a spending problem; we have a revenue problem. That to me is code for they want to raise your taxes and they are addicted to spending your money.

So Democrats, including Vice President Harris, have promised to roll back these important tax cuts that Randy was just talking about, calling for a repeal of stepped-up basis and expiration of the 199A small business deduction. These are policies that so many multigenerational small family farms and businesses rely on every single day. And these are a critical tool to support all of our economies, but especially our rural economy here in Iowa.

So we need to be competitive. We need to be competitive with our adversaries like the Chinese Communist Party. And I look forward to having the discussion today with our witnesses and all of you and my fellow colleagues from all over the country about how we can make sure we are returning that money, your money, back to you.

And, Mr. Chairman, I yield back.

Chairman SMITH. Thank you.

I am pleased to recognize the gentleman from Iowa, Mr. Nunn.

Mr. NUNN. Well, Chairman Smith, thank you so much for being here in the heart of the heartland. You know, I think we need more of these hearings outside of the beltway and right in the corn belt, because this is where you are going to hear not from, you know, politicians and lobbyists but from real practitioners and real leaders.

I am thrilled with the lineup that we have today, and I am grateful for members across the country on your Ways and Means Committee taking time to come out here and learn how it impacts your

district, then learn how it impacts really the middle of America and the jobs and the families and the lives that are impacted directly by this.

I am proud that on day one as a freshman on this panel, I went against the establishment to make sure that we fought for key taxes that impact our State. Working with this team here, we held together to make sure that biofuels were part of America's energy solution and our national security solution. With that, we were able to achieve it, and with your help, Mr. Chairman, thank you for hearing us out on this.

I am also very proud, you know, as a dad of six, with two foster kids here that are now adopted, that we have made a priority of the Child Tax Credit. It helps every family, it grows the economy, and it is important for our future here as families.

And I am also privileged to help lead the HEART Act to help families who are decimated by natural disasters like those that happened right here in Greenfield, Iowa, where nearly a third of the town was destroyed by severe storms and tornadoes.

The 2017 tax credit has been a critical lifeline for all Americans, but particularly those right here in Iowa, with the average Iowa family of four seeing a 22 percent tax cut, because of your good work. If these are allowed to expire through inaction or false promises, Iowans will see a 22 percent increase in their overall taxes at a time when no Iowa family can afford it.

Because of the leadership that has happened both on this committee and I would say with your Iowa delegation, we have been part of the team that has cut Iowa taxes three times, the largest tax cuts in Iowa history. We have a proven example of how this works to grow the economy, to help all families, and as my colleagues highlighted here, to make sure that we pay off our debt while being successful for the future.

Because of these tax cuts, Iowans have more money in their pockets and they invest them right in the communities that matter, spending on their families and their communities and to grow our local economy.

So, Mr. Chairman, thank you for doing this, and thank you for the opportunity to join you.

Chairman SMITH. Thank you, sir.

I will now introduce our witnesses for today.

The first one is Karen Dewalt, who is the vice president for Global Tax at Home Depot. We have Sarah Curry, who is a mother of three from Glenwood, Iowa, and serves as the research director at the Iowans for Tax Relief Foundation. We have Jolene Riessen, who is a farmer from Ida Grove, Iowa, and serves as the president of Iowa Corn. We have Steve Sukup, who is the president and CEO of Sukup Manufacturing Company, a family-owned grain storage and drying manufacturer based in Sheffield, Iowa. And we have Lana Pol, who is the owner and president of Geetings, a small trucking company based in Pella, Iowa.

Thank you all for joining us today. Your written statements will be made part of the hearing record, and you each have 5 minutes to deliver remarks.

We will start with you, Mrs. Dewalt. You may begin.

STATEMENT OF KAREN DEWALT, VICE PRESIDENT, GLOBAL TAX, THE HOME DEPOT

Mrs. DEWALT. Thank you, Chairman Smith.

Members of the Ways and Means Committee and members of the Iowa delegation, thank you for the opportunity to testify on behalf of The Home Depot on why it is important to keep a competitive corporate tax rate. As the largest home improvement retailer, The Home Depot is uniquely in tune with how a competitive corporate tax rate is essential to staying in business in the United States.

The Tax Cuts and Jobs Act, TCJA, which reduced the corporate tax rate to 21 percent, has been necessary in enabling American companies like ours to create jobs, invest domestically, and offer low prices on products for Iowans and all consumers. I am here today to share just how much The Home Depot invests in our great country.

In the U.S., we operate over 2,000 stores and employ over 400,000 associates. Every Home Depot job supports more than four additional jobs across the U.S., which is more than twice the retail average. In Iowa alone, we support more than 7,000 jobs.

In 2023, Home Depot paid $5 billion in corporate income taxes, which is approximately 1 percent of all Federal income taxes collected in the United States. No one can say that we don't pay our fair share in taxes.

Since the enactment of TCJA, we have undertaken several initiatives that demonstrate the positive impact of a lower tax rate.

First, expansion and employment. We have invested $1.2 billion in our supply chain since 2017, establishing over 100 warehouse facilities. This has created more than 18,000 jobs in the U.S., improved our operational efficiency, and expanded our ability to deliver large, bulky merchandise like lumber, insulation, and roofing to better serve our pro customers.

Second, investment in our workforce. The Home Depot invested approximately $1 billion in frontline associate wages in 2021 and an additional $1 billion annualized wage investment last year, ensuring our employees are compensated fairly and competitively. This benefits our associates and contributes to local economies through increased spending power.

Additionally, our store managers see the benefit of our wage investments in the lives of our associates. Our West Des Moines store manager told the story of one of his associates, a local Iowan whose life has changed from the Home Depot's investment in wage. She has gone from working two jobs to make ends meet to joining The Home Depot, growing her career, now as a department supervisor, and just moved in to a new apartment with her son.

Finally, we have invested significantly in technology to create an interconnected retail experience and help our associates provide better customer service.

Now we are embarking on our next growth chapter, planning to open 80 new stores over the next five years, more than a dozen of which have already opened.

These examples show that when we were given a lower rate through TCJA, we aggressively invested it back into our business and people. Any increase in the corporate rate will decrease the capital that we have to invest in our associates, stores, infrastruc-

ture, and capabilities, and will threaten to make us less competitive. Our investments in local communities through job creation, small business support, and giving back help stimulate local economies and improve quality of life.

For example, we have over 80 small businesses in Iowa and Missouri that deliver supplies to our stores. These suppliers sold more than $140 million worth of product to The Home Depot in 2023.

In addition, Home Depot is committed to supporting communities with natural disaster preparedness, short-term response and long-term recovery, which makes a real difference when the need arises. In 2023, The Home Depot Foundation committed more than $8 million for disaster preparedness, response, and long-term recoveries in impacted communities from natural disasters. And this May, the Foundation committed up to $300,000 to harder-to-reach communities, including those in Iowa impacted by tornadoes and severe flooding. This is an invaluable impact of our footprint with associates in every state in the U.S. ready and able to serve our communities.

In conclusion, maintaining a competitive corporate tax rate of 21 percent is essential for the continued growth and success of U.S.-based companies like The Home Depot. It enables us to invest in our business, create jobs, and provide value to American consumers while supporting the broader economy.

Our stores don't just sell products. They empower homeowners to renovate and maintain their homes at a reasonable cost, and they enable small to mid-size contractors to grow their businesses. We urge policymakers to consider the positive impact of the current tax rate on businesses, communities, and the nation's economic health.

Thank you.

[The statement of Mrs. Dewalt follows:]

Testimony of Karen Dewalt
Vice President, Global Tax
The Home Depot

Before the U.S. House Committee on Ways & Means
Full Committee Field Hearing Titled:

The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest

August 16, 2024

The Importance of Maintaining a Competitive Tax Rate

Chairman Smith, Ranking Member Neal, and Members of the Committee,

Thank you for the opportunity to submit comments on behalf of The Home Depot regarding the importance of maintaining a competitive corporate tax rate. As the largest home improvement retailer in the world, The Home Depot is keenly aware of how tax policies impact not only our business but also the broader economy and the communities we serve.

A competitive corporate tax rate is vital for fostering a robust business climate in the United States. The Tax Cuts and Jobs Act (TCJA) of 2017, which reduced the corporate tax rate to 21%, has been pivotal in enabling U.S.-based companies like ours to create jobs, invest domestically, and offer consumers price-competitive products.

Background

For context, The Home Depot operates 2,340 retail stores across North America, with over 2,000 in the U.S., and employs over 465,000 associates. The Home Depot's online business itself is the 5th largest U.S. based e-commerce retailer. For the fiscal year 2023, The Home Depot paid approximately $5 billion in corporate income taxes. The Home Depot pays approximately 1% of all federal corporate income taxes collected in the U.S.

While our current effective tax rate, which includes state and local taxes, is approximately 24-25%, a significant reduction from the approximately 37-39% ETR we reported before TCJA was enacted, The Home Depot continues to pay more than its fair share of taxes while also investing in our business to help our customers get what they need, when and where they need it, at the best price possible.

The reduction in the corporate income tax rate allowed The Home Depot to reinvest more earnings back into our business, contributing to the US economy's overall strength. One way to look at it is through our operating margin: in 2016, it was approximately 14.2%, and in 2023, it was approximately 14.2%. One reason it stayed relatively consistent over that time period is because we prioritized investments in associate wages, buildings, and IT infrastructure, ensuring we remained competitive and continued to provide value to both our pro and do-it-yourself customers.

Maintaining a competitive tax rate enables us to expand our operations and enhance our capabilities. Our stores don't just sell products, they empower homeowners to renovate and maintain their homes at a reasonable cost, and they enable small to mid-sized contractors to grow their business.

The Impact of TCJA on The Home Depot

Since the enactment of TCJA in 2017, we have undertaken several initiatives that demonstrate the positive impact of a lower tax rate.

First, we've invested in expansion, making significant supply chain enhancements, establishing over 100 warehouse facilities nationwide as part of a $1.2 billion investment in supply chain capabilities. This initiative has created more than 18,000 jobs in the U.S. and improved both our operational efficiency and customer service. Consider how The Home Depot's Pro ecosystem continues to expand as a key component of the company strategy to better serve pro customers. The new distribution centers stock large, bulky merchandise like lumber, insulation, roofing shingles and more, allowing pros to order job lot quantities of the products they need to complete their entire projects, delivered directly to their job sites. This in turn allows the pros we serve to grow their businesses.

Second, we've invested heavily in our workforce. The Home Depot invested approximately $1 billion in frontline associate wage in 2021, and made an additional $1 billion annualized wage investment last year, ensuring our more than 400,000 talented employees are compensated fairly and competitively. This investment benefits our associates and also contributes to local economies through increased spending power.

Our store managers see the benefit of our wage investments in the lives of our associates. Our West Des Moines store manager told me the story of one of her associates, a local Iowan whose life has changed from The Home Depot's investment in wage—she's gone from working two jobs to make ends meet, to joining The Home Depot, growing her career with us now as a Department Supervisor, and just moved into a new apartment with her son.

Now, we are embarking on our next growth chapter, planning to open 80 new stores over the next five years, an investment that will add thousands of jobs. More than a dozen have already opened, creating numerous job opportunities across the country. We have also just completed the largest acquisition in our company history. In May 2024 we acquired SRS Distribution—a Texas- based leading residential specialty trade distribution company. This acquisition complements the Pro capabilities The Home Depot is already building and will help us better serve the small, medium, and large businesses that work on complex projects for consumers across the country and will also allow us to accelerate our growth, further contributing to the economy.

Finally, we've increased technological advancements. We have invested significantly in technology to create an interconnected retail experience and help our associates provide better customer service. For example, our homegrown mobile app Sidekick uses machine learning to help associates find product more easily and to prioritize stocking the highest demand product.

These examples show that when we were given a lower rate through TCJA, we aggressively invested it back into our business and people. Any increase in the corporate rate will decrease the capital that we have to invest in our associates, stores, infrastructure and capabilities and will threaten to make us less competitive.

Economic Impact of TCJA

The benefits of maintaining a competitive tax rate extend beyond our company to our customers and the communities we serve.

The current corporate tax rate of 21% has allowed us to contribute significantly to the U.S. economy. According to our latest Economic Impact Study based on our fiscal year 2022, every Home Depot job supports more than 4 additional jobs across the U.S. The Home Depot provided more than $22 billion in direct tax impact, including corporate income taxes, sales taxes collected, property tax and payroll taxes paid by our associates. Our economic activities also generated $35 billion in GDP, illustrating the broader benefits of a competitive tax environment. Finally, we support more than 7,700 local suppliers across the country, creating shareholder value for both The Home Depot and our vendor partners — cultivating a supplier base that includes small businesses like local manufacturers and plant nurseries.

A lower tax rate enables us to keep prices competitive, making home improvement more accessible to a broader range of consumers. Additionally, our investments in local communities through job creation, small business support, and giving back help stimulate local economies and improve quality of life.

For example, we work with over 80 small businesses in Iowa and Missouri that deliver supplies to our stores and customers. These suppliers sold more than $140 million worth of product to the Home Depot in 2023, and we are always looking to find new small businesses to help both The Home Depot and small businesses succeed.

In addition, The Home Depot is committed to supporting communities with natural disaster preparedness, short-term response and long-term recovery, which makes a real difference when need arises.

Each year, the Home Depot Foundation and Team Depot, Home Depot's associate volunteer force, prepare before disaster strikes by pre-stocking nonprofit partner warehouses and Home Depot distribution centers with relief supplies for quick deployment in the immediate wake of a storm.

With the help of Team Depot and nonprofit partners, including Team Rubicon, Convoy of Hope, Operation Blessing, American Red Cross, World Central Kitchen and others, the Foundation is able to provide immediate support, resources and relief supplies to communities in need.

Our corporate merchandising, supply chain and operations teams move necessary product and equipment to impacted areas, and our stores often become command centers for first responders and relief agencies.

Through nonprofit partners, the Foundation continues to work in impacted communities for years after a natural disaster to come to ensure long-term recovery in the area.

In 2023, The Home Depot Foundation committed more than $8 million for disaster preparedness, response and long-term recovery in communities impacted by natural disasters, and this May, the Foundation committed up to $300,000 to harder to reach

communities impacted by tornadoes and several flooding, like Iowa, Nebraska, Oklahoma, Michigan, Texas, Tennessee and others.

In conclusion, maintaining a competitive corporate tax rate is essential for the continued growth and success of U.S.-based companies like The Home Depot. It enables us to invest in our business, create jobs, and provide value to American consumers while supporting the broader economy. We urge policymakers to consider the positive impact of the current corporate tax rate on businesses, communities, and the nation's economic health.

Thank you for your time and consideration.

Respectfully,

Karen Dewalt
VP, Global Tax
The Home Depot

Chairman SMITH. Thank you.

Mrs. Curry, you are recognized.

STATEMENT OF SARAH CURRY, MOTHER, GLENWOOD, IOWA, AND RESEARCH DIRECTOR, IOWANS FOR TAX RELIEF FOUNDATION

Mrs. CURRY. Thank you, Chairman Smith and members of the committee, for giving me the opportunity to comment here today on how the Tax Cuts and Jobs Act has impacted me and my family.

My name is Sarah Curry. I am a wife and a mother to my three boys, Phillip, who is six, Isaac, who is four, and Benjamin, who is two.

My family lives in rural southwest Iowa on approximately 10 acres. You have to drive down about 3 miles of a gravel road to get to my home. My husband works as a radiation oncology nurse at the nearby hospital, and I am a research director for a nonprofit here in Des Moines.

With three boys and two working parents, our family benefited immediately from many of the policies included in the TCJA. At the top of the list is the expansion of the Child Tax Credit. For my sons, keeping more of our earnings helped us with the needs that all parents have for babies and toddlers. However, the tax credit has been especially significant for my family when Isaac arrived, because he was diagnosed with autism spectrum disorder. The cost of Isaac's medical appointments and therapists is a large financial burden on my family, so we redirect every dollar that otherwise would go to taxes to his therapies.

Another benefit my family has appreciated is the increased standard deduction. Expanding the standard deduction and limiting major itemized deductions simplified our tax filing process, and it has helped us as a family make decisions based on our lives rather than the tax rules.

A third provision of the TCJA that helped my family is the change in the marginal tax rates. Over the years, my husband and I have worked hard, earning additional degrees, certifications, and receiving promotions to grow in our careers, and as a result, our taxable income has increased. Within the TCJA we saw immediate savings. If these reduced marginal tax rates were to sunset, our family would see an immediate tax increase, and that would directly impact our family budget and the resources we have for our children.

That is the personal side of my testimony. But given my background in public finance, I also want to give you my professional perspective on the impact TCJA will have on Iowa families.

Iowa's tax structure draws upon the Federal Code as a starting point for calculating our state income taxes, and so the TCJA has ramifications for us on that side as well. Our state once had nine income tax brackets with a top rate of 8.98 percent, but starting next year, we will have a flat tax and a rate of 3.8 percent. State-level policymakers have worked to reduce the tax burdens on Iowans, but a sunset of the TCJA would erode some of those tax savings.

In 2018, state lawmakers conformed our state tax policy to many of the TCJA provisions, so a sunset of the Federal tax policies will

present a problem. Iowa will have to figure out how to maintain a less complex tax system for Iowans that does not result in a tax increase while still conforming to federal tax policy.

As a policy expert and, more importantly, as a mom, I can testify that the increased tax liability would hurt my family and many others, both at the federal and state level. My family's tax burden directly affects the amount of income my husband and I can spend on our three young children and the pressure on us to spend time away from them working. Having a child with special needs makes us especially sensitive.

As Iowans, we feel like lawmakers in our state have worked hard for us to keep more of our income, by lowering the top rates and simplifying our tax structure. As an American, I ask you to look to Iowa and the other states that have enacted similar reforms in response to the request of families across America for lower taxes.

Thank you for your time and the consideration of my testimony today.

[The statement of Mrs. Curry follows:]

Testimony of Sarah Curry

Mother of Three Young Children and
Research Director at Iowans for Tax Relief Foundation

U.S. House of Representatives Ways and Means Committee

Field Hearing: The Success of Pro-Growth,
Pro-Worker Tax Policy in the American Midwest

August 16, 2024

Des Moines, Iowa

Thank you to the members of the Ways and Means Committee for the opportunity to comment today on the effect the Tax Cuts and Jobs Act (TCJA) has had on my family. My name is Sarah Curry. I am a wife and mother to my three boys: Philip, who is six years old; Isaac, who is four; and Benjamin, who is two. My testimony, today, may be a little unusual, because I'm not the rare person who can provide it. Most of what I want to say you could hear from millions of other people, too, across Iowa and America.

My family lives in rural southwest Iowa on approximately 10 acres, and you'll drive about 3 miles on a gravel road to reach my home. We love the outdoors and small-town life, but it does mean we have to be sure we're well supplied and maintain the transportation and technology to reach help and safety. My husband works as a radiation oncology nurse for a nearby hospital, and I am research director for a nonprofit headquartered in Des Moines. With three boys and two working parents, our family benefitted immediately from many of the policies included in the Tax Cuts and Jobs Act (TCJA).

At the top of the list is the expansion of the child tax credit (CTC), doubling the maximum and increasing the refundable amount. For all of my sons, born in 2017, 2019, and 2022, keeping more of our earnings helped us with the needs that all parents of babies and toddlers have. However, the tax credit was especially significant for my family when Isaac arrived, because he was diagnosed with autism spectrum disorder (ASD). This has meant many hospital and doctors' visits, and my husband and I have had to change our work schedules to accommodate his needs.

Isaac receives occupational and speech therapy, and we are on a waiting list for behavioral therapy. The cost of all these medical appointments and therapists is a large financial burden on my family, so we redirect every dollar that otherwise would have gone to taxes to his therapies, instead. The behavioral therapy, in particular, is going to be expensive, but in our view, Isaac's treatments are non-negotiable expenses. He needs them, and we are going to find a way to provide him the skills to go to school and one day have a job and live

on his own, independent life. The TCJA tax credit lets us use our own resources as his parents for services that will help him be a happy and productive American.

Another benefit of the TCJA my family has appreciated is the increased standard deduction. Expanding the standard deduction and limiting major itemized deductions simplifies our tax filing process and helps us make decisions based on our lives rather than tax rules. For example, over the last 20 years I have been a soccer referee, officiating at the youth, amateur, and semi-pro levels. The job requires me to itemize many small deductions over the course of the year, which takes a lot of time and increases the complexity of my tax filing. I actually started working fewer games so I wouldn't have such a huge tax compliance burden.

As a tax policy analyst, I can tell you that's exactly what the government should not want. Unlocking people's potential for the benefit of the country means encouraging them to make decisions based on their circumstances, not because the tax law is complicated.

A third provision of TCJA that has helped my family is the change in marginal tax rates. My husband and I have worked hard, earning degrees, certifications, and promotions, to grow in our careers, so our taxable income has increased. With the TCJA, we saw immediate savings. If these reduced marginal rates were to sunset, our family would face a tax increase harming our budget.

That is the personal side of my testimony before you today. Given my background in public finance and role as research director for Iowans for Tax Relief Foundation, a Des Moines non-profit that works on behalf of taxpayers, I also want to give you my professional perspective on the effect of the TCJA on all Iowa families.

Iowa has its own unique combination of tax types, rates, and rules and exemptions. Nonetheless, our tax structure draws upon the federal tax code as a starting point for calculating state income taxes, and the TCJA has ramifications for us.

Iowans for Tax Relief successfully guided the state of Iowa toward a lower top marginal tax rate and elimination of our multiple brackets, reducing the overall burden on Iowans. Our state once had nine income tax brackets and a top rate of 8.98% but, starting next year, will apply a flat tax and a rate of 3.8%. State-level policymakers have worked to reduce the tax burden on Iowans, but the sunset of the TCJA could erode some of the tax savings they've won for our communities.

As I mentioned earlier, if the TCJA goes away, taxes will become more burdensome and complicated for individuals and families across Iowa, but the change will also complicate the efforts of state policymakers as they evaluate our state tax code. In 2018, state lawmakers conformed our policy to many of the TCJA's provisions, so a sunset of these federal tax policies will present a problem. Iowa will have to figure out how to maintain a less complex tax system for Iowans that doesn't result in a tax increase while still

conforming with federal policy. Only if the TCJA becomes permanent will this worry about a future policy conundrum be relieved.

As a policy expert and as a mom, I can testify that the increased tax liability would harm my family if the marginal tax rates increase or if the CTC and standard deduction are cut in half. My family's tax burden directly affects the amount of income my husband and I can spend on our three young children and the pressure on us to spend time away from them working. Having a child with special needs makes us especially sensitive to grocery bills' continued increase due to inflation and the climbing costs of education and healthcare.

We want to provide for our family, and tax increases take our earned income away from us, along with our ability to help and support our sons. As Iowans, we feel like lawmakers in our state have worked for us to keep more of our income by lowering the top rates and simplifying our state tax structure. As an American, I ask you to look to Iowa and the other states that have enacted similar reforms in response to the request of families across America for lower taxes. Keeping the TCJA and making its provisions permanent is the best way to help American families and mine.

Thank you for your time and consideration of my testimony today.

Sarah Curry
Doctor of Business Administration, Finance
Wife, Mother, and Public Policy Research Director
scurry@itrfoundation.org

Chairman SMITH. Thank you.

Ms. Riessen, you are now recognized.

STATEMENT OF JOLENE RIESSEN, FARMER, IDA GROVE, IOWA, AND PRESIDENT, IOWA CORN

Ms. RIESSEN. Thank you, Mr. Chairman, and welcome to Iowa. I appreciate the opportunity to appear before you today and to commend you for holding this important hearing on tax implications that impact family farms across Iowa and the rest of the United States.

My name is Jolene Riessen. I am a farmer and current president of the Iowa Corn Growers Association that has a membership of over 7,500 farmers and agribusiness associates. My organization takes its direction from our grassroots memberships, and by allowing me to speak today, you will be hearing their concerns through me, in addition to my own personal experiences for my crop and cattle operation in northwest Iowa.

As a farmer, we are at a critical juncture. Currently, commodity prices will not cover the cost of production, let alone the extra moneys to be spent in the community, hurting our rural and national economies. A strong farm economy makes for a strong national economy. That is why a good tax policy is vital to keep family farms in business.

Iowa Corn works in conjunction with the National Corn Growers Association, and together we were supportive of your negotiated tax package, H.R. 7024, the Tax Relief for American Families and Workers Act. And we appreciate your work on these important tax matters, like the bonus depreciation and Section 179 provisions.

So every year, our Corn Growers Association conducts a member survey. We just got the results back. Over 90 percent of our members say that tax policy is number one to them, and we as an organization need to be focused on that. Tax policy is so important for our farmers to continue to thrive throughout the countryside.

So next year, I will be eligible for Medicaid, which means entertaining thoughts about retiring and passing the family farm on to the next generation, or for me, my two boys. So I, as so many other farmers, are making plans for passing that farm down to the next generation, and changing tax provisions are a huge part of that estate planning process.

So here are my thoughts to you to carry back to Washington.

Number one, leave the estate tax rate at $13.6 million per person and adjust it for inflation annually.

Number two, keep bonus depreciation, which allows us to not only modernize our equipment but allows us to farm more efficiently.

And, number three, keep stepped-up basis, which allows us to transfer ownership of farmland and equipment, reducing capacity gains tax for our heirs.

If these tax provisions change, it will be catastrophic for us and so many others who need their land and equipment to keep the farm operational.

So let me just use my farm as an example. If the current estate tax rate stays at 13.6, I will be able to successfully pass my ground and equipment to my boys, without placing them in a tax liability

position. However, if the current level is reduced back to $6 million, here is what is going to happen. My boys will either have to sell all the equipment and 70 acres or they are going to have to sell 275 acres of land and be able to keep the equipment.

Both choices, in my book, are unacceptable, since selling 275 acres of ground would mean that over half of the land that they stand to inherit is going to be gone and, for me, it will be destroying what their dad and I worked so hard to build.

So our story is more common than not. Currently, 97 percent of farms are family-owned in the United States, so you will be decimating what helped build the strong American farm economies we know today. With the possible sale of the land to pay the estate tax, chances are it is going to be a larger farmer that buys that ground, not a beginning or a small farmer, which would add to the vertical integration that is already going on in the countryside.

Plus, now let's add the taxes of the sale of that land and/or equipment and then let's go to town and try and find a local lender to set up financing to be able to buy that equipment, to be able to buy that land back. And if successful, interest rates are going to be incredibly high just due to the riskiness of that loan.

Couple that with the depressed farming commodity prices that we have today—and, oh, by the way, corn is down another 6 cents today—will make it next to impossible to service that amount of tax debt, so basically destroying any chance of my sons continuing to farm the operation that has been in our family for close to 100 years.

I know this is a lot to think about, but I want to leave you with this: The current tax provisions are essential to preserving family farms and farming throughout the United States. Protecting these policies is key to ensuring that we can pass our farms on to the next generation, because when we protect farming and farms, we protect our communities, we protect our food, and we protect our fuel, all things that have and will keep our country strong and keep the United States the envy of other nations.

Thank you for this opportunity to provide this testimony today.

And I do have one final request, and I know this is a big ask, but please, please, please, pass a farm bill this year. My dad——

[Applause.]

Ms. RIESSEN. So I come from a family of six kids and, needless to say, we fought a lot, and my dad would always say, You got to work along, you got to get along. My dad is 90 years old. He still farms.

So I want you to take that advice back to D.C.: You got to work along and you got to get along. And I would certainly hope that we see some promise in getting that farm bill passed.

And one more thing. You have a keychain there by you. You folks are the key to getting this farm bill passed, to getting these tax policies back on the farm for us. So please, I know that is kind of a corny gift, but it is so important the things that you folks will do for us out there.

So thank you so much.

[The statement of Ms. Riessen follows:]

TESTIMONY OF JOLENE RIESSEN PRESIDENT IOWA CORN GROWERS ASSOCIATION

BEFORE THE US HOUSE WAYS & MEANS | DES MOINES, IOWA | AUGUST 16, 2024

Thank you, Mr. Chairman. I appreciate very much the opportunity to appear before you today and want to commend you for holding this important hearing on the tax implications that impact family farms across Iowa and the rest of the United States.

My name is Jolene Riessen, and I am President of the Iowa Corn Growers Association that currently has over 7,000 members in Iowa. My organization takes its direction from the grassroot members and by allowing me to speak today you will be hearing their concerns through me and some of my own personal experiences from my farming operation located in Ida County, Iowa.

With corn prices currently so low, we as farmers are at a critical juncture where we're struggling to cover the cost of production, let alone have any funds left over to support our local communities. Tax policy is vital to keeping family farming operations in business, and at the end of the day, family farms are a business, and we must make a profit to survive.

The Iowa Corn Growers Association works in conjunction with the National Corn Growers Association located in Washington DC. Together, Iowa Corn and National Corn were supportive of your negotiated tax package H.R.7024 – "The Tax Relief for American Families and Workers Act" and we appreciate your work on these important tax matters like the bonus depreciation and Section 179 provisions.

How do we know this? Every year the Iowa Corn Growers Association conducts a member survey, and we just received the surveys back and over 90% of our members surveyed responded that tax policy is a top issue for us to be focused on because they help our farms continue to thrive.

As I grow older, retirement is on my mind, and with that comes the passing of our farm to the next generation of farmers and agriculturalists. However, like many farming families across the country, not just in Iowa, the idea that these tax provisions could be changed weighs on our decisions and minds as we make plans for our futures.

But here is what could help:

The estate tax rate remaining at $13.6 million per a person, bonus depreciation which allows us to modernize our equipment on the farm and stepped-up basis, which allows us to transfer ownership of farmland and equipment and reduce capital gains tax for our heirs in the event of our passing.

If these tax provisions change, it will be catastrophic for us and so many others, who need their equipment and land to keep in operation. For example, on our farm, **w**ith the current estate tax rate at $13.6 million our family will be able to successfully pass our farm ground and equipment onto the next generation of farmers, without placing the stress of a tax liability position on them. However, if that current level is reduced back to $6 million, in order to make ends meet, we would have to sell ALL of our equipment and 70 acres of land or 275 acres of ground in order to keep the equipment to stay in operation.

Why is this important? Currently 97% of farms are family owned in the United States and with the reduced estate tax, that number will drastically lower. With the sale of the ground, it will be a larger farmer buying it, not a beginning farmer or small farmer thus adding to the vertical integration that is already going on in the countryside. And when I think about our farm, if my boys have to sell the line of equipment, along with the land, they will face the implications of those taxes on the sale of those two assets as well. Then add to that the lending pool will be very small, and interest rates will be very high due to the riskiness of the loan. Finally add in the commodity prices we have today to service that debt, chances of staying in farming go out the door.

I know that is a lot to think about, but I want to leave you with this, the current tax provisions, are essential to preserving the legacy of family farms. Protecting these policies is key to ensuring we can successfully pass our farms on to the next generation, safeguarding our way of life for future generations. Because whether you live or work on a farm, you need farms – and I think we would all rather they be family-owned and operated than the latter.

Once again, thank you for allowing me this opportunity to provide this testimony today and look forward to answering any question you may have.

Chairman SMITH. Thank you. Amen to that. Let's pass that farm bill.

Mr. Sukup, you are recognized.

STATEMENT OF STEVE SUKUP, PRESIDENT AND CEO, SUKUP MANUFACTURING CO.

Mr. SUKUP. Thank you.

Good morning, Chairman Smith, and all to the distinguished members joining us. Thank you for the opportunity to appear before you today at this important hearing. It is a special time in our community, and we are grateful to host you.

My name is Steve Sukup. I am president and CEO of Sukup Manufacturing. We are located just south of Interstate 35 in Sheffield, Iowa. And I am proud to say that we are the largest family owned and operated manufacturer of grain storage, drying, and equipment.

For over 60 years, Sukup has been a critical part of the U.S. food supply. We sell in every state represented here, throughout the Midwest and from California to New York. Our company is located in Congressman Feenstra's district, and I would like to thank him for being here today and our entire Iowa delegation.

The tax reform bill of 2017 was a shot in the arm for manufacturers across our sector. Sukup has grown over the past decades, but nothing compares to the Tax Cuts and Jobs Act when it was signed into law. For example, thanks to lowering the corporate tax rate to 21 percent, Sukup grew our workforce by a third, adding 200 well-paying manufacturing jobs in our community.

The key to Sukup's success has not only been our culture but our dedication to creating and pushing our industry forward. Sukup has held over 100 U.S. patents. We are pioneering ways to make grain storage and drying more safe, profitable, and efficient for farmers and ranchers across the country. This is largely made possible by massive investments in research and development.

In the years following tax reform, Sukup increased our R&D investment by several million dollars, with 95 percent of that money going towards engineering and staff wages, bringing well-paying jobs to Iowa.

One of these critical R&D investments is our safety homes. When a catastrophic earthquake struck Haiti in 2010, a Sukup safety manager wanted to develop an efficient, quickly assembled home from one of our grain bins to provide relief. I encouraged him to build a prototype. And today, our safety homes as you can see here on the fairgrounds today are changing lives worldwide.

We also developed the world's largest 2.2 million bushel bin for ethanol plants. That is big enough to house a Boeing 767. But, yes, the landing is difficult, even for you, Congressman Nunn.

Unfortunately, after being part of our tax code for 70 years, the expiration of immediate R&D expensing has made it harder for us to invest in the technologies and products of the future. Congress should immediately reinstate the expensing of R&D so manufacturers like Sukup can continue to innovate.

Following the passage of the 2017 tax law, Sukup went from roughly $5 million in capital spending to almost $15 million per year, thanks to the 100 percent accelerated depreciation. This al-

lowed us to fund new equipment purchases and fulfill our mission of providing Sukup employees with reliable, safe, and efficient equipment.

Unfortunately, full expensing began to expire in 2023. We believe that was a mistake, and it is common sense that our Tax Code should encourage investment that leads to growth. Many manufacturing teams, including our company, would benefit from seeing this provision restored, and Congress should do it immediately.

An accountant once told me, if you don't have some debt, that means you are not coming up with new ideas. Well, many manufacturers like us borrow moneys to finance essential long-term investments. Tax reform made it less expensive to take business loans which manufacturers use to invest and grow their operations. Unfortunately, this pro-growth standard expired in 2022 as well, making debt financing much more expensive. We are also counting on you to preserve tax reform sensible changes to the estate tax, so that we can ensure the third and fourth generations of Sukups can continue in our family business.

Discussing tax policy before Congress is something of a tradition in our family. About 20 years ago, my father, Eugene Sukup, testified before the Senate Finance Committee, along with Warren Buffett. Since then, thanks to tax reform, we have had incredible growth streak in our business, and every one of our employees and customers has benefited.

I urge you to keep that growing streak going. Maintaining the 21 percent corporate rate, as well as the tax provisions I just described, are so important to manufacturers everywhere. Because of these policies, we have been able not only to maintain our business; to provide great living, health benefits, and soon expanded child care for our employees and in our community, even as we aid those in need around the globe.

Again, thank you for being here today, and thank you for looking at ways to keep Sukup Manufacturing a rural Iowa success story.

Thank you.

[The statement of Mr. Sukup follows:]

Written Testimony of Steve Sukup
President and CEO, Sukup Manufacturing
U.S. House Committee on Ways and Means
Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest
August 16, 2024

Good morning Chairman Smith, Ranking Member Neal and members of the committee. Thank you for the opportunity to appear before you today and for holding this important hearing in Des Moines, Iowa during a very special time of year for our community.

My name is Steve Sukup, and I am President and CEO of Sukup Manufacturing, located right up the road in Sheffield, Iowa. Sukup Manufacturing is the largest family-owned and operated manufacturer of grain storage, drying and handling equipment in the world. Our company is in Representative Feenstra's district, and I would like to thank him for being here today and for the dedication he has shown to Sukup's employees.

Sukup Manufacturing was started by my parents, Eugene and Mary Sukup, in 1963. My father was a young farmer at the time, and he saw that local farmers needed access to a better grain bin at a reasonable price. He founded Sukup Manufacturing to meet that need and passed away in 2018. Today, my brother Charles and I are proud to carry on our father's legacy alongside five members of the 3rd generation who work in the company and a 4th generation who loves to visit.

Today's hearing is special because it is being held during an exciting time for those of us from the Hawkeye State: the Iowa State Fair. The fair has a long, storied history. The first Iowa State Fair was held in Fairfield, Iowa in 1854, and has been in Des Moines since 1886. As the saying goes: nothing compares to the Iowa State Fair.

The U.S. tax code has a long, storied history as well—though its impact extends far beyond the state of Iowa. Since I was invited to this hearing, I've been thinking about what our tax code looked like when the fair first opened its doors 170 years ago. I've learned that most of the tax code we know today didn't exist in the 1850s. The first individual income tax in the United States was implemented in 1862 by President Lincoln to raise revenue to fund the Civil War and the first corporate income tax didn't come around until 1909. From 1868 until the adoption of the Sixteenth Amendment in 1913, 90% of all federal revenue came from excise taxes on liquor, beer, wine and tobacco.[1]

Obviously, our tax code looks far different in 2024 than it did in 1854. Similar to how the state fair has grown over the years, our tax code has become exponentially larger – but, in the case of our tax code, it has evolved into a complex and unwieldy behemoth. The tax code is thousands of pages long and touches almost every aspect of Americans' daily lives. As a manufacturer whose business and financial decisions are impacted by tax policies established by Congress, I can tell you that small and medium-sized companies across the country either thrive or fail due in no small part to policymakers' tax decisions.

[1] Internal Revenue Service, "Historical Highlights of the IRS". Available at: https://www.irs.gov/newsroom/historical-highlights-of-the-irs

Prior to tax reform in 2017, manufacturing production wages were on the decline, and our tax code had not been substantially updated in almost three decades. Manufacturers like Sukup were struggling under a high tax burden that impacted how effectively we could conduct business here at home and limited our competitiveness on the world stage. Unequivocally, tax reform was a much needed shot in the arm for the manufacturing sector.

Thanks to the pro-growth provisions included in the 2017 tax law—including and especially the 21% corporate income tax rate—Sukup was able to grow our workforce by a third, bringing on roughly 200 additional employees.

Others in our sector experienced similar impacts. The manufacturing industry made huge strides in the years following tax reform:

- In 2018, manufacturers added 263,000 new jobs, the best year for job creation in manufacturing in 21 years.[2]
- In 2018, manufacturing wages increased 3% and continued going up—by 2.8% in 2019 and by 3% in 2020. Those were the fastest rates of annual growth since 2003.[3]
- Manufacturing capital spending grew 4.5% and 5.7% in 2018 and 2019, respectively.[4]
- Overall, manufacturing production grew 2.7% in 2018, with December 2018 being the best month for manufacturing output since May 2008.[5]

Unfortunately, key tax reform provisions impacting research, interest loans and capital equipment purchases began expiring in 2022, and more devastating tax increases are on the way next year. I want to thank every member of this committee who supported the Tax Relief for American Families and Workers Act, which would have restored these expired provisions. I urge you to start preparing to address the expirations that are scheduled for 2025, which could harm manufacturing growth here in Iowa and across the country. Manufacturers are relying on the Ways and Means Committee to be leaders and fight to for these critical tax policies which promote consistency for small manufacturers and growth for the American economy.

I. Harmful Tax Reform Expirations

Crucial tax reform provisions have already begun to expire, making it more difficult and expensive for us to conduct innovative research and development and purchase much-needed capital equipment. I encourage the Ways and Means Committee to build on your work in passing the Tax Relief for American Families and Workers Act and ensure that Congress restores immediate R&D expensing, 100% accelerated depreciation and a pro-growth interest deductibility standard.

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[2] Bureau of Labor Statistics, Current Employment Statistics, Manufacturing Employment, Seasonally Adjusted. *Available at* https://www.bls.gov/ces/data/

[3] Bureau of Labor Statistics, Current Employment Statistics, Average Hourly Earnings for Production and Nonsupervisory Employees, Manufacturing, Seasonally Adjusted. *Available at* https://www.bls.gov/ces/data/

[4] U.S. Census Bureau, Annual Survey of Capital Expenditures, Table 2A, Manufacturing. *Available at* https://www.census.gov/data/tables/2019/econ/aces/2019-aces-summary.html

[5] Federal Reserve Board of Governors, Industrial Production, Manufacturing, Seasonally Adjusted. *Available at:* https://www.federalreserve.gov/releases/g17/Current/default.html

Research and Development

The key to Sukup's success has been not only our culture but our dedication to innovation and pushing what is possible in our industry. Creating new technology and innovative products has been a huge part of our competitive edge - Sukup has held more than 100 U.S. patents, and continues finding ways to make grain storage, drying and handling more safe, profitable and efficient for farmers and the agricultural industry. We do this by making substantial investments in research and development, which allowed Sukup to become an innovation leader in the grain bin industry. In the years following tax reform, Sukup was able to increase our investment in research and development by several million dollars, with 95% of this investment going towards engineering and staff wages. We attracted top talent to Iowa thanks to these investments, and those who joined our team have become a part of our community.

I am also proud that our R&D investments have had an impact far beyond our business. After the devastating earthquake in Haiti in January 2010, our safety director saw an opportunity to provide relief and approached me with an idea to help those in need. I said, "build a prototype", and we created the Safe T Home to shelter those who had been displaced or had lost their home. We have built and deployed these units in the United States, Haiti, Peru, Kenya, Uganda, Liberia and Ivory Coast.

Unfortunately, our ability to conduct R&D has been harmed by the expiration of immediate R&D expensing. Allowing companies like Sukup to deduct R&D expenses in the year incurred had been part of the tax code for more than 70 years, but since 2022 we have had to amortize our R&D expenses over five years. This affects manufacturers everywhere and has a dramatic impact on the U.S. economy as the private sector accounts for more than 75% of total R&D spending,[6] with small businesses accounting for approximately $90 billion of all private-sector R&D investments.[7]

This change isn't just an innovation problem; it also affects the number of individuals we can employ. In short, not allowing manufacturers to immediately deduct R&D expenses directly translates to fewer quality jobs in the manufacturing sector. I would like to thank Rep. Estes and Rep. Larson, who both sit on this committee, for their leadership on the American Innovation and R&D Competitiveness Act, which would make the immediate expensing of R&D expenses permanent.

Accelerated Depreciation

It is no secret that the manufacturing sector is capital-intensive, which makes accelerated depreciation of capital purchases a necessity for our growth. According to the Joint Committee

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[6] National Center for Science and Engineering Statistics, National Science Foundation, National Patterns of R&D Resources: 2020-21 Data Update, NSF 23-321 (Jan. 4, 2023), *Available at* https://ncses.nsf.gov/pubs/nsf23321.
[7] National Center for Science and Engineering Statistics, National Science Foundation, InfoBrief, NSF 22-343 (Oct. 4, 2022), *Available at* https://ncses.nsf.gov/pubs/nsf22343 and InfoBrief, NSF 23-305 (Dec. 14, 2022), *Available at* https://ncses.nsf.gov/pubs/nsf23305.

on Taxation,[8] the manufacturing sector, and specifically small manufacturers, utilize accelerated depreciation more than any other sector. In the years following the 2017 tax law, Sukup went from roughly $5 million in capital spending annually to almost $15 million thanks to 100% accelerated depreciation.

In 2023, 100% accelerated depreciation began phasing out, and it is scheduled to fully expire in 2027. This is already impacting the manufacturing industry, as full expensing not only allows us to purchase new equipment to scale our operations, but ensures our employees are operating efficiently and as safely as possible with reliable equipment. Sukup has already had to make difficult decisions regarding which equipment we should purchase due to this policy beginning to sunset. I want to thank Rep. Arrington for his leadership on the Accelerate Long-term Investment Growth Now (ALIGN) Act, which would make full expensing for capital equipment purchases a permanent part of our tax code. It is imperative to the growth of manufacturing in the United States that Congress restores 100% accelerated depreciation.

It is also critical for Congress to preserve Section 179, which is an immediate expense deduction that small manufacturers can take for purchases of depreciable business equipment instead of capitalizing and depreciating the asset over a period of years. This tax policy, along with full expensing, ensures manufacturers can make the investments necessary to continue to grow and compete.

Pro-Growth Interest Deductibility

Many manufacturers borrow funds to finance long-term investments in equipment and facilities, which in turn help create jobs and enable manufacturers to compete effectively in today's global economy. Tax reform allowed manufacturers to deduct interest on business loans, up to a cap: 30% of a business's earnings before interest, tax, depreciation and amortization (EBITDA). But this pro-growth EBITDA standard expired in 2022, and the cap is now limited to 30% of a business's earnings before interest and tax (EBIT). This change has been damaging to Sukup's supply chain, as our partners at all levels often use debt financing for investments, including purchasing our products.

By excluding depreciation and amortization expenses from the interest deduction calculation, the EBIT standard makes debt financing more expensive—punishing manufacturers with significant investments in depreciable assets like equipment and machinery as well as valuable intellectual property subject to amortization. Among the 35 countries that have a rule that restricts interest deductibility based on a ratio of interest expense to some measure of earnings, the United States is the only country that has an EBIT-based rule. Increasing the cost of debt financing makes it more costly for manufacturers to invest in growth and expansion.

Policymakers should not impose limitations that inhibit manufacturers ability to finance investments. I want to thank Reps. Adrian Smith and Kevin Hern for their sponsorship of the American Investment in Manufacturing Act, which would make permanent the EBITDA standard for interest deductibility. Congress should support manufacturers' efforts to get job-

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[8] Joint Committee on Taxation, "Tax Incentives for Domestic Manufacturing," JCX-15-21 (March 2021), *Available at* https://www.jct.gov/publications/2021/jcx-15-21/.

creating projects off the ground by returning the U.S. to an EBITDA standard for interest deductibility.

II. More Devastating Changes on the Way

The expiration of immediate R&D expensing, enhanced interest deductibility and 100% accelerated depreciation are just the tip of the iceberg when it comes to harmful tax increases manufacturers are facing. At the end of 2025, our industry faces even more challenges when other key provisions of the Tax Cuts and Jobs Act are set to expire. Congress must act before the end of next year to prevent these tax increases from chilling job creation, wage growth and the investments we make in our communities.

Corporate Tax Rate

Sukup is organized as a C-corporation that is subject to the corporate tax rate. The reduction of the United States' corporate tax rate from 35% to 21% was one of the most consequential aspects of tax reform, allowing manufacturers like Sukup to invest like never before. The competitive corporate rate reduced our tax burden, directly translating to an increase in investments, job creation, wage growth, economic expansion and a stronger supply chain. As I mentioned earlier, we took these savings and grew our workforce, creating hundreds of new jobs in our community.

Thankfully, the 21% corporate rate is not scheduled to expire, though some policymakers have proposed increasing the rate next year. President Biden's FY2025 budget proposal includes a 28% corporate rate, which would again subject manufacturers in the U.S. to one of the highest tax rates among our peers in the OECD. [9]

Manufacturers throughout the country are calling on Congress to preserve tax reform in its entirety—including the 21% corporate rate. Maintaining a competitive corporate rate will enable manufacturers to continue leading on the world stage while driving innovation and job creation here at home.

Estate Tax

Sukup is a multi-generational, family-owned manufacturer. I'm proud that my daughter, Emily Schmitt, and her husband, along with three other family members, are involved with the company. However, there is a tax policy change on the horizon that makes it harder for family-owned manufacturers to transfer their business to a loved one without facing a large tax bill in the process. At the end of next year, the exemption level that protects family-owned businesses' assets from the estate tax will be cut in half.

Manufacturers believe that the U.S. tax code should protect and promote the 90% of American businesses that are family-owned. Unfortunately, the estate tax unfairly punishes families during one of the most difficult times in their lives.

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[9] OECD Tax Database. *Available at*: https://www.oecd.org/tax/tax-policy/tax-database/

At the end of 2025, more of our assets will be subject to taxation, compounding the estate tax's impact on manufacturers. The expiration of tax reform's increase in the estate tax exemption threshold will have a disproportionate impact on family-owned manufacturers because our companies consist largely of illiquid assets that would need to be sold or leveraged to satisfy the tax burden. Congress must act before the end of next year to prevent the scheduled change in the estate tax exemption level—or, even better, to repeal the estate tax and protect family-owned manufacturers from facing this damaging tax at an extremely difficult time for families. I want to thank Rep. Feenstra for his leadership on the Death Tax Repeal Act, which would permanently repeal this harmful tax policy.

Further, Congress should fully preserve stepped-up basis, which prevents a business owner's heirs from being forced to pay a capital gains tax on the asset appreciation that occurred during the owner's lifetime.

Pass-Through Deduction and Individual Income Rates

Small and medium-sized manufacturers, many of which are organized as pass-through entities, are a crucial part of the manufacturing supply chain. Today, more than 96% of businesses in America are organized as pass-throughs.[10] These companies employ millions of Americans and are a vital economic engine for local communities across the country. Many of Sukup's supply chain partners are organized as pass-throughs.

Tax reform created a 20% deduction to allow these manufacturers to invest more of their earnings back into productive, growth-focused activity. Tax reform also lowered the top individual income tax rate, at which most pass-through manufacturers pay tax, from 39.6% to 37%. The lower tax burden from the pass-through deduction and the reduced individual tax rate provides pass-through manufacturers with additional capital to hire workers, increase wages and expand operations. Currently, both the pass-through deduction and the 37% tax rate are set to expire at the end of 2025.

While Sukup is organized as a C-corporation, many of our partners in our supply chain utilize the 20% pass-through deduction and pay tax at the individual rate. Their success leads to our success, so if these important provisions are not preserved then Sukup and other small C-corporations like us will certainly feel the impact. I want to thank Rep. Smucker for his leadership on the Main Street Tax Certainty Act, which would make the pass-through deduction permanent. Next year, Congress should work to protect manufacturers of all types—including both C-corporations and pass-throughs—from devastating tax increases.

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Thank you for the opportunity to appear before you today. Our company and community benefited greatly from tax reform, and now we are depending on you to preserve these policies. Congress must act to protect the people who make things in America from devastating tax

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[10] Congressional Research Service, "Section 199A Deduction for Pass-Through Business Income: An Overview" (March 2024). *Available at:* https://www.everycrsreport.com/files/2024-03-22_IF11122_827ba9d5373fd4f44d9054bfb20376459d05e20b.pdf

increases. I hope you have seen the impact that a strong tax code has on folks here in Iowa, and I sincerely hope you can do what is right—and necessary—to help us keep working toward a better tomorrow.

Chairman SMITH. Thank you.
Ms. Pol, you are now recognized.

STATEMENT OF LANA POL, OWNER AND PRESIDENT, GEETINGS, INC.

Ms. POL. Good morning, Chairman Smith, members of the House Committee on Ways and Means, and members of the Iowa delegation. My name is Lana Pol, and I own a number of small businesses here in Iowa. My businesses are Geetings, Incorporated, a local and regional trucking company; G.I. Warehouse Corporation, which specializes in commercial warehousing and logistics; Creative Inspiration, an embroidery, promotional, and customer fulfillment company; Mowbility Sales and Service, an outdoor power equipment, trailer, and small tractor dealer; and Odyssey Spas, which sells hot tubs and provides services for pools and spas.

I thank you for this opportunity to discuss how tax policy impacts small businesses like mine here in the Midwest.

Entrepreneurship runs deep in my family. My father, Delroy "Wayne" Geetings, founded Geetings, Incorporated, in 1972 in Pella, Iowa. Three years later, he expanded his operations to nearby Knoxville with G.I. Warehouse Corporation. I joined his companies in 1975, and worked for many years with my family running these businesses.

With the retirement of my brothers a few years ago, today I fully own these businesses and operate them with my children. My children share our family's passion for entrepreneurism, and I own and operate Mowbility Sales and Services, Odyssey Spas, and Creative Inspirations with them. It is my hope that each of these businesses will pass on to future generations in our family.

While each of my businesses has their own purposes and their own unique challenges, they have all directly benefited from the policies in the 2017 Tax Cuts and Jobs Act, TCJA, aimed at growing small businesses, and they would each face challenges should these provisions expire. Today I would particularly like to focus on three provisions that are critical to our operations: the small business deduction, 199A, created under TCJA; the expansion of the bonus depreciation and small business expensing in TCJA; and the estate tax.

Each of my businesses operate as a pass-through, that is, the business earnings flow through my individual tax returns. Like other pass-through companies, the small business deduction section, Section 199A, created in TCJA has provided multiple opportunities for me to reinvest and grow my businesses.

Because of this deduction, I was able to give my employees the largest compensation increase that we have been able to provide in many years, which in turn has helped our efforts to retain employees, something that has not always been easy recently.

Additionally, we were able to invest $2 million to build a nearly 40,000 square foot expansion of G.I. Warehouse Corporation and expand our fleet of trucks at Geetings.

Our businesses have also benefited from the expansion of the expensing provision in TCJA. Under TCJA, full expensing for equipment could be recognized in the year of purchase instead of having to amortize costs over additional years through depreciation. This

change allowed us to consistently add trucks and trailers to our fleet at Geetings, Incorporated. In fact, the first year of this expansion, we were able to purchase and immediately expense six new semi-trucks and, until recently, we have been able to continue this expansion.

However, recently we have had to implement a freeze on purchasing any new equipment. This is due to the uncertainty of the tax provisions at the end of 2025 and because of the increased costs of equipment. In fact, in 2018, we purchased trucks for $158,000 each. In 2022, the trucks cost $251,000 each. If these TCJA provisions were allowed to fully expire or otherwise be limited, it will create another hurdle to expanding our fleet in the future.

Finally, like many family-owned businesses, the impact of the estate tax on a small business has become more real to me recently. My husband unexpectedly passed away earlier this year. At the time of passing, we were working on our estate planning, including succession planning for our family businesses. Each of my businesses is rooted in family operations. My hope for all of them is that they were not only passed on to my children but their children as well.

While I agree with others that this tax should be eliminated entirely, if Congress does not at least act to preserve the expanded exemption of the estate tax under TCJA, it will be increasingly harder to pass family-owned businesses from generation to generation.

If nothing else today, I want to stress to the committee that protecting small business is good for America. Small businesses are the foundation of the American economy.

Without action, 30 million small businesses in the United States will be faced with a massive tax hike, which will hurt their ability to create jobs and give back to their communities. I urge Congress to act swiftly to provide small business with the certainty that they need to make these provisions permanent.

Thank you for the opportunity to testify today. I look forward to answering any questions.

[The statement of Ms. Pol follows:]

TESTIMONY BEFORE THE UNITED STATES CONGRESS
ON BEHALF OF THE

NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Statement for the Record of Lana K. Pol
President/Owner, Geetings, Inc.

United States House of Representatives
Committee on Ways and Means

*"The Success of Pro-Growth, Pro-Worker Tax Policy
in the American Midwest"*

August 16, 2024

National Federation of Independent Business 555
12th Street NW, Suite 1001
Washington, DC 20004

Good morning, Chairman Smith, Ranking Member Neal, and Members of the House Committee on Ways and Means. My name is Lana Pol and I own a number of small businesses here in Iowa. My businesses are Geetings, Inc., a local and regional trucking company; G.I. Warehouse Corporation, which specializes in commercial warehousing and logistics; Creative Inspirations, an embroidery, promotional, and customer fulfillment company; Mowbility Sales and Services, an outdoor power equipment, trailer, and small tractor dealer; and Odyssey Spas, which sells hot tubs and provides services for pools and spas. I thank you for this opportunity to discuss how tax policy impacts small businesses, like mine, here in the Midwest.

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Thank you for the opportunity to testify today. I look forward to answering any questions.

Chairman SMITH. Thank you.

I want to thank each one of our witnesses.

We will now move to the question-and-answer portion.

Mrs. Curry, as a mother of three young boys, very young boys, you know as well as anyone the joys but also the challenges that can come with raising kids. One policy that I have long championed is the Child Tax Credit. This pro-working family tax policy was created, I like to point out, by a Republican Congress back in 1997, and strengthened by a Republican Congress in the 2017 Trump tax cuts.

Where the Trump tax cuts are set to expire at the end of next year, the Child Tax Credit will be slashed in half, from $2,000 to $1,000. And as a parent, what would that mean to your family, and what more should Congress consider doing with the Child Tax Credit to make it even more helpful to families like yours?

Mrs. CURRY. I mean, every dollar that my husband and I earn that we get to keep goes towards our children. Like I said, Isaac, he is in speech therapy, occupational therapy. We are waiting for behavioral therapy. It is all very, very expensive. Health insurance doesn't cover everything. You know, Benjamin needed speech therapy because the little booger didn't want to talk when he turned two.

So it is just, you know, expenses like that. You know, the water heater goes out. The furnace went out right after Phillip was born. And so looking at when we file our taxes, it happened early spring, and in Iowa it is still very cold then. So that was actually a really reprieve. You know, I didn't have to pay a whole lot extra in taxes. We got a little bit back, and it helped with that.

So, you know, taxes affect my grocery bill. They affect my gas tank. They really, really do impact my kitchen table.

So I would just ask, I mean, for nothing else, just keep it where it is at $2,000. An expansion would be very grateful, especially for those young children. Early intervention is new. It wasn't around when I was young. And so those services do cost more money. So maybe expanding it more for younger children versus older children would be an option to help. But, really, reducing it by any amount would negatively impact my family, my children, and really, specifically, our ability to pay for services.

Chairman SMITH. Thank you.

Ms. Riessen, as a family farmer, you know how important it is that your farming equipment is up to date. It is about delivering the best product to your customers and about keeping your employees safe. I know how important it is to make sure your equipment and tools are up to date and helping you get the most out of your land to deliver goods to market faster, more efficiently, and in greater yields. But this investment comes at a tremendous cost, which is why Congress included the immediate 100 percent expensing for machines and equipment in the Trump tax cuts back in 2017. However, that provision has already begun to phase out. It was 80 percent last year. It will be 60 percent this year, 40 percent next year, and then 20.

What has been the impact and what will the future look like for family farms like yours if Congress does not address this critical piece of the tax code?

Ms. RIESSEN. So my first thought is, if you like to eat, you will help us with this. From my experience this spring, our combine last fall was having issues. We looked at it this spring. To fix it was going to be basically $80,000. The combine is worth $120,000. So guess what? We had to get a different combine. If I wanted a brand new one, which my boys thought should happen, that is $750,000, $750,000 for a 2025. I am, like, wow. That could buy me a tremendous retirement home. But I couldn't do that to the boys.

So, anyway, ended up buying a $450,000 one. And so, you know, when you buy that piece of equipment, you are expected to pay it off in three to seven years. That is usually what the finance is at, so those are pretty hefty bills that come to play. So being able to use that 100 percent depreciation, now it just freed up money so I can make those payments. You know, people have 20 years—20, 30 years to buy a house. Nope. A piece of equipment that is worth more than what a house is I got to pay off in three to five years, three to maybe seven if you talk well to your banker.

So by having that, it allows me to make improvements on my farm to which—okay. So I kind of liken it to a cell phone. How many have a flip phone or a bag phone anymore? We want new technology. We need new technology on our farms in order to continue to be competitive out there. And by being able to use this, we are staying in the ball game.

Chairman SMITH. So, Mr. Sukup, we know that sound tax policy can help America's businesses grow and innovate. We see the spirit of innovation every day from American manufacturers to our family farmers. America's farmers are some of the best innovators in the world as they are consistently researching ways to get more out of their land for today and future generations of farmers.

In the 2017 Trump tax cuts, it sparked an 18 percent increase in investment in research and development in this country. As a business owner, what impact did the 2017 tax cuts have on your decision-making, and what would the current lapse in the ability to immediately expense R&D investment have meant to your capabilities to invest, innovate, or grow?

Mr. SUKUP. Well, going back to 2017, we then switched to where we were doing about $5 million a year in research and development. We then started increasing that. We went up to $15 million. And what that did was reinvest in machinery. We are manufacturing. So it is very heavy, capital-intensive equipment, but it provides our employees to be more safe and efficient and provide us to be able to put better products to our customers across the Midwest, across the world.

And, also, with the lower tax rate, that was when we started a clinic, actually, in our manufacturing plant facility. Our third generation, my daughter, Emily, came up and said—worked with some of our H.R. folks and said our employees would really like this. Well, we reinvested into our employees. It has been a perfect fit for us for the clinic onsite. We are doing child care because that is so important to families throughout our community and for us to have them have a safe environment for their kids, but also to be able to come in and work at Sukup at the manufacturing jobs.

Chairman SMITH. Ms. Pol, as an owner of four small businesses—small businesses are the foundation of our country's econ-

omy—you know how difficult it can be for Main Street businesses to compete with larger corporations who are taxed at a lower rate rather than as a so-called pass-through entity.

Here in Iowa, pass-through businesses account for nearly half of all employment in the State. Across the U.S., 98 percent of our family farms, which account for more than 90 percent of our agriculture production, are also pass-through entities.

What would it mean for your business if the 20 percent small business deduction that was included in the Trump tax cuts were to expire and you face an effective tax rate of over 43.4 percent while the company Mrs. Dewalt works for pays 21 percent?

Ms. POL. That would be just devastating. You know, large companies also have so many other advantages that we don't have. You know, they also have the ability to make more money than we do. So when we get hit with these large tax increases, and it is unfair for small businesses to have so much more than they do, so it takes that money out of our pocket, and it takes it so we can't reinvest. We can't give raises. We have to compete against large companies for our employees. And so it is not always as easy to pay the wages that they can, have the benefits that they can. So we have used that benefit to give the wages. And so if it gets taken away, I think it is going to be harder and harder for us to be able to compete.

Chairman SMITH. Thank you.

Mrs. Dewalt, during the Obama administration, prior to enactment of the 2017 Trump tax cuts, we saw over 25 major corporate inversions occur where businesses moved their headquarters and jobs overseas to fly the flag of another country. The Trump tax cuts made several changes to make it more competitive for U.S. businesses to be located and do business here in the United States.

Can you talk specifically about some of those changes and how they can impact the decisions by U.S. businesses to keep their operations here in the U.S.?

Mrs. DEWALT. Thank you for the question, Chairman Smith.

So the corporate rate prior to TCJA was uncompetitive on a global scale. So the reduction certainly encourages businesses to invest in the U.S. So at The Home Depot we are predominantly domestic, and the reduction of the corporate tax rate to 21 percent enabled us to make significant investments: investments in wage of $2 billion, permanent investments in wage of $2 billion, enhancing our supply chain $1.2 billion, 18,000 jobs.

So in our business decision-making, we factor in the corporate rate and other factors when we make all of our decisions about pricing, about wage, about expansion, and other investments. It is key to have a competitive 21 percent rate in the United States for companies like ours to continue this level of investment.

Chairman SMITH. Thank you.

I now recognize Mr. Feenstra.

Mr. FEENSTRA. Thank you.

And thank you again to all the witnesses.

You know, you think about tax, and if you reduce tax, you give families, businesses more money to do different things. We just heard about that. What it also does, it increases revenue to our country. Yeah, it is a shocker.

In 2017, under the Tax Cuts and Jobs Act, we dramatically reduced taxes. And you know what happened? It grew our economy and we brought in record number of revenue. What does that do? That will help us reduce our debt, our $35 trillion debt, if we continue to grow. That is why I am so passionate about it.

The other thing I am passionate about is tax inequity. There is a lot of tax inequity. One specific one is the death tax, estate tax. We got rid of it in the state of Iowa. I was a big proponent of that. But we haven't got rid of it at the federal government level.

I have 170-some Members that have signed on to my bill to rid of the death tax. It is a pilfer tax. Think about it this way: You collect all this land throughout your life. You die, and all of a sudden your family member has got to pay 42 percent tax on that land. Think about that, 42 percent. That is wrong in so many ways.

So, Mr. Sukup, I want to ask you, you are talking about the third and fourth generation coming down the pipe. How will this affect you if you have to pay that 42 percent?

Mr. SUKUP. We wouldn't be able to pass it on. Right now, I am part of the second generation, my brother and I. Our third generation is in the office every day. We have six members of our third generation. They enjoy coming to Sheffield every day and working throughout the different jobs of our manufacturing. But to be able to pass it on, that would just be overwhelming and not possible.

Mr. FEENSTRA. It would just be a killer, absolutely. And all of a sudden, that next generation is lost.

Mr. SUKUP. And that family business closes or leaves the community.

Mr. FEENSTRA. That is exactly right. And that happens to small businesses and our main streets day and day—day and time and time again.

I want to talk about something else that is so important to Iowa. You think about, right now, over 50 percent of our crop, corn and soybeans, goes to biofuels. Every other row virtually goes to biofuels.

Right now, if you look at our commodity prices, our corn is under $4. Our soybeans are under $10. Right? Now, we could export more or we could use more of it. How do you use more? You do it through biofuels, ethanol and biodiesel. To do that, we have got to grow our market through sustainable aviation fuels and other things.

So I want to talk about 45Z. All right. This is a tax credit that can dramatically expand these markets and, in essence, put us on the same foothold as electric vehicles. Right now, we have a thumb on the scale for electric vehicles and not liquid fuels. This gives us an opportunity to compete. And if we don't, we are going to probably see our commodity prices cut nearly in half again.

Ms. Riessen, can you talk about this?

Ms. RIESSEN. You bet. So that 45Z is going to be a game changer for us out there when it comes to the grain price, because with the 45Z the Nation and our domestic consumers are asking for low carbon. So one way of doing that is through carbon sequestration, and this 45Z helps ethanol plants get set up to be able to do that.

So when we do that, my corn that goes to that ethanol plant now, I am not expecting to get a lot of corn—I mean, a lot of any tax

return back from that, but what it does is make markets, and it makes better prices. But the only way that is going to happen is if we specifically say that we use the corn that is produced domestically. Because at this point in time, our friends down in Brazil are importing their ethanol into Georgia to make sustainable aviation fuels, and my understanding is they will qualify for this tax cut, this 45Z. We can't let that happen. I am sorry. I mean, I love all farmers, but not that much.

Mr. FEENSTRA. We need to use domestic feedstock. We can't use stock from around the world.

Ms. RIESSEN. Right. And so in a recent study I just saw is, so for every dollar invested in that 45Z tax credit, it will return $4 to $6 for every dollar invested. So I am like, you know what, I am sorry, I think this is a no-brainer, but you got to take it back to Congress and get that happening.

Mr. FEENSTRA. Thank you for that.

I just want to tell everybody, we have to remind ourselves that when our farmers are successful, our main streets are successful, our hospitals, our schools, everything is successful. And when our commodity prices are where they are at—and we are going to feel it this fall, all right—no one is going to buy a vehicle, a piece of equipment or a bin, whatever, that is why it is so important that we have 45Z and make sure we have that bill.

Ms. RIESSEN. Right.

Mr. FEENSTRA. I yield back. My time is up.

Thank you.

Chairman SMITH. Thank you.

Mrs. Hinson is recognized.

Mrs. HINSON. Thank you, Mr. Chairman.

I want to talk a little bit more about something that has already been discussed today, and that is the Child Tax Credit and the expansion of that under the 2017 Trump tax cuts. Doubled the tax credit, increased its refundability, and raised that income threshold. And all that does is it makes it so that more families, more hardworking Iowa families and American families can access that credit.

So building on that foundation, I actually introduced a package of bills called the Providing for Life Act. It really prioritizes the needs of our families and ensures that they have the resources to thrive. It would expand the Child Tax Credit, include provisions for paid family leave, support for expecting parents and pregnancy centers, and it would specifically increase the refundable Child Tax Credit up to $3,500 for kids under the age of 18 and $4,500 for kids under the age of six, also expanding the credit to unborn babies during a woman's pregnancy.

So in addition to that, it would also make the adoption tax credit fully refundable. This would help people like my colleague, Mr. Nunn, over here who have taken it upon themselves to adopt children and expand their families. Kids deserve to have a loving, happy family, and this can help with that.

So by broadening access to these benefits in the Tax Cuts and Jobs Act and then legislation like what I proposed, it would help to reduce child poverty. It would alleviate financial pressure on real working families who often face these unique challenges, such

as limited job opportunities, longer commutes, and higher costs for those essential services.

So, Mrs. Curry, I just wanted to ask you, you know, when you hear about the expansions that I just talked about, even above and beyond the Child Tax Credit, would those resources, and having conversations with your neighbors in rural America, really help families like yours?

Mrs. CURRY. Thank you for the question.

Yes, the expansion of the Child Tax Credit would, without a doubt, help myself and my neighbors and others. You know, being a part of the autism community, I know a lot of families that are also struggling and constantly looking for support or different services. And they are not cheap, let me tell you, but, you know, they are our kids. You can't say no. It is what they need to be fully functioning adults one day and to, you know, really just exist in society. So expanding that for young children, I think that is so valuable.

I can't tell you the number of doctors appointments we have gone to for a heart murmur or, you know, having to find a specialist pediatric ophthalmologist because we didn't know, you know, if they were seeing well. And so all of those expenses, right, and parents are just trying to do the best job they can for their kids. And it is expensive, and it is getting more and more expensive.

I can tell you, when I go to Sam's Club to buy chicken nuggets and fruit for my kids, the price just keeps going up and up and up. And, you know, I buy milk three gallons at a time, and it is getting more and more expensive.

So, again, expanding that Child Tax Credit would help families like mine and really help, like, our kitchen table.

Mrs. HINSON. Yeah. I have a 13-year-old now, so we feel you on the personal level. I had no idea how much 13-year-old boys eat. It is really gross to watch them eat sometimes. But certainly feel that in my grocery bill, and I am sure, much like you, I see those expenses tack up, tack up, tack up and add up.

So I want to move to domestic manufacturing because, obviously, that is such an important part of our rural economy here. And we have seen and heard already about the investments in businesses creating those jobs right here in rural America. And our foreign adversaries, like China, continue to ramp up their investment in work and research to gain control of our critical supply chains. So I think it has never been more important for Congress to really commit to pro-growth policies that help American leadership on the global stage.

So getting to that investment, Mr. Sukup, as a business owner, can you speak to the importance of this tax policy that keeps us competitive not just here at home but on that world stage? Because you sell your equipment all over the world, so you see those impacts day to day.

Mr. SUKUP. Yes. We export containers every week out of our company. It goes across the globe. Being able to have the—whether it is the depreciation or the lower tax rate lets us reinvest into our manufacturing. And I think over the last 4 years with COVID and everything, you have seen how important manufacturing and domestic manufacturing is. And so this Tax Cuts and Jobs Act is just critical for us to continue with that aggressive mode.

Mrs. HINSON. So if these cuts are allowed to expire—and you have talked about a lot of the growth you have experienced—that will mean some hard decision-making for you and your family?

Mr. SUKUP. Yes. No, there would be some pullback. So far, our markets have stayed strong and, you know, we have added 200 well-paying manufacturing jobs, and our intent is to keep everybody busy.

Mrs. HINSON. Yeah. Well, you are certainly doing a great job of that. So thank so much for coming today.

And, Mr. Chairman, I yield back.

Chairman SMITH. Thank you.

It is great to have Dr. Miller-Meeks with us. We will recognize you for an opening statement and for your questions.

Mrs. MILLER-MEEKS. Thank you very much, Chairman Smith and the Ways and Means Committee, for holding this incredibly important hearing here today in the heartland of America in Iowa, at the greatest state fair in the country, the Iowa State Fair.

And I also want to thank our five witnesses for taking the time to be here. You represent the best of America, real people facing real problems asking for real solutions.

The 2017 Tax Cuts and Jobs Act significantly transformed the American economy, fostering an environment that stimulated growth and improved the financial well-being of millions of Americans. The Tax Cuts and Jobs Act provided much needed relief for families by lowering Federal tax rates across all income levels. As a result, low- and middle-income households experienced an increase in disposable income, enabling them to invest in their homes, save for education, and enhance their quality of life.

Businesses of all sizes were also major beneficiaries of the TCJA. With lower tax rates, companies had more resources to invest in research and development, infrastructure, and workforce training. As companies reinvested in their operations, productivity increased, and wages rose for American earners.

And as the chair of the Conservative Climate Caucus, Ms. Riessen, your comments on the equipment that you can buy, if you are concerned about climate, as our colleagues on the other side of the aisle who are not here today, you would want farmers to be able to invest in the most up-to-date equipment that leads to precision agriculture and less inputs.

The 2017 Tax Cuts and Jobs Act catalyzed a period of economic growth and opportunity for families, small businesses, and corporations alike. By lowering tax rates and encouraging investments, the TCJA not only enhanced financial security for millions of Americans but also positioned the United States economy for long-term success.

In conclusion, the expiration of the 2017 Trump tax cuts would not only impose significant tax increases on middle-class families but also hinder economic growth and stability. It would disproportionately impact small businesses, lead to job losses, and diminish the competitive position of American companies in the global market, as Representative Hinson alluded to.

As we look toward a future of economic recovery and growth at a time when commodity prices are low, at a time when the national debt is high, it is critical that Congress act to extend and protect

these vital tax policies, ensuring that American families, workers, and small businesses can thrive. The success of our economy, and indeed our nation, relies on a tax framework that promotes investment, encourages job creation, and promotes financial security for all Americans.

Thank you.

Mrs. MILLER-MEEKS. Mrs. Curry, thank you for being here with us today. I understand that you had your first child back around the same time that the Child Tax Credit was doubled from $1,000 to $2,000 under the Trump tax cuts. And like Representative Hinson, I also have signed on to legislation that would extend the Child Tax Credit during pregnancy.

As a mom of three here in Iowa, can you describe to us the impact that the child care tax credit after 2017 had on you and your family?

Mrs. CURRY. Yes. The impact the Child Tax Credit had on me after the birth of my first son, in that first year, we had the smaller amount, and so we owed additional taxes when we filed. And so we definitely felt the pinch there, new parents and having additional taxes due.

The following year was the first year in a long time we got a refund, and it was a welcome kind of breath of fresh air. We didn't have to stress so much.

So, yes, the expansion of the Child Tax Credit had an immediate impact, noticeable impact on my family.

Mrs. MILLER-MEEKS. Thank you.

Unfortunately, that provision is set to expire at the end of 2025, which would cut the child care tax credit in half, impacting millions of working families across the country who depend on the Child Tax Credit to help support their children. And I think you have elucidated well what the impact would be, especially when you are commuting in rural Iowa to jobs.

Ms. Pol, you are from my district, the beautiful city of Pella. Thank you for being here with us today.

What are some of the challenges that you face running a small family-owned business here in Iowa? And what tax provisions have helped relieve some of those challenges?

Ms. POL. I think our largest challenge is the low unemployment that is here in Iowa. To get qualified workers, we are constantly competing against large businesses, and we don't always have the opportunity to be able to pay the same wages, have the same benefits that they do.

So we were able to take the 20 percent deduction and give large raises to our employees. We added a few more benefits to them, and we also were able to add to our starting wage. So it allows us to be more competitive. And coming from Pella, Iowa, that has Pella Corporation, Vermeer Manufacturing, neighboring 3M in Knoxville, and Hormel, we compete against a lot of large businesses for a small area.

Mrs. MILLER-MEEKS. I think the Trump tax cuts, as you said, created the 20 percent small business deduction that benefited Main Street businesses such as yourself across America and in small communities. However, the Biden-Harris administration has all but said that they would let this provision expire after 2025, in-

creasing Main Street's effective rate to 43.4 percent. And I think as you indicated, in order for small businesses and entrepreneurs to exist in our country, which is the backbone of the American economy, we need to have those provisions in place.

And can you talk to us a little bit more about the removal of the small business deduction, what it would mean for your family business?

Ms. POL. Right now, especially with the economy the way it is and with inflation the way it is, we are getting hit from all sides, whether it is increases in equipment, increases in parts, increases in labor costs. Warehouses have gone up and almost doubled to buy and build a new warehouse at this point. So now we are getting increases also in the insurance costs for that because we do replacement costs on it. So every place that we look at we are getting increases. Property taxes. And by having this—if this increases too, we are going to have to look really, really hard at, you know, how we are going to be able to make it through the next while.

Mrs. MILLER-MEEKS. It is difficult when you are getting hit on all sides and your federal government isn't helping to prevent it.

Ms. Riessen, can you explain how the option of using bonus depreciation to modernize equipment has affected the productivity and efficiency of your farm and your ability to plan for future growth and expansion?

Ms. RIESSEN. So my two boys who are currently farming with me—I lost my husband 5 years ago to cancer. And so this bonus depreciation, the death tax, stepped-up basis are all—I have lived it, and I am telling you right now that by losing that, you are decimating the next generation of farmers coming down the tubes.

But to get to your depreciation part of it, by being able to upgrade equipment—so the combine I was talking to you about this year that, you know, would be great to live in if I could, but—anyway, so it is going to have the GPSing. It is going to have—it will have the ability to communicate with the other combine so that when it comes time for, say, you are in a super big field and you are not sure if you have got everything done, it will tell you where there are areas at that have to be farmed yet. So then instead of driving from one side of the farm to the other because you forgot a strip out there, it takes care of that. So I am saving fuel, and that is reducing my carbon emissions because the new equipment is way more effective as far as for, you know, the emissions part and the mapping, and the list goes on.

So I say to me it is like, you know, am I going to use a bag phone out there to harvest or am I going to use the best iPhone possible in order to do my job as quickly and as efficiently as possible.

Mrs. MILLER-MEEKS. And very briefly, because I am over time, does that also apply to the 199A small business deduction——

Ms. RIESSEN. Oh, yeah. Oh, yeah.

Mrs. MILLER-MEEKS. Thank you. I yield back.

Chairman SMITH. Thank you.

Mr. Nunn is recognized.

Mr. NUNN. Thank you, Chairman Smith.

Thank you again for the group for being here today and offering real Iowa common sense on how a tax policy not only helps grow an economy but helps everyday working families.

So, Mrs. Curry, as not only a fellow Iowan, but here in the district together, and of all the titles you have, with the family farm, working a nonprofit, leading advocacy for kids with autism, I think your best title is probably mom. And the reality is here, you know, you are reflective of 30 percent of Iowans who benefit from this tax credit. Look, almost half a million Iowans qualify for it, and it doubles their ability to have savings.

I want to ask you, you know, when you got that tax credit, that money back in your pocket, did you go out and buy an Italian-made Ferrari?

Mrs. CURRY. No. No, sir, I did not.

Mr. NUNN. Did you hostilely take over a foreign entity, build it offshore?

Mrs. CURRY. No.

Mr. NUNN. What did you do with your tax credit, because you are reflective of a working-class family, to be able to help your kids?

Mrs. CURRY. We paid our speech therapist, and we took Isaac to a specialist eye doctor, and we bought a new water heater that spring.

Mr. NUNN. Mr. Chairman, that is a real investment back in our economy here. Most important, it is a real investment in our families' and our kids' future. That is exactly what this tax credit is meant to do, and it is so very important that we continue to extend it into the future.

It is one of the reasons I am proud to be leading the Keeping Siblings Act together as parents, also as a foster dad, which I share with Mr. Smith here on the committee as well, and as foster parents, being able to help those generation of kids be successful, hugely important for our future.

Thank you, Mrs. Curry, for everything you do.

Ms. Pol, I want to talk with you as well. Look, you are a small business owner. Iowa is home to over 270,000 small businesses. In fact, here in Iowa, we have an outsized voice. Ninety-nine percent of businesses in Iowa are identified as small businesses. Being able to really help make this up is huge.

Now, if these tax credits expire, 92 percent of Main Street businesses in Iowa would experience a 43 percent-plus tax increase. I think it is fair to say that would decimate a lot of our small towns and communities, not just here in Iowa, across the country.

Would you be able to keep your supply chain going if you had tax increases like this levied on your door instantaneously?

Ms. POL. I think it is going to be tough. You know, I am scared what is going to happen if it does expire, because I have seen small businesses already closing in Iowa, you know, especially in the restaurant industry, unfortunately. And with everything that is happening and the cost of everything, with inflation, we are getting hit so hard the way it is, and then if we are going to be paying these kind of increases—we have had a really rough two years across the board with my businesses, so we are already hurting. So with this happening, it could be devastating to us and across the board for Iowa and the United States.

Mr. NUNN. And, Ms. Pol, I think you are absolutely right here. You talk about rippling effects. An increase in your trucking busi-

ness means an increase for everyone in America with a supply chain that costs a lot more if you are paying more taxes.

Tell me the opposite. If we are able to extend the tax cut, how does that help out bringing down prices for every American?

Ms. POL. Well, that is great because we can continue to invest, you know, and we do. You know, the money doesn't come back into our pockets.

Mr. NUNN. That is right.

Ms. POL. You know, as small business owners, we reinvest. We reinvest in the communities. We reinvest in our employees. And that is the thing we will continue to do.

Mr. NUNN. Well, and that is one of the reasons I am proud to support the Main Street Tax Certainty Act. It is one of the things we have done to make this permanent so you have permanency in your reinvestment here in our communities and growing across the country.

Ms. Riessen—I should just call you Farmer Riessen. You know, you have been working with us so hard to highlight the success of an investment in America's ag, America's energy, America's national security. You are a practitioner in this.

Look, the 2017 tax cuts offered us an explosive growth opportunity for reinvestment. It also increased U.S. investment by 20 percent and provided a crucial death tax exemption, something that we want to make sure we see increased.

Talk to me about how your family farm is investing in these new innovations. Things like sustainable aviation fuel, 45Z tax credit, it is helping us grow our domestic energy production. Are these tax credits really the innovation of the future that you are using on the farm?

Ms. RIESSEN. Oh, holy cow, I can't believe you are even asking me that. For me, that is a no-brainer. I mean, as a farmer, when I am getting tax breaks to help invest in markets and to invest in trade, when I have trade, I have security in my market. I have better markets because more people are competing for what I am growing. So, you know, just thinking as a farmer, so every dollar I spend in the community now it gets rolled six times, so——

Mr. NUNN. Yes, we agree with you.

Ms. RIESSEN. So it is like—so the people that I touch with what I am doing for, you know, the farming sector of it, it is huge. So just know that any money that—you know, everybody likes less tax, and so any money that we do manage to save gets invested right back into equipment or maintenance or whatever else happens to come up. You know, we have livestock and so——

Mr. NUNN [continuing]. That is right.

Ms. RIESSEN [continuing]. We have way more equipment, probably, than anybody else does in the countryside, but——

Mr. NUNN. Thank you, Ms. Riessen.

Ms. RIESSEN. So thank you.

Mr. NUNN. These are not just tax credits. These are tax investments. As you say, every dollar invested is multiple dollars returned.

Thank you, Mr. Chair. I yield my time.

Chairman SMITH. Thank you.

Mr. Smith is recognized.

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

Thank you to our entire panel and everyone participating here today. It is great to see the entire Iowa delegation here. It doesn't surprise me because they show up, and it is great to work together on things like biofuels where we can stick together. I happen to be from Nebraska, where we have a few biofuels and other similar industries in Nebraska. But we work together, and I think that is important. And we take from you your perspectives and apply them.

And I am grateful to have been a part of passing the original Tax Cuts and Jobs Act and the work and the diligence that went into that when we happened to have votes in 2017. We started working on that long before we had the votes, and I think it is important to note that the diligence we are doing right now this very moment, thanks to our chairman here scheduling meetings, gatherings such as this, is hearing from you as we move forward.

Now, I think it is important to note that TCJA is a very successful tool for growing our economy. I am glad we did that before COVID and the disruption in supply chains and various dynamics.

I am also grateful when we can hear from a company that pays more in taxes than they did before and they are happy about it because they have the ability to pay that. And that might be a company, that might be individuals as well. But I think it is our job to hear from you and to dig down, to look for those details so that we can, hopefully, help form the future for more opportunity for future generations and pay down this debt that our country has accumulated.

And so, you know, in the runup to 2017 tax reform, it is important to note that even Barack Obama realized we were not competitive on the corporate side. We were losing—as the chairman pointed out, we were losing American companies, strong American companies to relocation to other tax jurisdiction because it was more favorable. A very logical move, by the way. And even Barack Obama, like I said, noticed that we needed to be more competitive.

And now he endorsed a lower corporate rate, and we wanted to be very certain that we would be very competitive, and that is why we chose the 21 percent rate as low as we possibly could and still have the resources for family credits and standard deduction—doubling the standard deduction, various components here.

But I think it is very compelling when we hear from folks who are paying more in taxes now than they were before and they are happy about it, and it is instructive moving forward.

But, Mrs. Dewalt, I guess it is only appropriate that you are with The Home Depot with a last name like Dewalt, right?

Mrs. DEWALT. Coincidence.

Mr. SMITH of Nebraska. It is coincidence. No advertising there.

Can you elaborate a little bit on, you know, the corporate rate—which happens to be paid by some small corporations too, by the way. It is not just large corporations. But I am glad that you have the footprint that you do. I would imagine some younger folks showing cattle out here at the State Fair probably paid your stores a few visits over time.

But can you elaborate on what you did with that 21 percent rate, you know, those differences? You spoke a little bit about it in your

opening, but can you tell us with even more detail how you handled that 21 percent rate?

Mrs. DEWALT. Sure. So as I mentioned, our business model has a number of inputs, factors that we consider in investing. And so the decrease in the corporate rate that was 35 down to 21 created an opportunity for us to really focus, double-down on investing in our business. And we did so with our supply chain expansion, which increased our footprint, created jobs, and helps us to better serve our customers.

We also took care of our associates, which is one of our core values at Home Depot. So we increased wages by a billion dollars, permanent wage increase in 2021, and then a second billion dollar wage increase announced last year. Those are permanent, not bonuses, but wage increases.

We also just completed an acquisition of SRS Distribution, which is a wholesale distributor of building materials, primarily roofing, and that is really going to accelerate how we serve our pro customers.

And so small businesses are essential partners to The Home Depot. So they serve us as suppliers. I talked about the 80 suppliers, you know, here in this State. And they also make up a large portion of our pro customers, which is a very big part of our business, and it is growing. And our ability to be competitive with price, to have the materials when and where the pro customer needs them is really helping them better manage their businesses as well. And so we see the business community, corporate and small business, as the ecosystem that drives the economy.

Mr. SMITH of Nebraska. Very good. Thank you.

I wish I had more time because I have a lot more questions. But thank you again for being here, very appropriate topic in an appropriate place.

Thank you.

Chairman SMITH. Mr. Schweikert.

Mr. SCHWEIKERT. Thank you, Mr. Chairman.

And I appreciate, you know, being someone—I am from the desert. I am from a place called Scottsdale, and I saw more green in the bus ride here than I think I have seen in my entire State. And they were complaining it was hot yesterday. I am going, it is 116 at home.

We have some real difficult decisions we have to work through over the next year. The fact of the matter is today, 100 percent of defense of the United States is borrowed money. One hundred percent of government, as you know it, is borrowed money, all—Park Service, everything is all borrowed. And about—I was just doing the math—37 percent of Medicare is on borrowed money. This year, our income taxes, 45 percent of it will just pay the interest. Interest is now the second biggest spend in the United States.

We need you to grow like crazy, and then we need to find a number of things where we are going to stop spending or do it better, faster, cheaper, adopt technology. And there is technology to crash the price of healthcare, because healthcare is the primary driver of U.S. debt.

And, Mr. Sukup, you actually hit a couple of things that I really wish we would understand: the investment in research and devel-

opment, the ability to expense a piece of equipment so you do it better, faster, and safer. You are one of the few people I have ever had use that word, "safer."

Tell me your experience of, in those years where you had that expensing and the R&D credits—which is just a depreciation. It is not a tax cut. It would just move up the depreciation—how did it change your business?

Mr. SUKUP. Well, we were able to incentivize our engineers, staff. We hired individuals to reinvest, research and development, take a look at what we could do better and faster, more efficiently for products for our farmers and ranchers across the country. We take that research and development, put it into action, and then it provides us some predictability in the tax——

Mr. SCHWEIKERT. But did you produce—in that investment in your research and development, did you come up with faster ways or better or safer pieces of equipment that sort of leaped your company forward in those couple of years that you had 100 percent of it?

Mr. SUKUP. Yes. We have developed new grain dryers that we use across the country. We actually have some going into pistachios——

Mr. SCHWEIKERT. Forgive me for—you'll later on explain what a grain dryer is?

Mr. SMITH of Nebraska. Oh, yes.

Mr. SCHWEIKERT. Okay.

Mr. SUKUP. We actually dry pistachios, California and Arizona.

Mr. SCHWEIKERT. Yes.

Mr. SUKUP. And so we use those. And they are looking for high efficiency, to reduce the carbon outputs. We look at our carbon footprint. And so it is going to provide better products across the Midwest. We have to compete globally. We do that in manufacturing.

When we invest capital equipment with the accelerated depreciation, what has to go along with the equipment? Skilled workers. We bring in skilled manufacturing jobs. And so we are able to grow and expand.

Mr. SCHWEIKERT. Mrs. Dewalt, and so you are my reason the DeWalts were always on sale, right? I just noticed that last month.

You have spoken of—and I couldn't find it real quick how tax reform happens. There are a number of us on this committee that know it doesn't just happen. It took years of calculating the money and trying to get the economic effects and what would maximize opportunity. And it turns out the tax receipts that came in afterwards were dramatically higher than we ever expected in our models.

How much for Home Depot do you believe of that—moving to the 21 percent rate, how much of it moved into wages, both in the raised wages and the new hires? Would you speculate to guess?

Mrs. DEWALT. Thank you for the question.

What I can say about wages is that, with the reduction of the rate to 21 percent, obviously we have more capital to invest. And so our wages have increased higher than wage inflation. So we have been able to stay ahead of our wage increases to our associates, and now our associates are at or above $15 an hour across our stores.

Chairman SCHWEIKERT. Thank you, Mrs. Dewalt.

Mr. Chairman, I will try to find the study, but I had a study last year that showed, and I think—and I am doing it from memory—67 percent of the corporate tax cut went to wages. And with your permission, I would like to enter that into the record.

And with that, I yield back.

Chairman SMITH. So ordered.

[The information follows:]

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International Burdens of the Corporate Income Tax

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Abstract[1]

This study applies a simple two-country, five-sector, general equilibrium model based on Harberger (1995, 2006) to examine the long-run incidence of a corporate income tax in an open economy. In equilibrium, capital is assumed to be perfectly mobile internationally in the sense that the country in which a real investment is located does not matter to the marginal investor. In addition, each country is assumed to produce at least some tradable corporate goods for which the country cannot affect world output prices. Like the original Harberger (1962) model, the worldwide stock of capital and the supply of labor in each country are fixed. Under those assumptions, the model provides closed form solutions and easily understood predictions about its comparative static equilibria. As with any simplified model, the analysis is silent about some potentially important issues – such as the effect of the corporate tax on savings, growth and other dynamics – that may also have important effects on corporate tax incidence.

The analysis shows how the domestic owners of capital can escape most of the corporate income tax burden when capital is reallocated abroad in response to the tax. But, as in Bradford (1978), capital owners worldwide cannot escape the tax. Reallocation of capital abroad drives down the personal return to investment so that capital owners worldwide bear approximately the full burden of the domestic corporate income tax. Foreign workers benefit because an increased foreign stock of capital raises their productivity and their wages. Domestic workers lose because their productivity falls and they cannot emigrate to take advantage of higher foreign wages. Under basic assumptions of the numerical application, the outcome is also similar to the implications of the simpler model of Bradford in that the full worldwide burden falls on domestic owners of productive inputs. That outcome changes, however, under alternative assumptions.

Burdens are measured in a numerical example by substituting factor shares and output shares that are reasonable for the U.S. economy. Given those values, domestic labor bears slightly more than 70 percent of the burden of the corporate income tax. The domestic owners of capital bear slightly more than 30 percent of the burden. Domestic landowners receive a small benefit. At the same time, the foreign owners of capital bear slightly more than 70 percent of the burden, but their burden is exactly offset by the benefits received by foreign workers and landowners. To the extent that capital is less mobile internationally, domestic labor's burden would be lower and domestic capital's burden would be higher. Burdens can also be affected by the domestic country's ability to influence the world prices of some traded corporate outputs. But the signs and magnitudes of those effects on burden depend upon the relative capital intensities of production in the corporate sectors that produce internationally tradable goods.

[1] The author would like to thank Alan Auerbach, Bob Dennis, Jane Gravelle, Harry Grubert, Larry Ozanne, Bob Williams, and Tom Woodward for their comments and suggestions.

I. Introduction

In a closed economy, the corporate income tax causes production to be inefficient because the tax is not imposed equally on the income from all capital used in the corporate and noncorporate sectors. That difference causes the capital intensity of production to be too low in the corporate sectors and too high in the noncorporate sectors. The corporate tax is inefficient because the marginal pre-tax return from corporate investment exceeds the marginal pre-tax return from noncorporate investment in equilibrium.[2]

It is not as clear who bears the long-run burden of the corporate tax in a closed economy.[3] But in one of the best-known analyses in public finance, Harberger (1962) found that the U.S. corporate tax is likely to be borne entirely by all owners of capital. How that might occur can be understood, roughly, in terms of the effects that the tax has on output and input substitution decisions made by consumers and producers.[4] In the Harberger model of a closed economy, the total supplies of labor and capital are fixed but perfectly mobile between sectors. In response to the tax, consumers substitute away from the more heavily taxed corporate goods so that production shifts to the noncorporate sector. Corporate producers substitute away from the taxed input – corporate capital – which pushes up the capital intensity of production in the noncorporate sector, thus reducing the after-tax return to capital.

Under assumptions considered reasonable for the U.S. economy, Harberger (1962) found that the output and input substitution decisions combine in such a way that personal capital

[2] There are also other sources of inefficiency under the corporate tax (see Gravelle, 1994; Congressional Budget Office, 2005b; and Judd, 2006).
[3] In the short run, changes in the corporate income tax are most likely borne by existing corporate shareholders (see Auerbach, 2005).
[4] Rosen (2002), pp. 294-299, and Fullerton and Metcalf (2002), pp. 1812-1815, provide detailed discussions of the Harberger model.

income is reduced exactly by the full burden of the corporate tax, and wages remain constant. Personal capital income is reduced to the same degree regardless of whether the capital owners invest in the corporate sector or the noncorporate sector.

The effects of the corporate income tax in an open economy are obviously more complicated. The tax is likely to be even less efficient because it can distort both the domestic and the international allocations of capital. Domestic workers are more likely to bear a burden because workers cannot move readily between countries. Domestic wages will fall when capital is reallocated abroad and domestic workers cannot move to take advantage of a higher foreign wage rate. At the same time, foreign labor receives a benefit from the increase in foreign capital. The open economy is difficult to analyze because labor and capital owners can be domestic or foreign, and each sector of each economy can produce goods and services that are traded or not traded internationally. A domestic corporate tax can affect the domestic and foreign prices of inputs and outputs, the domestic and foreign national incomes, and the domestic and foreign distributions of income. The world economy simply has more dimensions.

Melvin (1982) examines a world economy in which there is international trade but no international investment. He finds that the domestic burden of the corporate income tax falls primarily on the factor that is used most intensively in the corporate sector. In the United States, that factor is labor. His model divides the world into two countries that each produce the same two internationally traded goods. The supplies of labor and capital are fixed and immobile internationally. He assumes initially that the domestic economy is small so that domestic economic decisions cannot affect the world prices of traded goods.

Under those assumptions, a domestic tax imposed on capital income in the corporate sector causes the domestic economy to shift production toward the noncorporate sector. If the corporate sector is more labor-intensive than the noncorporate sector, both the corporate and the noncorporate domestic sectors become less capital-intensive in equilibrium as a result of producer responses to the tax. At a lower capital intensity, the return to domestic capital actually increases and domestic labor can bear more than 100 percent of the corporate income tax. Even if the domestic economy is large enough to affect the world prices of the traded goods, Melvin finds that the corporate tax burden still falls primarily on the factor that is used most intensively in the corporate sector.

Melvin's analysis shows that the corporate tax burden can be shifted to domestic labor even when there is no international investment, and even when the domestic economy is large enough to influence the prices of internationally traded goods. However, those results are not fully robust to the addition of internationally mobile capital, the production of goods that are not traded internationally, and the possibility of imperfect demand substitution between domestic- and foreign-produced internationally tradable goods. Unfortunately, trying to account for all of those issues can make the analysis very difficult.

Gravelle and Smetters (2006) construct a computable general equilibrium model in which the world is divided into two countries with four productive sectors in each country. The domestic economy is divided into corporate and noncorporate sectors, like the original Harberger (1962) model, but each sector is further subdivided into a subsector that produces internationally tradeable goods and a sub-sector that produces goods that are not traded between countries. Like Mutti and Grubert (1985), Gravelle and Smetters allow for the possibility that capital is not

perfectly mobile internationally, and for the possibility that foreign and domestic tradable goods are imperfect substitutes in consumption.[5]

Gravelle and Smetters find that the corporate tax burden imposed on domestic labor is small when the demand substitutability between domestic and foreign tradable goods is low. Although their model is different from Melvin's model, their trade result is similar to that earlier finding: The burden imposed on domestic labor can be reduced when the domestic country can influence the world prices of internationally traded goods. In Melvin, that international market power is large when the domestic economy is large compared with the rest of the world. In Gravelle and Smetters, the international market power is large when there is a low degree of substitutability between the domestic and foreign tradable corporate goods. Even a small country can have the latter type of market power. In both models, the corporate tax can affect both domestic and foreign national welfare in ways that operate, in part, like an ad valorem tariff on exports, as illustrated in Whalley (1980).

When international capital mobility is perfect and the substitutability between domestic and foreign corporate tradable goods is very high, Gravelle and Smetters find that domestic labor's burden equals about 73 percent of corporate tax revenue.[6] Although the foreign capital owners' burden equals 67 percent of the domestic revenue, that burden is fully offset by a benefit that foreign workers receive because they become more productive. Thus, none of the net burden is exported to foreigners. However, domestic labor's share of the burden can be much smaller and a net burden can be exported when the tradable goods are less substitutable. For example, when the aggregate trade substitution elasticity equals 1, a value that Gravelle and

[5] The Gravelle and Smetters model is very similar to the model constructed by Mutti and Grubert, although Mutti and Grubert do not measure labor's incidence of the corporate income tax.
[6] Gravelle and Smetters (2006), Table 2.

Smetters cite as reasonable based on previous empirical studies, domestic labor's burden equals only 21 percent of the corporate tax revenue. That reduction of 52 percent in domestic labor's burden is almost all exported to foreign residents, whose net burden then equals 49 percent of the domestic corporate tax revenue. If trade substitution and capital mobility are both low, domestic labor will bear almost none of the corporate income tax burden.

In addition to demonstrating the potential importance of international market power, Gravelle and Smetters show that the long-run incidence of the corporate income tax is highly uncertain. Although empirical evidence about the short-run degrees of international trade substitution and capital mobility suggest that domestic labor bears almost none of the burden of the corporate tax according to their analysis, it is not clear what should be assumed about those parameters for the long run.

Harberger (1995) measures the open-economy incidence of the corporate income tax by analyzing a simple general equilibrium model of domestic and foreign economies that each have five sectors. In contrast to Gravelle and Smetters, the corporate sector that produces internationally tradeable goods is further subdivided into two subsectors. One of those subsectors produces goods that are perfect substitutes for the goods produced by the corresponding foreign sector. The second corporate subsector produces goods that are imperfect substitutes for goods produced by the corresponding foreign sector. Otherwise, that earlier model in Harberger (1995) and later analyzed in Harberger (2006) has the same basic structure as the model in Gravelle and Smetters.

When goods are produced in both corporate tradable goods subsectors of the Harberger (1995) model, the domestic and foreign wages are determined fully by the effects that the tax has

on production costs within the first subsector. In the domestic economy, the corporate tax drives a wedge into the cost of production in the corporate sectors. Because the domestic economy cannot affect the world price of output in the first sector, the domestic wage must decrease in order to offset the increased corporate cost of capital.

Although the Harberger (1995) model splits the corporate tradable sectors in that way, the level of substitutability between the domestic and foreign outputs of the second corporate tradable sector can still affect the incidence of the tax, as in Gravelle and Smetters. But, as shown in this study, that trade effect depends upon the relative capital intensities of production in the corporate tradable sectors. When the capital intensities are equal, the incidence of the tax does not depend at all upon the degree of international output substitutability in the second corporate tradable sector.

This study examines a version of Harberger's (1995, 2006) open-economy general equilibrium model. After developing the model and analyzing the economic effects of the corporate income tax, a numerical application is presented that uses output and input share assumptions reasonable for the United States. The application starts with an assumption that capital is perfectly mobile internationally. It also assumes initially that the degree of international output substitutability does not matter because the corporate tradable sectors have equal output capital intensities. Those assumptions are relaxed later in the application.

This study examines corporate tax incidence both alone and in comparison to several replacement taxes: a general tax on the income from capital in all domestic sectors, a domestic wage tax, a tax on the worldwide capital income of the domestic owners of capital, and a uniform domestic tax on personal income or consumption. The model is also used to examine

the international burdens of the corporate income tax under alternative assumptions: about whether the country is a net international borrower or net international lender, about the relative capital intensities of production in the corporate tradable sectors, about the size of the domestic economy relative to the rest of the world, and about the degree of international capital mobility. A later section also examines how the tax burdens are affected when many countries impose corporate income taxes and may engage in international tax competition. An appendix further examines Harberger (1995), Harberger (2006), and Gravelle and Smetters.

II. The Model

The world consists of two countries. In an initial equilibrium, both economies are identical except for size. For each economy, production is divided into five sectors that each produce goods or services using labor, capital, and (for agriculture) land. All production technologies are characterized by constant returns to scale; production functions are twice-differentiable and concave; competition is perfect at the level of the producer.

The first three sectors are corporate. Sector one produces internationally tradeable outputs for which the foreign and domestic products are perfect demand substitutes. The output from that sector is the numeraire. Sector two produces internationally tradeable outputs for which the foreign and domestic products are not perfect demand substitutes. Sector three produces non-internationally tradable outputs for which consumption must occur in the same country as production; examples include utilities and transportation services.

Sectors four and five are noncorporate sectors. Sector four produces internationally tradeable agricultural products. Sector five produces outputs that are not internationally tradeable, such as residential housing and retail services.

Labor is homogeneous and perfectly mobile within each country, but cannot move between countries. Thus, the wage rate is the same for every sector within a country, but can differ between countries. Individuals do not vary their amount of labor supplied to the market.

The worldwide supply of capital is fixed but perfectly mobile between countries in that the geographic location of investment does not matter to a marginal investor. The marginal return to investment is the same everywhere in equilibrium, excluding producer-level taxes on capital income. Capital owners can own capital in either country, but cannot themselves relocate abroad. Each owns a fixed share of the world capital stock.[7]

Consumers have identical homothetic preferences and must consume where they live. They can choose from among the five types of outputs produced in their own country (or imported from the other country in the case of outputs from sectors one and four) and imports of the unique output from sector two of the other country. Initial consumer expenditures on the six types of goods and services are proportional to the initial shares of worldwide production.

The domestic government collects taxes and makes lump-sum distributions. In order to isolate the effects of the corporate income tax, the government's other policies are assumed to affect neither economic efficiency nor the distribution of income. With any available tax revenues, the domestic government purchases the six available varieties of consumer goods according to the same expenditure shares as domestic consumers. The government redistributes

[7] The analysis thus abstracts from the effects that the corporate tax may have on tax incidence through its effect on individual savings, the capital stock, and, ultimately, labor productivity and the return to capital (see Fullerton and Metcalf, 2002, pp. 1832-1844).

that bundle of commodities to domestic residents in proportion to their incomes. The foreign government does not respond to any tax policies chosen by the domestic government.[8]

III. The Corporate Income Tax

Starting in a world equilibrium with no corporate taxes, the domestic government introduces a small tax on capital income from domestic production within the corporate sectors. The tax is imposed at a tax-exclusive rate of τ_c percent. That is the percentage by which the tax initially increases the corporate cost of capital above its initial equilibrium value r, so that the corporate cost of capital equals $r \cdot (1 + \tau_c)$. The equilibrium value of r can change as a result of the economic responses to the tax. In a new equilibrium, starting from a tax rate of zero, the corporate cost of capital increases by $\hat{r} + (1 + \hat{r})\tau_c$ percent, where a circumflex over a variable indicates the percentage by which that variable changes to its new equilibrium value. The equilibrium cost of capital outside the domestic corporate sector changes by $\hat{r}$ percent.

Competition in sector one determines how changes in the cost of capital affect the foreign and domestic wage rates in equilibrium. Because the production technology is characterized by constant returns to scale and because competition is perfect at the producer level, any changes in the prices of output in each sector must be related proportionally to changes in the cost of inputs.[9] For sector one, that relationship is given by:

[8] A later section of this paper, in an examination of tax competition, discusses how the results apply when other countries also have corporate income taxes and may change their taxes simultaneously.

[9] Fullerton and Metcalf (2002) show how such comparative static log-linear equilibrium relationships can be derived for a two-sector closed economy under the assumptions of this model. The expression used here for the percentage change in the cost of capital in the taxed sector differs slightly from their corresponding term, $\hat{r} + \tau$, because the term in (1a) allows for a discrete finite change in the tax rate. The term used in (1a) converges to the term used by Fullerton and Metcalf as the tax rate approaches zero.

$$\text{(1)} \quad \text{(a)} \quad \hat{p}_1^d = 0 = \theta_{L1}\hat{w}^d + \theta_{K1}\cdot[\hat{r} + (1+\hat{r})\tau_c]$$

$$\text{(b)} \quad \hat{p}_1^f = 0 = \theta_{L1}\hat{w}^f + \theta_{K1}\hat{r}$$

where p_1^j is the output price, θ_{L1} and θ_{K1} are the labor and capital shares of value added in sector one, and w^j is the wage rate in country j (which can indicate d, domestic, or f, foreign). The price of sector one output remains constant because sector one produces the numeraire, and the foreign and domestic outputs from that sector are identical. Thus, any change in the cost of capital for sector one in country j must be fully offset by a wage rate change in that country. Recognizing that the output price does not change, re-arrangement of (1a) and (1b) yields the following equations for the equilibrium changes in domestic and foreign wage rates:

$$\text{(2)} \quad \text{(a)} \quad \hat{w}^d = -\frac{\theta_{K1}}{\theta_{L1}}\cdot[\hat{r} + (1+\hat{r})\tau_c]$$

$$\text{(b)} \quad \hat{w}^f = -\frac{\theta_{K1}}{\theta_{L1}}\hat{r}$$

According to (2a), any increase in the domestic corporate cost of capital for sector one will cause the domestic wage rate to fall. According to (2b), any decreases in the foreign cost of capital for sector one will cause the foreign wage rate to rise. The sizes of those wage rate changes will depend upon the capital intensity of sector one production and the amount of change in the corporate cost of capital. When the capital intensity of sector one production is lower, the wage rate does not have to change by as much for the resulting change in wage costs to fully offset the change in the cost of capital.

The fact that the tax causes the relative prices of the capital and labor inputs to change implies that producers will substitute between their demands for capital and labor. That input substitution causes the equilibrium demands for capital and labor to change according to

(3)

(a) $$\hat{K}_C^d - \hat{L}_C^d = \sigma_C^d \cdot [\hat{w}^d - \hat{r} - (1+\hat{r})\tau_c]$$

(b) $$\hat{K}_N^d - \hat{L}_N^d = \sigma_N^d \cdot (\hat{w}^d - \hat{r})$$

(c) $$\hat{K}^f - \hat{L}^f = \sigma^f \cdot (\hat{w}^f - \hat{r})$$

where K_i^j and L_i^j are the capital and labor stocks and σ_i^j is the partial elasticity of substitution between capital and labor in sector *i* of country *j*.[10]

Together, the relationships in (2) and (3) determine the equilibrium change in r. Recall that the aggregate supply of labor is fixed in each country and that the supply of capital is fixed worldwide. Based on those conditions, assuming that the input substitution elasticities are identical in all sectors and countries, (2) and (3) imply that the change in the equilibrium r is given by (4).[11]

(4) $$\hat{r} = -\tau_c \cdot \frac{K^d - \theta_{L1} K_N^d}{K + (K^d - \theta_{L1} K_N^d)\tau_c}$$

Equation (4) implies that the change in r is determined by the relative size of the domestic economy and the size of the domestic corporate sector. When the domestic corporate sector is small compared with the rest of the world economy, the equilibrium value of r will

[10] For capital and labor demands, the subscripts *C* and *N* represent aggregate amounts for all corporate sectors and noncorporate sectors, respectively. The absence of a subscript represents an aggregate over all sectors. The absence of a superscript represents an aggregate over both countries.

[11] Equation (4) can also be expressed in terms of the input shares alone. It would be easy to derive a variation of equation (4) that allows the corporate and noncorporate sectors to have different input substitution elasticities.

decrease by only a small percentage. In the limit, r will not change when the domestic economy or corporate sector is very small, so the cost of capital in the domestic corporate sector, $r \cdot (1+\tau_c)$, will increase by approximately τ_c percent. Conversely, when the domestic corporate sector is very large compared with to the world economy, r will decrease by a large percentage, and the cost of capital in the domestic corporate sector will increase by substantially less than τ_c percent.[12]

As a basic economic interpretation of (4), when the relative cost of capital increases in the domestic corporate sectors and decreases in the domestic noncorporate sectors and abroad, domestic corporate producers demand relatively less capital. The noncorporate domestic producers and all foreign producers demand relatively more capital. As a result, the capital intensities of production increase in those latter sectors and the marginal productivity of capital decreases in those sectors. Such changes cause the marginal return to investment, r, to fall in those other sectors.[13] The marginal return falls by more when the domestic economy and the domestic corporate sector are larger relative to the rest of the world. That happens because any given percentage reduction in the domestic corporate capital stock corresponds in that case to a larger increase in capital/labor ratios of the domestic noncorporate and foreign sectors.

The capital intensity of production in sector one enters (4) because any reallocation of capital out of the domestic corporate sector is offset, somewhat, by the fact that the domestic wage rate falls whereas the foreign wage rate rises. As a result, the domestic noncorporate producers do not increase their demand for capital by as much, proportionally, as do the foreign

[12] When the domestic corporate sector makes up the entire domestic economy and the tax rate is very small, equation (4) is the same as a relationship derived by Bradford (1978) and Kotlikoff and Summers (1986). That variant is discussed in a later section of this study.
[13] In derivation of (4), the equilibrium conditions are met through changes in the capital allocations alone. The model implies that the labor demands do not change in response to the tax.

producers. The domestic noncorporate producers will even decrease their demand for capital if the domestic economy is very small relative to the rest of the world or if production in sector one is very capital intensive. The importance of such a reaction by the domestic noncorporate producers is represented in (4) by the interaction between the domestic noncorporate capital stock and the term that represents labor's share of value added in sector one.

Changes in the land rents are determined in sector four, the agricultural sector. Following Harberger (1995), it is assumed here that the domestic country does not produce enough to affect the world price of output in that sector.[14] Because sector four uses labor, capital, and land in production, any changes in the net costs of capital and labor are offset by changes in the land rents. The changes in domestic and foreign equilibrium land rents are derived from the relation between input costs and output prices in sector four, as represented by:

$$(5) \qquad \hat{p}_4^j = 0 = \theta_{L4}\hat{w}^j + \theta_{K4}\hat{r} + \theta_{\ell 4}\hat{\ell}^j \qquad j = d,f$$

where ℓ^j is the land rent in country j and $\theta_{\ell 4}$ is land's share of value added in sector four. Because the price of sector four output does not change, the change in the domestic and foreign land rents is derived from (5) as:

$$(6) \qquad \hat{\ell}^j = -\left(\frac{\theta_{L4}}{\theta_{\ell 4}}\cdot\hat{w}^j + \frac{\theta_{K4}}{\theta_{\ell 4}}\cdot\hat{r}\right) \qquad j = d,f$$

[14] The additional fixed factor, land, is included in the model as an input in sector four to avoid a corner solution. Otherwise, when responses to the corporate tax drive down both the wage and the cost of capital for that sector, all domestic producers would want to produce only that output.

The domestic land rent increases in response to the corporate income tax because the tax causes a decrease in both the cost of labor and the cost of capital used by the noncorporate producers. In contrast, the foreign land rents can rise or fall depending on how the capital intensity of production in sector four compares with the capital intensity of production in sector one. Because the size of the increase in foreign labor costs and decrease in foreign capital costs are consistent with a constant price of sector one output, foreign land rents will increase or decrease depending on whether sector four production is less or more capital-intensive than sector one production.

Output prices change in sectors two and three, the other corporate sectors, according to:

(7) (a) $$\hat{p}_i^d = \theta_{Li}\hat{w}^d + \theta_{Ki} \cdot [\hat{r} + (1 + \hat{r})\tau_c]$$

(b) $$\hat{p}_i^f = \theta_{Li}\hat{w}^f + \theta_{Ki}\hat{r}$$

$i = 2,3$

For both domestic and foreign producers in sectors two and three, the input prices change by the same percentages as the input prices faced by producers in sector one. Because the domestic wage rate falls and the domestic corporate cost of capital rises, the domestic prices of output in sectors two and three will increase or decrease depending upon whether production in those sectors is more or less capital-intensive than production in sector one. In the foreign country, the prices of outputs from sectors two and three have the reverse relationship to the capital intensity of production in sector one because the foreign wage rate goes up and the foreign cost of capital goes down by the same amounts in all sectors. The foreign output prices in sectors two and three will therefore increase if production in those sectors is less capital-intensive than production in sector one. Those foreign prices will decrease if production in those sectors is more capital-intensive than production in sector one.

For both countries, the price changes for the outputs of sector five are given by:

(8) $$\hat{p}_5^j = \theta_{L5}\hat{w}^j + \theta_{K5}\hat{r} \qquad j = d,f$$

The price of the domestic output of sector five will decrease because the domestic noncorporate costs of both labor and capital inputs fall. The foreign price of the output of sector five behaves in the same way as the foreign output prices for sectors two and three: Whether the foreign price of sector five output will decrease or increase depends on whether production in sector five is more or less capital intensive than production in sector one.

IV. Tax Burdens

Because individuals consume all of their incomes and because the individual supplies of labor and capital are fixed, the total burden of the corporate income tax can be measured in terms of the changes it causes to personal incomes, adjusted for any welfare effects of changes in the relative prices of consumer goods. For the residents of each country, personal income can be decomposed as in (9), where the initial value of domestic output is arbitrarily set equal to 1:

(9) $$Y^j = w^j L^j + r\delta^j K + \ell^j = Y_L^j + Y_K^j + Y_\ell^j \qquad j = d,f$$

where $Y_L^j = \theta_L \cdot \frac{K^j}{K^d}$, $Y_K^j = \theta_K \cdot \delta^j \cdot \frac{K}{K^d}$, and $Y_\ell^j = \theta_\ell \cdot \frac{K^j}{K^d}$ are the amounts of income paid to the resident owners of income from labor, capital, and land, respectively, in country *j*. The term δ^j is the share of the worldwide capital stock owned by residents of country *j*, and θ_L, θ_K, and θ_ℓ are the initial aggregate output shares for labor, capital, and land, respectively. The

total burden of the tax is expressed in terms of changes in personal wage income, capital income, labor income, and the prices of consumer goods as:

$$B^j = -d\left(\frac{Y^j}{P^j}\right) = -Y_L^j \hat{w}^j - Y_K^j \hat{r} - Y_\ell^j \hat{\ell}^j + \hat{P}^j Y^j \qquad j = d,f \tag{10}$$

where P^j, initially equal to 1, is an index of the cost of living in country *j*.

The interaction between personal income and the change in the price index in the last term of (10) accounts for a consumer burden that results from changes in the relative prices of consumer goods. Tax burden is defined here as an equivalent variation, so the price index measures the equivalent variation in consumer expenditure when consumer prices change. The index accounts for changes in the relative prices of consumer goods and any consumer substitution that occurs in response to those price changes. That true cost-of-living index can be approximated by the change in a fixed-share Laspeyres price index:

$$\hat{P}^j \approx \sum_{i=1}^{5} s_i \hat{p}_i^j + s_6 \hat{p}_2^{-j} \qquad j = d,f \tag{11}$$

where s_i is the initial expenditure share for consumer good *i*, the *j* superscript represents the country of residence, and the *-j* superscript represents the other country.[15]

Equation (10) shows how the total burden can be decomposed according to the sources and uses of income. That decomposition is consistent with the way that tax incidence is measured in Harberger (1962) and Harberger (1995). If consumers have identical homothetic preferences and if they face the same changes in consumer prices, the effect of the tax on the

[15] The numerical applications in this study use the Laspeyres index, which can cause the estimated excess burdens of the tax to be overstated. That bias disappears when the tax rate is very small, in which case the excess burden of the tax also approaches zero.

distribution of income is independent of the consumer's burden. For example, the change in real domestic labor income, expressed as a fraction of real domestic income, is independent of the consumer's burden.[16]

Alternatively, the consumer's burden can be divided between the owners of each factor according to (12), which combines the effects of the tax on the sources and uses of income.

$$B^j = -Y_L^j \cdot (\hat{w}^j - \hat{P}^j) - Y_K^j \cdot (\hat{r} - \hat{P}^j) - Y_\ell^j \cdot (\hat{\ell} - \hat{P}^j) \qquad j = d, f \tag{12}$$

Those combined measures of burden have a clear intuitive economic interpretation that does not depend on the choice of a numeraire. Defined in that way, burden can be thought of as the change in consumption by the owners of each input. For the owners of each factor, it measures the size of a lump-sum tax toward which those owners would be indifferent.

Consistent with Harberger (2006) and Gravelle and Smetters (2006), the combined measures of burden in (12) are used throughout the rest of this study. In addition to having a clear welfare interpretation, the combined measures are needed in order to make international comparisons between the burdens imposed on domestic and foreign residents. That combination is necessary because foreign and domestic residents can face different changes in consumer prices when some outputs are not traded internationally.

Excess burden is the excess of the total burden over the real value of corporate tax revenue:

$$R_C = [\tau_c \cdot (1 + \hat{r}) \cdot (1 + \hat{K}_C^d) \cdot \sum_{i=1}^{3} q_i \theta_{Ki}] / (1 + \hat{P}^d) \tag{13}$$

[16] The term "real" is used here merely to represent the adjustment for changes in relative prices.

where q_i is the initial value added by production in sector i and the summed term equals the initial domestic corporate capital stock, all expressed as a share of the total value of domestic output. The real value of corporate revenue equals the real value of government purchases of domestic consumer goods that can be financed by the tax and redistributed to domestic residents.[17]

V. A General Replacement Tax on the Domestic Use of Capital

This section examines the effects of a general replacement tax on the income from capital in all domestic sectors. The general tax rate is chosen so that it will finance the same real government expenditures on consumer goods as the corporate tax it replaces.[18]

A comparison between those taxes provides a way to isolate the effects that the corporate income tax has on the domestic and international allocations of capital. In a closed economy, the corporate income tax affects efficiency and incidence only through its effects on the allocation of inputs between the corporate and noncorporate sectors. In an open economy, the domestic corporate income tax affects efficiency and incidence through its effect on the allocation of capital both between the domestic corporate and noncorporate sectors and between the domestic and foreign economies. In contrast, the general tax affects only the international allocation of capital. Thus, a comparison between the effects of the corporate tax and the general tax provides a way to separate the effects the corporate tax has because it is imposed only on

[17] Revenue is thus measured in units of a bundle of domestic consumer goods rather than in terms of the numeraire good produced in sector one. Thus, revenue and burden are measured in the same units. Excess burden is then simply any excess of total burden over the value of the lump-sum government distributions financed by the tax.
[18] Both taxes are referred to as taxes "at source" because they are imposed on capital income based on where the capital is used.

some domestic sectors from the effects it has because it is not imposed on the use of capital abroad.[19]

Under the general tax, the domestic wage rate falls by less than it does under the corporate income tax because the required replacement value of the general tax rate, τ_g, can be lower than the corresponding corporate tax rate; the general tax is imposed on a broader base. As under the corporate income tax, the wage rate is determined in sector one: The domestic wage rate is determined in the same way as in Equation (2a), but the percentage change in the sector one cost of capital under the corporate tax is replaced by its percentage change under the general tax, $\hat{r}_g + (1 + \hat{r}_g)\tau_g$.

The percentage change in the equilibrium (tax-exclusive) return to capital, which is now the cost of capital only to foreign producers, is given by:[20]

$$\hat{r}_g = -\tau_g \cdot \frac{K^d}{K + K^d \tau_g} \tag{14}$$

Equation (14) is similar to (4), but the corporate tax rate is replaced by the general tax rate, and the term for the noncorporate capital stock does not enter the equation because all domestic sectors are subject to the general tax. When the general tax rate is extremely small, the second term in the denominator of (14) disappears so that worldwide capital income is reduced exactly by an amount equal to the revenue collected by the tax. As in Bradford (1978), capital

[19] The general tax also represents a corporate integration policy that imposes a single tax rate on the income from all domestic capital investment regardless of the sector in which that capital is invested.

[20] Equation (14) is derived under the assumption that the domestic and foreign aggregate partial input substitution elasticities equal each other. For the general tax, the aggregate changes in capital are given by modified versions of (3), where (3b) is ignored and the aggregate domestic capital stock and change in the domestic cost of capital under the general tax are substituted into (3a). Equation (14) is derived by also noting that aggregate country labor supplies do not change and that the world capital supply is fixed.

owners worldwide bear exactly 100 percent of a very small tax on the income from capital used by domestic producers. However, as shown in the numerical application below, the worldwide burden is not divided exactly in proportion to the domestic and foreign ownership shares of world capital, because the tax can have different effects on the prices of domestic and foreign consumer goods, and capital owners must consume where they live.

The effect that the general tax on capital income at source has on output prices follows the same economic reasoning as the analysis of the corporate income tax, except that the price equations include the percentage change in the tax-inclusive cost of capital for all domestic sectors rather than just in the corporate sectors.

The real value of tax revenue under the general tax is given by

$$R_g = [\tau_g \cdot (1 + \hat{r}_g) \cdot (1 + \hat{K}_g^d) \cdot \theta_K] / (1 + \hat{P}_g^d) \tag{15}$$

where $\hat{K}_g^d = \sigma \cdot [\hat{w}^d - \hat{r}_g - (1 + \hat{r}_g)\tau_g]$, and θ_K is the initial domestic capital stock, expressed as a share of the value of output. The tax rate for the general tax is chosen to equate real revenues and, thus, the lump-sum redistributions under the general tax and the corporate tax.

VI. Personal Taxes on Domestic Residents

Personal taxes on domestic residents also provide useful policy alternatives against which to evaluate the international effects of the corporate income tax and general tax. Such personal taxes are nondistortionary under the assumptions of the model used in this study, because the personal supplies of labor and capital are fixed and domestic residents cannot move abroad to escape taxation. As a result, a personal tax on labor income is borne entirely by labor; a personal

tax on the worldwide income of the domestic owners of capital is borne entirely by those owners; and a uniform tax on the personal income or consumption of domestic residents is borne by those residents in proportion to their initial shares of domestic personal income.

VII. A Numerical Application

The model can be applied based on very few assumptions about the economy. Share assumptions (Table 1) apply for the United States and are taken from Gravelle and Smetters (2006).[21] The capital intensities of sectors one and two are initially equated for simplicity. When those capital intensities are equal, the incidence results are the same as if the first two sectors are combined into one sector for which the foreign and domestic outputs are perfect substitutes. In other words, the fact that sector two produces foreign and domestic outputs that are not perfect substitutes does not affect the incidence results when the first two sectors have the same capital intensities. A later part of the application examines how incidence changes when those capital intensities are different. The domestic economy accounts for 30 percent of world output. In addition, domestic residents are assumed to own 30 percent of world output, so the country is neither a net international lender nor a net international borrower. That assumption is also relaxed later in this study. Consistent with Mutti and Grubert (1985), the partial elasticity of input demand substitution between capital and labor is initially set equal to 0.6.[22]

It is not obvious how to choose the right value for the (tax-exclusive) corporate tax rate because the actual U.S. income tax system is considerably more complex than in the model. After accounting for personal and business income taxes, depreciation rules, business finance,

[21] The appendix compares the results under alternative share assumptions consistent with Harberger (1995).
[22] That value is based on estimates in Hamermesh and Grant (1979). The results of the application in the current study are not very sensitive to a change in that value to 1.0.

and other factors, the Congressional Budget Office (2005b) finds that the U.S. corporate tax causes the cost of capital in the U.S. corporate sectors to be 6.25 percent higher than the cost of capital in the noncorporate sectors. That is the tax rate used in this application. Alternatively, as a benchmark, the model's predictions are calculated when the tax rate is infinitesimally small, which has the advantage that those predictions depend on neither the actual U.S. tax rate nor the input substitution elasticity, but can still be used to characterize the incidence effects of a small change in the corporate income tax.

Economic Responses to the Corporate Income Tax

The model predicts a variety of economic responses to the introduction of the corporate tax in a new long-run equilibrium (Table 2). In response to an increase in the domestic corporate cost of capital, the capital stocks fall in the domestic corporate sectors and rise in the domestic noncorporate sectors and in the foreign country. The domestic corporate capital stock falls by almost 4 percent. The aggregate domestic capital stock falls by 2 percent, which implies that the arc elasticity of the domestic capital stock with respect to the 6.25 percent corporate tax is 0.32. For each one percent by which the tax initially increases the corporate cost of capital, the domestic capital stock falls by 0.32 percent.[23]

Those investment responses drive down the cost of capital by 1.2 percent for the untaxed producers in the domestic noncorporate sectors and the foreign sectors. As a result, the cost of capital for domestic corporate producers increases by only 5.0 percent in response to the 6.25 percent corporate tax.

[23] Even though capital is perfectly mobile, only a finite percentage of the domestic capital stock is reallocated abroad in response to the tax, because a reduction in the capital stock increases the marginal product of capital in the domestic corporate sectors.

The reallocation of capital also affects wages. Because there is less domestic capital, and labor cannot emigrate, the domestic wage rate falls by 1.1 percent, driven by competition in sector one (Equations 1 and 2). The domestic wage rate has to fall by that amount in order to offset the increased corporate cost of capital. Similarly, the foreign wage increases by 0.25 percent because the larger foreign capital stock improves the productivity of foreign labor. The foreign wage rate increases by just enough for the resulting increase in labor costs to fully offset the decrease in capital costs for sector one of the foreign economy.

Both domestic and foreign land rents increase. The domestic land rent rises because the costs of labor and capital both decline for sector four (agriculture), so that land becomes more productive. Foreign land rent rises because sector four is more capital-intensive than sector one, so the decline of the foreign cost of capital more than fully offsets the increased cost of labor to sector four of the foreign economy.

Overall, consumer prices fall slightly in both countries. Output prices do not change in the first two sectors (mostly manufacturing), because sector one produces the numeraire and sector two has the same capital intensity as sector one. Thus, any wage change that exactly offsets the increased cost of capital in sector one will also exactly offset the increased cost of capital in sector two. Sector three, the other corporate sector (utilities and transportation), is more capital-intensive than sector one. As a result, the price of the domestic sector three output increases because the rise in the corporate cost of capital more than fully offsets the decrease in labor costs. Similarly, the price of sector three output in the foreign economy falls slightly because the decreased foreign cost of capital over-compensates for the increased foreign labor cost. The price of output in sector four (agriculture) does not change, by assumption. For

domestic output of sector five (housing and retail services), the domestic price declines because both capital and labor become cheaper for that sector. The foreign price of sector five output also declines because sector five is more capital-intensive than sector one, so the effect of a decrease in the foreign cost of capital dominates the increase in the foreign wage rate.

Real private incomes, before government transfers, change for both domestic and foreign residents. Those changes are the tax burdens. For domestic residents, labor and capital incomes each fall by about 1 percent. A small overall decrease in the domestic prices of consumer goods only slightly offsets the fall in domestic wages and the decrease in the domestic capital owners' return to their share of the world capital stock. In contrast, real income paid to domestic landowners increases because land rents increase and consumer prices fall. When combined, the aggregate real domestic private income falls by 0.978 percent before government transfers. Because the real value of revenue from the tax (the real value of government purchases of consumer goods financed by the tax) equals only 0.944 percent of the initial domestic income, the domestic real national income is reduced by about .035 percent (not shown in Table 2). That national loss equals about 3.7 percent of the revenue from the tax (100*0.035/0.944).[24]

Foreign labor benefits from both an increase in the foreign wage rate and an overall decrease in foreign consumer prices. Foreign capital owners lose from a reduced return to their capital. That loss is offset somewhat by a reduced foreign cost of consumer goods. Foreign land

[24] That is the worldwide deadweight loss, or excess burden from the tax. The deadweight loss is relatively small because the tax is small and there are no other pre-existing distortions. Because this study is about the distribution of the burden, it would be sufficient to assume that the tax rate is infinitesimal, as is done in a later section, below. However, using a small finite tax rate allows the numerical application to illustrate the potential size and nature of some of the important economic effects of the tax. The value obtained for excess burden in the example should therefore not be taken seriously as an estimate of the overall excess burden of the corporate income tax.

owners benefit slightly from an increase in foreign land rents and a decrease in the cost of foreign consumer goods.

Overall, the gains of foreign workers and landowners are exactly offset by the losses of foreign capital owners so that none of the net burden of the tax is exported under the basic assumptions. In effect, the domestic corporate tax shifts the foreign distribution of income toward labor and landowners and away from foreign capital owners. Under alternative assumptions, as examined later in this application, the tax can also shift either a net burden or a net benefit to foreign residents.

Burdens of the Corporate Income Tax

Under the basic assumptions, domestic labor and capital owners bear the corporate tax roughly in proportion to their initial shares of income. Expressed as shares of real tax revenue (Table 3), the burdens imposed on domestic workers and capital owners are just above their initial shares of domestic income. Domestic labor bears 73.7 percent of the corporate tax burden and receives about 70 percent of income in the no-tax equilibrium. Domestic capital owners bear 32.5 percent of the corporate tax burden and receive about 29 percent of income in the no-tax equilibrium. Domestic landowners benefit by 2.5 percent of the revenue.

The domestic corporate income tax shifts the foreign distribution of income away from capital owners toward labor and, slightly, toward landowners. Foreign labor's benefit is about equal to domestic labor's loss, but that benefit to foreign labor is almost exactly offset by the loss to foreign capital owners.

When measured on an aggregate worldwide basis, labor bears very little (2.4 percent of the revenue) of the burden from the corporate income tax. In contrast, capital owners worldwide bear slightly more than 100 percent of the burden (104.7 percent of the revenue), almost in proportion to the domestic and foreign ownership shares of capital.[25]

Those worldwide implications are similar to the central predictions of the closed-economy analysis of Harberger (1962), in which all capital owners bear the full burden of the U.S. corporate tax and labor escapes the burden. The essential difference from the closed economy is that both labor and capital can be reallocated freely between sectors in the closed economy, but only capital can be reallocated between countries in the open economy. Worldwide, capital owners still do not escape the tax in the open economy, but domestic labor bears a burden because domestic workers cannot emigrate to take advantage of an increased foreign wage rate. Domestic capital owners can escape part of the burden because, unlike workers, they do not have to live where their capital is used. If labor could move freely internationally, the domestic and foreign wages would be equal. In that case, analysis of the open-economy incidence would be just like analysis of the closed-economy incidence. For such an open economy, all foreign sectors would simply be part of the noncorporate sectors. Otherwise, the closed-economy analysis could be applied directly.

[25] Not shown in Table 3, worldwide capital income is reduced by 119.3 percent of the tax revenue. However, a decline in domestic and foreign consumer prices offsets part of that capital income reduction so that the burden for capital owners worldwide equals 104.7 percent of the tax revenue.

Economic Responses to the General Replacement Tax

The economic changes under the general tax are different from the changes under the corporate tax (Table 2) because the general tax rate is lower than the corporate tax rate and the general tax is imposed on all domestic sectors rather than just the corporate sectors.

Compared to the corporate tax, the foreign cost of capital does not decline by as much under the general tax because less of the world capital stock is reallocated abroad in response to the general tax. The domestic cost of capital increases in all sectors, but by less than half as much as in the domestic corporate sectors under the corporate tax. As a result, the domestic wage rate does not have to decrease by as much as under the corporate income tax, because less capital has to be reallocated away from sector one in order for the resulting decrease in labor costs to fully offset the increase in capital costs. The foreign wage rate increases by slightly less than it does under the corporate tax, also because less capital is reallocated abroad. The domestic land rent declines under the general tax because the prices of labor and capital change by the same amounts in every domestic sector. The domestic land rent falls because sector four is more capital-intensive than sector one. The foreign land rent increases by slightly less than it does under the corporate tax.

Domestic consumer prices actually increase under the general tax. The price of sector three output (utilities and transportation) increases by less than it does under the corporate tax. But, in contrast to the corporate tax, the price of sector five output (housing and retail services) increases because that sector's cost of capital increases under the general tax, and sector five production is more capital-intensive than production in sector one. In contrast, foreign consumer prices decline by slightly less overall than under the corporate tax.

Those economic differences from the corporate tax imply that, if the general tax were to replace the corporate tax, capital would be reallocated to the domestic corporate sectors and away from the foreign country and the domestic noncorporate sectors. The aggregate domestic capital stock would increase, causing domestic wages to also increase. The foreign capital stock would decrease, causing the foreign wage rate to fall and the foreign cost of capital to increase. Domestic and foreign land rents would fall, especially the domestic rents. Domestic consumer prices would increase and foreign consumer prices would increase very slightly.

Replacement of the corporate tax by the general tax would also cause real private incomes to change. Domestic labor would gain because the domestic wage increase would be more than large enough to offset the increase in domestic consumer prices. Foreign labor would lose because foreign wages would fall while foreign consumer prices would rise. Because domestic consumer prices would increase, domestic capital owners would be worse off than under the corporate tax, even though their capital would be used more efficiently worldwide than under the corporate tax. But foreign capital owners would be better off because the foreign consumer prices would not increase by enough to offset their benefit from the more efficient use of capital. Landowners, especially domestic landowners, would lose from the replacement tax. As under the corporate tax, aggregate real foreign income would not change under the replacement tax. Domestic national income would increase slightly because the general tax at source would achieve a more efficient domestic allocation of capital than the corporate tax.

Burdens of the General Replacement Tax

If the corporate tax were replaced by the general tax, the excess burden would be reduced (Table 3). Under the general tax, the excess burden would decline by almost half from 3.7 percent to just 2.0 percent of revenue because capital would be allocated more efficiently. Domestic capital would then provide the same marginal return in all sectors. Some capital would also be reallocated from abroad, so that the difference between the domestic and foreign pre-tax returns would be smaller than it is under the corporate tax. All of the benefit of that increase in efficiency would go to domestic residents, as an increase in real domestic national income equal to 1.7 percent of the tax revenue. There would be no change in the real foreign national income.

Replacement by the general tax would also change the distribution of tax burdens (Table 3). It would transfer roughly 13 percent of the burden away from domestic labor and toward domestic capital owners and landowners. It would also transfer about 10 percent of the burden away from foreign capital owners toward foreign labor and landowners.

Differential Burdens of Other Taxes

The personal taxes also provide useful comparisons (Table 3). Under the assumptions of the model used in this study, none of those taxes distort behavior because each is imposed on domestic residents who can not move abroad to escape the tax, nor can they change their labor supplies or savings behavior. Replacement of the corporate income tax by any of those taxes would therefore eliminate the excess burden and exactly reverse the distributional effects that the corporate tax has on foreign residents. Foreign labor and landowners would be worse off by an amount that is transferred, exactly, to foreign capital owners.

Domestic labor would bear all of the burden of the wage tax, so their burden would increase by about 26 percent of the revenue under the replacement tax. The burden shares of domestic and foreign capital owners would decrease and the burden shares of foreign labor would increase by amounts equal to their burden shares of the corporate tax. On a worldwide basis, a domestic wage replacement tax would shift roughly the entire burden from capital owners to domestic labor.

Domestic owners of capital would bear the full burden of a domestic tax on their worldwide capital income. If that tax was used to replace the corporate tax, their share of the tax burden would increase by 67.5 percent of the revenue. The burden shares for domestic labor and land owners would change by amounts that exactly offset their shares of the corporate income tax burden.

That worldwide tax on domestic capital owners achieves Capital Export Neutrality (CEN) because it is imposed on the residents' capital income regardless of where that capital is used in production. The U.S. and most foreign corporate income taxes violate CEN because they are effectively imposed on the domestic use of capital, regardless of where that capital is owned.[26] Although replacement by the tax on worldwide capital income of domestic residents would improve worldwide efficiency in the allocation of capital, the worldwide efficiency gain equal to 3.7 percent of the revenue would be realized fully as an increase in the aggregate domestic national welfare. Compared to that small efficiency gain, the domestic and foreign income redistribution effects of switching to the tax that achieves CEN would be very large. On a

[26] That is not how the U.S. corporate tax is described legally, but how it works in practice as a result of the combined effects of all international tax rules and corporate behavior (see Grubert, 2004).

worldwide basis, however, both labor and capital owners would be only slightly better off. Landowners would be slightly worse off.

If the corporate tax were replaced by a uniform tax on the income or consumption of domestic residents, domestic labor and capital owners would both gain slightly and landowners would lose.[27] Those changes would be small because the domestic burden shares of the corporate income tax are approximately equal to the domestic residents' shares of income or consumption, and hence to the shares of burden under a personal income or consumption tax. On a worldwide basis, such a replacement tax would cause a substantial transfer of income from labor to capital owners, almost entirely due to its effects on foreign residents.

Infinitesimal Corporate Tax Rate

The tax incidence is not affected much by assumptions about the level of the corporate tax rate and the size of the input substitution elasticity. That lack of sensitivity can be seen by analyzing the effects of an infinitesimal tax rate (Table 4), which would approximate the effects of a very small increase in the corporate tax rate. The burden shares shown in Table 4 are almost the same as the burden shares shown in Table 3. The main difference is that the excess burden disappears when the tax rate is very small. In that sense, Table 4 shows the pure incidence effects of the corporate income tax.

[27] The differential incidence of that replacement tax also measures the balanced-budget incidence of eliminating the corporate tax if the government were to offset the loss of corporate tax revenue by reducing its spending – its distributionally neutral lump-sum transfers.

Aggregate International Spillover Effects

Under the assumptions used so far, the domestic corporate income tax distorts the allocation of capital and changes the domestic and foreign intranational distributions of income. But the tax does not affect the aggregate international distribution of incomes. Not even the excess burden is exported in the aggregate, even though the tax causes capital to be allocated inefficiently on a worldwide basis. The tax burden is not exported or imported in the aggregate because the initial domestic and foreign per capita wealth endowments are assumed to be equal, and because the corporate tax has no tariff-like effects when the first two sectors have the same capital intensities.

The corporate income tax can, however, affect the aggregate international distribution of income under alternative assumptions, but the international transfer can go in either direction. The aggregate tax burden can be exported or imported, and the effect on the foreign distribution of income can be more or less intensified.

The simplest international transfer can arise when the domestic country is a net international lender or net international borrower. One of those situations would arise when the two countries had different initial per capita wealth endowments. First, suppose that the domestic country is a net international lender. While the domestic capital stock equals 30 percent of the world capital stock (the base case), suppose that domestic residents own 35 percent of world capital. Now, the corporate tax has the same effects on production and prices as in the base case, but domestic capital owners bear a larger share of the burden (Table 5). Compared to the base case, the domestic capital owners' share of the burden increases and the foreign capital owners' share falls, each by slightly more than 5 percent. Those changes are slightly greater than

5 percent because, although consumer prices fall in each country, domestic consumer prices fall by less than foreign consumer prices (Table 2). That difference between domestic and foreign consumer price changes, compared to the base case, also causes the excess burden of the tax to increase slightly from 3.7 percent to 4.0 percent of tax revenue. The aggregate domestic real national income falls by an amount equal to 9.1 percent of the tax revenue. Compared to the base case, the aggregate domestic excess burden increases from 3.7 percent to 9.1 percent of tax revenue. Foreign real national income increases by 5.2 percent of the revenue, so foreign residents receive a net benefit from the tax.

Thus, aggregate foreign welfare is improved by the domestic corporate tax when the domestic country is a net international lender. Aggregate domestic welfare falls. That international transfer occurs because foreign labor and landowners benefit from the same increased stock of foreign capital as when the two countries are equally wealthy, but the domestic capital owners now bear a greater share of the burden because they own a larger share of the world capital stock. The foreign capital owners bear a smaller share of the burden.

The aggregate international burden is shifted in the opposite direction if the domestic country is a net international borrower. Suppose that the domestic residents own only 25 percent of the world capital stock. In that case (Table 5), some of the domestic tax burden is exported and the worldwide excess burden is slightly lower than in the base case, because foreign consumer prices are lower than domestic consumer prices in the new equilibrium.

In summary, an aggregate benefit is exported if the domestic country is a net international lender. An aggregate burden is exported if the domestic country is a net international borrower.

The domestic corporate income tax can also affect the international distribution of income if the capital intensities are not equal for production within sectors one and two.[28] Those international spillover effects can also go either way depending on whether sector two is more or less capital-intensive than sector one. However, the effects of altering the relative capital intensities are more complicated than the effects of changing the shares of capital ownership. Those complications arise because both national and subnational distributions of the tax burdens are modified by a change in the assumptions about relative capital intensities.

First, suppose that sector two is more capital-intensive than sector one. Suppose that capital's initial share equals 20 percent of the value added in sector two, rather than 18 percent (as in Table 1, the base case). In addition, suppose that sector one accounts for 25 percent of the value added by the first two sectors combined, and that the sector one capital share is only 12 percent rather than 18 percent (as in Table 1, the base case). Under those assumptions, the aggregate capital intensity and output shares of sectors one and two combined are the same as in the base case. All other shares are also unchanged.

Under those alternative assumptions, domestic labor bears a smaller share of the burden (Table 5) than in the base case. Domestic labor bears 59 percent rather than73.7 percent of the burden. Domestic labor's share of the burden is smaller because the domestic wage rate falls by less than in the base case and the rate of return paid to capital owners falls by slightly more than in the base case (Table 6). The domestic wage rate falls by less mostly because sector one production is more labor-intensive than it is in the base case. As described by Equation (2a), when sector one is more labor-intensive, the wage rate does not have to fall by as much to fully

[28] Recall that those sectors are the corporate sectors that produce internationally tradeable outputs. The foreign and domestic outputs of sector one are perfect substitutes and the foreign and domestic outputs of sector two are imperfect substitutes.

offset the increased cost of capital in that sector. In addition, the domestic corporate cost of capital increases by slightly less than in the base case because sector one is now more labor-intensive.[29]

Also under those alternative assumptions, compared with the base case, domestic owners of capital bear a larger share of the burden imposed on worldwide capital owners (Table 5) because the domestic owners of capital must pay higher consumer prices than before, whereas foreign capital owners pay slightly less for consumer goods than in the base case. Domestic consumer prices now rise by 0.11 percent rather than falling by 0.11 percent, as in the base case (Table 6). In contrast, foreign consumer prices decline by slightly more (-0.18 percent) than in the base case (-0.16 percent).

Overall, when sector two is more capital-intensive than sector one, some of the aggregate burden of the tax is exported (Table 5). Foreign residents bear an aggregate burden equal to 8.7 percent of the revenue. Domestic residents bear an aggregate burden equal to just 94.9 percent of the revenue. The effect that the domestic corporate tax has on the foreign subnational distribution of income is also less pronounced than in the base case.

Alternatively, when sector two is less capital-intensive than sector one, the aggregate international effect is reversed (Table 5). Domestic labor bears a larger share of the burden (90.6 percent) and foreign labor receives a larger benefit (87.8 percent) than in the base case. Compared to the base case, the domestic capital owner's burden is smaller (26.7 percent) and foreign capital owner's burden is larger (78.2 percent). Overall, domestic residents bear 113.9 percent of the domestic corporate tax. Foreign residents benefit by 10.1 percent of the revenue.

[29] The importance of labor intensity in sector one is shown by equation (4) and is explained in the discussion that follows that equation.

The effect of the corporate tax on the international distribution of incomes can be understood, in part, by comparing it to the effect of a domestic export tax or subsidy placed on the domestic output of sector two. When sector two is more capital-intensive than sector one, the corporate tax increases the domestic price of output from that sector and decreases the price of output from the corresponding foreign sector. That improvement in the international terms of trade creates a benefit for the domestic residents at the expense of foreign residents. In that way, it has an effect that is similar to an ad valorem tariff placed on the domestic exports from that sector. When sector two is less capital-intensive than sector one, the effect is reversed. The international terms of trade are worsened for domestic residents. Foreign residents are made better off at the expense of domestic residents, similarly to the effect of an domestic export subsidy for the output of sector two. The similarity to either an export tariff or an export subsidy is limited, however, because the corporate tax also affects the allocation of capital and of input and output prices in many other ways that differ from the effects of an export tax or subsidy.[30]

Relative Size of the Domestic Economy

A change in the assumption about the size of the domestic economy relative to the world economy affects both the incidence and efficiency of a domestic corporate tax. To explore those effects, the tax burden shares can be measured on either an aggregate basis or a per capita basis. Aggregate burdens measure the total effects of the tax on domestic and foreign residents, expressed as shares of total domestic revenue. Per capita burdens are expressed, instead, as per capita shares of the domestic per capita revenue. Domestic burden shares have the same values

[30] Melvin (1982) discusses the tariff-like effects of the corporate income tax in a much simpler two-sector trade model with no international capital mobility. That simpler model makes it easier to understand the similarity to the effects of a tariff.

either way, but foreign per capita shares account for the fact that when domestic output is a smaller share of world output, the domestic revenue is smaller and the foreign burden is divided among a larger number of foreign individuals. For example, when the domestic economy is only 1 percent of the world economy, foreign labor's total benefit is about the same as domestic labor's total loss (Table 7), but foreign labor's per capita gain is less than 1 percent of domestic labor's per capita loss (Table 8).[31] Changes in a very small country cannot have much of an effect on each person in the rest of the world.

Domestic labor bears more than 100 percent of the burden when the domestic economy produces less than 5 percent of world output (Table 8). For such a small economy, both domestic labor and domestic capital owners would be better off under a domestic tax on wages. Whether that small country chooses to impose a corporate income tax has only a small effect on foreign individuals.

When burden is measured on a per capita basis, the shares borne by domestic and foreign labor and capital correlate closely with the relative size of the domestic economy (Table 8). The per capita burdens imposed on individual capital owners, domestic or foreign, are roughly equal to the domestic economy's share of world output.[32] Domestic labor's per capita share of the burden is slightly higher than the foreign economy's share of world output. Foreign labor's per capita share of the burden is slightly above the domestic economy's share of world output.

The excess burden, measured as a share of revenue, is largest when the domestic economy is smallest. That excess arises because the corporate tax causes capital to be allocated

[31] Computations for Tables 7 and 8 use the same assumptions as the base case for the United States. It is assumed that the populations are proportional to the sizes of the economies.
[32] Domestic capital owners bear a slightly higher burden than foreign capital owners, because domestic consumer prices increase by more than foreign consumer prices.

inefficiently away from the domestic corporate sector and out of the domestic economy. Both sources of inefficiency become smaller relative to domestic revenue as the domestic economy is assumed to be relatively larger (not shown in Table 8). In the limit, when the domestic economy is the whole world, only the domestic misallocation of capital remains. The excess burden equals 4.8 percent of revenue when the domestic economy is only 1 percent of the world, but only 1.2 percent of revenue when the domestic economy is the whole world. Of course, 1.2 percent of revenue collected if every country imposed the same corporate tax would be much larger than 4.8 percent of revenue collected by a country that makes up only 1 percent of the world economy.

Capital Mobility

Throughout this study, capital is assumed to be perfectly mobile in the sense that the marginal return to investment, excluding producer-level taxes, is the same throughout the world. The question about the true degree of international capital mobility is unresolved, especially since the work of Feldstein and Horioka (1980), who discovered a high and very robust correlation between national investment and national savings, which suggested that capital was not very mobile. However, more recent work suggests that the Feldstein-Horioka result is not as robust as once believed.[33] Moreover, it is not clear exactly what the Feldstein and Horioka implies about the degree of capital mobility.[34] However, given that a significant level of uncertainty and disagreement among economists remains, it is important to consider the possible implications of imperfect international capital mobility.

[33] See Coakley, Kulasi, and Smith (1998) and Coakley, Fuertes, and Spagnolo (2004).
[34] See Obstfeld and Rogoff (1996), pp. 161-164.

It is possible, as in Mutti and Grubert (1985) and Gravelle and Smetters (2006), to model international capital mobility by assuming that individual investors do not substitute perfectly between foreign and domestic investments. However, that strategy complicates the analysis considerably and is not necessarily the best way to characterize the behavior of the marginal investor in a long-run equilibrium. An alternative and much simpler approach to changing the degree of capital mobility is to imagine that the rest of the world is smaller, in which case there would be fewer opportunities for capital to be reallocated abroad. In that case, any international reallocation of capital away from the domestic economy drives down the marginal return to investment at a higher rate per unit of reallocated capital. That phenomenon causes less capital to be reallocated abroad in response to the domestic corporate tax, in a way that is similar to the effect of assuming that domestic and foreign investments are not perfect substitutes for investors. In effect, the marginal investor is still assumed to be indifferent between domestic and foreign investments that pay the same rate of return, but only for investments in some of the countries – perhaps between the highly industrialized countries. For other countries, they are completely unwilling to substitute between domestic and foreign investments at any relative rates of return.

As capital mobility is reduced in that way, domestic labor's share of the corporate burden becomes smaller and domestic capital's share of the burden becomes larger. For example, when the domestic economy is increased from 30 percent of the world economy to 70 percent of the world economy, domestic labor's share falls from 73.7 percent to 32.5 percent (Table 8). Domestic capital's share of the burden increases from 32.5 percent to 72.7 percent.[35] Because

[35] In the limit, domestic capital owners bear the full burden of the corporate tax when the domestic economy is the entire world, the tax rate is infinitesimally small (no excess burden), and the gain to land is distributed to labor and capital owners in proportion to their initial income shares. That result coincides with the central case in Harberger (1962) for the closed economy.

capital is less mobile when the domestic economy provides 70 percent of the world's investment opportunities to domestic capital owners, the arc elasticity of the domestic capital stock with respect to the corporate tax falls from -0.32 to -0.13.

The degree of long-run international capital mobility is still an unresolved question. Clearly, the answer to that question is crucial for understanding the long-run incidence of the corporate income tax in an open economy.

Tax Competition

Although many countries impose corporate income taxes, the corporate tax rates have decreased over the past 25 years.[36] Country competition caused by international spillover effects might help explain why countries have different corporate tax rates, but it is not clear how those spillovers would explain the observed downward trend in corporate tax rates.

The possibility of tariff-like competition seems to lead in the wrong direction. If the corporate income tax has tariff-like effects that allow countries to export some of their corporate tax burdens, the corporate tax can serve as a substitute for tariff competition when tariffs are limited by international trade agreements. But tariff competition is unlikely to explain the observed downward trends in corporate tax rates. To the extent that the corporate income tax acts as a tariff substitute, tariff competition would motivate countries to increase their corporate tax rates as trade agreements become more binding.

Spillovers that result from a country's net international capital position also do not obviously explain the downward trend in corporate tax rates. On an aggregate basis, residents of

[36] See Congressional Budget Office (2005a) and Devereux, Griffith, and Klemm (2002).

a country that is a net international lender would benefit from a reduction in their domestic corporate tax rate (Table 5). By that same aggregate measure, however, residents of a country that is a net international borrower would benefit from an increase in their own corporate tax rate. Countries that have gradually reduced their corporate tax rates include both net international lenders and net international borrowers, so those spillovers probably do not explain the downward trends.

International spillovers that affect the subnational distributions of income might explain part of the observed trend, but even the role of those spillovers is not obvious. If, for some reason, other countries reduce their corporate tax rates first, then a country might reduce its own corporate tax rate to protect its domestic workers from the potential outflow of capital. However, if that is a country's motivation for reducing its corporate tax rate, then it is not clear why the country would wait for other countries to reduce their taxes first. Even if all countries impose a corporate income tax, any one country could improve the welfare of its domestic workers by reducing its corporate tax.

Instead of tax competition, it is possible that international capital mobility has increased over the last 25 or 30 years, and that countries have reduced their corporate tax rates in response to that common trend. Without capital mobility, the corporate income tax is more likely to be borne by the domestic owners of capital. When capital is mobile, a corporate income tax is borne more heavily by domestic labor, especially for a tax imposed by the smallest countries. Some of those smallest countries have reduced their corporate taxes by the most over the past 25 years.[37]

[37] See Congressional Budget Office (2005a).

Perhaps, out of concern for their domestic labor, countries have responded to the changing distributional consequences of corporate tax as capital mobility has increased.

Although the model does not explain the observed trends in any obvious manner, the model can be used to explore how those trends might affect the distribution of tax burdens. The potential effects can be observed based on the relation between country size and the per capita burden shares (Table 8). To simplify the analysis, rather than trying to analyze gradual changes in corporate tax rates, suppose that 90 percent of the world output is produced in countries that impose a corporate income tax, and that real tax havens produce the other 10 percent. Initially, on an average per capita basis, workers in the countries that are not tax havens bear only 12.3 percent of the corporate tax burden compared to an equilibrium in which none of those countries imposes a corporate income tax. Workers in the tax-haven countries receive an average per capita benefit equal to 89.7 percent of the per capita revenue.

Although the average labor share of the burden is small in the countries that are not tax havens, that burden can be much larger when it is measured at the margin for a country deciding whether to impose a corporate income tax. For a small country that is not a tax haven, domestic labor's benefit from eliminating its own corporate tax would equal 102 percent of its domestic revenue from the tax: the difference between the average burden of 12.3 percent within the countries that are not tax havens and the average per capita benefit of 89.7 percent within the tax-haven countries. From a distributional perspective, it makes little difference whether that small country is the only country to have a corporate income tax or is just one among many countries that tax corporate income, as long as countries can choose their tax policies independently. That is also true for larger countries. For example, in a country that is not a tax haven and that

produces 20 percent of world output, domestic labor's burden at the margin would equal 82.6 percent (12.3 percent +70.3 percent) of the domestic corporate tax revenue.

If countries move into the tax-haven group, labor's average per capita benefit falls for residents of the tax-haven countries and rises for residents of the other countries. For example, when the tax-haven group grows from 10 percent to 30 percent of world production, labor's average per capita benefit falls from 89.7 percent to 70.3 percent for residents of the tax havens. Labor's average per capita burden rises from 12.3 percent to 32.5 percent for residents of the countries that are not tax havens.

Although the model does not obviously provide a theory of tax competition that would explain the observed trends in corporate tax rates over the past 25 or 30 years, the analysis does suggest that those trends can shift the burdens of the corporate income tax in an open economy. Such shifts might help explain country motivations that underlie the observed international trends in corporate tax policies.

VIII. Conclusions

The analysis shows how the domestic owners of capital can escape most of the corporate income tax burden when capital is reallocated abroad in response to the tax. But, as in Bradford (1978), capital owners worldwide do not escape the tax. Reallocation of capital abroad drives down the personal return to investment so that capital owners worldwide bear approximately the full burden of the domestic corporate income tax. Foreign workers benefit because an increased foreign stock of capital raises their productivity and their wages. Domestic workers lose because their productivity falls and they cannot emigrate to take advantage of higher foreign wages.

Under basic assumptions of the numerical application, the outcome is also similar to the implications of the simpler model of Bradford in the sense that the full worldwide burden falls on domestic owners of productive inputs.

Burdens are measured by substituting factor shares and output shares that are reasonable for the U.S. economy. Given those values, when capital is perfectly mobile and the tax does not affect the world prices of traded goods, domestic labor bears slightly more than 70 percent of the long run burden of the corporate income tax. The domestic owners of capital bear slightly more than 30 percent of the burden. Domestic landowners receive a small benefit. At the same time, the foreign owners of capital bear slightly more than 70 percent of the burden, but their burden is exactly offset by the benefits received by foreign workers and landowners. When capital is less mobile internationally, domestic labor's burden is lower and domestic capital's burden is higher. Burdens can also be affected by the domestic country's ability to influence the world prices of some traded corporate outputs, but the signs and magnitudes of those changes depend upon the relative capital intensities of production in the corporate sectors that produce internationally tradable goods.

That distribution of burdens is quite different from the predictions of Harberger's (1962) closed-economy analysis, which implies that domestic capital owners bear the entire U.S. corporate income tax in the long run. Those closed-economy predictions still apply to the world as a whole. But in an open economy, the tax causes income to be redistributed internationally between foreign and domestic owners of capital, and intranationally between the labor and capital owners resident within each country. Foreign owners of capital bear the domestic

corporate income tax roughly in proportion to their ownership of the world capital stock. Foreign labor benefits by about that same amount.

In addition to its effects on the domestic and foreign subnational distributions of income, a corporate income tax can redistribute the aggregate national incomes between domestic and foreign residents. For example, to the extent that the taxing country is a net international lender, its corporate income tax can transfer national incomes away from domestic residents toward foreign residents. Alternatively, when the taxing country is a net international borrower, the international transfer is reversed: Part of the aggregate tax burden is exported to foreign residents. But only capital owners are affected by the aggregate international transfers that occur when the country is either a net international lender or borrower; labor's burden is unaffected.

Similarly, the corporate income tax can redistribute national incomes in a way that is like an ad valorem tariff on exports, as in Whalley (1980). However, the size and direction of that effect depend upon the relative capital intensities of production for internationally tradable corporate outputs that are imperfect substitutes for their foreign produced counterparts. When that production is more capital-intensive than production of the other tradable corporate outputs, a corporate income tax shifts national income toward domestic residents from abroad. In effect, domestic residents benefit from their own country's ability to exert some market power in international trade by imposing a corporate income tax. As shown in Melvin (1982) and Gravelle and Smetters (2006), domestic labor's share of the tax burden can be lower when the domestic country has such market power. However, if production of the imperfect substitutes is instead less capital-intensive than production of the other tradable corporate outputs, the tariff-

like effects of the corporate income tax are reversed: The tax shifts national incomes toward foreign residents and increases domestic labor's burden.

This study also examines how replacement of the corporate income tax by any of four alternative taxes would affect the distribution of tax burdens:

- Replacement by a general tax on income generated by the use of capital within all domestic sectors – a tax that does not distinguish between corporate and noncorporate investments – shifts about 13 percent of the tax burden away from domestic labor toward domestic capital owners.
- Replacement by a tax on domestic labor income shifts the entire domestic resident capital owners' burden toward domestic labor. That shift increases domestic labor's share of the burden by about 26 percent of the tax revenue.
- Replacement by a tax on the worldwide capital income of domestic residents – a tax that achieves capital export neutrality – shifts the entire amount of domestic labor's burden toward the domestic owners of capital. That shift increases the domestic resident capital owners' share of the burden by about 68 percent of the tax revenue. Worldwide, both labor and capital owners benefit slightly from an increased investment efficiency under that replacement tax, but the largest changes are in the redistribution of tax burdens toward the domestic owners of capital away from domestic labor, and away from foreign owners of capital toward foreign labor.
- Replacement by any of the last three domestic personal taxes would eliminate foreign labor's benefit and the foreign resident capital owners' burden, equal to about 70 percent of the tax revenue.

The model does not provide a theory of international tax competition, but its predictions offer insights into how the tax burdens are redistributed when more than one country imposes a corporate income tax. When more countries impose the tax, the international effects are less pronounced on average within those taxing countries and more pronounced within the other countries, the tax havens. If the tax havens account for only a small share of world production, labor's burden is also small on average for residents of the countries that are not tax havens. But labor's benefit can be large on average for residents of the tax havens. The benefit from reducing the tax can also be large at the margin for workers resident in any small country that is not a tax haven. That marginal benefit equals the difference between labor's burden from residing in a country that is not a tax haven and labor's benefit from residing in a tax haven. When countries are added to the tax-haven group, the average corporate tax burdens within the existing tax-haven countries are shifted toward workers and away from their resident capital owners. As more countries become tax havens, workers living in the countries that are not tax havens acquire an increasing average share of the burden. The average burdens are reduced for capital owners in those countries. For a country at the margin of deciding whether to impose or change the corporate income tax, however, it makes almost no difference to domestic residents whether other countries impose corporate income taxes.

Appendix: Other Studies

Harberger

The model developed in this study is based on Harberger (1995), but the results appear quite different from that study. That earlier study predicted that "labor will bear 2 to 2½ times the full burden of the U.S." corporate income tax.[38] This study predicts that domestic labor would bear about 74 percent of the corporate income tax under share assumptions appropriate for the U.S. economy. The wide gap between those predictions is explained partly by a difference in assumptions about capital intensities and output shares. But most of the difference arises because the burdens are measured differently. The Harberger (1995) conclusion is based only on changes in the sources of income, whereas this study combines the effects on both sources and uses. A recent study by Harberger (2006) concludes that domestic labor bears 96 percent of the burden. That study reaches a conclusion different from Harberger (1995) mainly because the later study combines the effects on both sources and uses in its measure of burden, but also because the later study makes slightly different assumptions about the U.S. economy.

Harberger (1995) does not fully specify the capital intensities and output share assumptions necessary to examine the effects on both sources and uses. However, the capital intensities and output shares can be specified in a way that is consistent with Harberger's (1995) assumptions: that labor employed in the first two sectors accounts for one-fourth of the domestic labor force; that capital used in the first two sectors accounts for one-half of all capital used in the corporate sectors; and that domestic capital accounts for three-eighths of the world's capital stock. Otherwise, the parameter values (Table A1) have been completed with share assumptions

[38] Harberger (1995), p. 65.

made by Gravelle and Smetters (2006), most critical of which is the assumption that labor receives about 70 percent of the value of total output. Compared to the base case in this study (Table 1), the capital intensity is assumed to be higher in the first two sectors (manufacturing). Also, in contrast to the base case, sector three (utilities) is assumed to be less capital intensive than the first two sectors.[39]

The Harberger (1995) results can be reproduced for a very small economy when the tax rate is infinitesimal (Table A2). Focusing only on the sources of income, domestic labor bears 200 percent of the burden of the corporate income tax. However, the domestic consumer's benefit equals 95.8 percent of the tax revenue, so when the sources and uses are combined, domestic labor bears only 132.9 percent of the burden – still a very large share. But the sources-side measure of burden has little meaning by itself. As discussed in an earlier section of this study, the sources-side measure is meaningful only if it is combined with the other domestic sources-side burdens as a way of measuring changes in the relative distribution of income paid to different domestic factor owners. Further, the sources-side burden cannot be compared directly to the sources-side burdens of foreign residents because domestic and foreign consumer prices change by different amounts.[40] The relative real incomes of foreign and domestic residents are therefore functions of those different changes in consumer prices.

When the effects on sources and uses are combined, predictions about burdens of the corporate income tax are not changed substantially by the assumptions in Table A1 (compared

[39] Alternatively, the first three sectors can be assumed to have the same relative capital intensities as in Table 1, but the capital intensity of sector five must be much lower for the Harberger (1995) assumptions to be satisfied. Either way, those assumptions do not appear to be reasonable for the U.S. economy. Sector three includes utilities and transportation, both of which are more capital-intensive than the manufacturing in sectors one and two. Sector five includes housing and retail services, for which production is much more capital intensive than manufacturing.
[40] Under the assumptions in Table A1, the domestic consumer's burden is -95.8 percent of the revenue, while the foreign consumer's burden is -0.04 percent of the revenue.

with Table 1). When the domestic economy equals 37.5 percent of the world economy and the tax rate equals 6.25 percent, the combined measures of burden (Table A2) under the assumptions in Table A1 are much closer to the burdens predicted under the assumptions of the base case in this study (Table 1). Under the assumptions consistent with Harberger's (1995) application, domestic labor bears 87.1 percent of the burden. Domestic capital owners bear 21.3 percent of the tax. Although 87.1 percent and 73.7 percent are different, both numbers imply that domestic labor bears most, but not more than 100 percent, of the corporate income tax.

Harberger (1995, 2006) assumes that worldwide capital income is reduced by exactly 100 percent of the revenue from the corporate income tax. However, although capital owners worldwide bear slightly more than 100 percent of the corporate tax burden when effects on both the sources and uses of income are combined, that outcome does not occur when the measure of burden is based only on the sources. According to Equation (4), the reduction in worldwide capital income would not generally equal 100 percent of the revenue when the corporate income tax is imposed only on some domestic sectors. Under the assumptions (Table A1) consistent with Harberger (1995), worldwide capital income is reduced by 133.4 percent (50 percent + 83.4 percent) of the revenue when the 6.25 percent corporate income tax is imposed in the large economy (Table A2). Remarkably, when effects on the sources and uses of income are combined, capital owners worldwide bear 104.6 percent of the burden (21.3 percent + 83.3 percent).

According to Equation (14), the 100 percent share assumption made by Harberger (1995, 2006) would be true for a small general tax on capital imposed on all domestic sectors. Under the general replacement tax (not shown in Table A2) imposed in the large economy, worldwide

capital income falls by 101.6 percent of the revenue regardless of whether the sources and uses are combined in the measure of tax burden. The worldwide excess burden from that tax is 1.6 percent of the revenue.

For comparison, under the share assumptions from Table 1, worldwide capital income falls by 119.3 percent (35.8 percent + 83.5 percent) of the revenue when the 6.25 percent corporate income tax is imposed in the large economy (Table A2). Capital owners worldwide bear 104.7 percent (32.5 percent + 72.2 percent) of the burden when sources and uses are combined. Under the general replacement tax imposed in the large economy (not shown in Table A2), worldwide capital income falls by 102.5 percent of the revenue regardless of whether sources and uses are combined.

Gravelle and Smetters

Under the basic assumptions, the numerical results of this study are very close to the results in Gravelle and Smetters (2006) when those authors assume that international capital mobility is perfect, and that there is a nearly perfect demand substitution between the domestic and foreign internationally tradeable goods produced in the corporate sector. In that case, their simulations predict that domestic labor bears 73 percent of the burden, domestic capital owners bear 35 percent, foreign capital owners bears 67 percent, foreign labor bears -69 percent, and the worldwide excess burden equals about 5 percent of the revenue.[41] In the base case (Table 3), the model used in this study predicts that domestic labor bears 74 percent, domestic capital owners

[41] Gravelle and Smetters, Table 2.

bear 33 percent, foreign capital owners bear 72 percent, foreign labor bears -71 percent, and the excess burden equals about 4 percent of the revenue.

It is not surprising that the results of the two studies are so close. Even though the model applied in this study has an additional sector (sector one), the predictions should approximate the Gravelle and Smetters model when the tax rate is small and the authors assume that capital mobility is perfect and the internationally traded corporate goods are perfect substitutes. Further, both studies make the same assumptions about the sizes of sectors and the intensities of factor inputs.[42]

The two studies produce very different results when there is a low degree of demand substitution between the foreign and domestic corporate tradeable goods. In that case, the predictions of the five-sector model used in this study do not depend directly on that degree of demand substitutability.[43] In contrast, the four sector model used by Gravelle and Smetters predicts that labor bears only 21 percent of the burden if capital is perfectly mobile and the international output demand substitution elasticity equals 1.

How the output demand substitution elasticity affects the predictions of the four sector model of Gravelle and Smetters can be readily understood in terms of the five-sector model used in this study. First, suppose that sector one of the five-sector model produces no output, and that sector four (agriculture) produces the numeraire. Now, the wage rate is determined in sector two. Unlike the base case in this study, both the domestic sector two output price and the domestic

[42] Other assumptions might differ slightly between the studies, but the effects of those assumptions appear to be small. For example, when the partial substitution elasticity between capital and labor is increased to equal 1, the model used in this study predicts that the excess burden will equal about 6 percent; the burden shares are virtually unaffected.

[43] The only exception occurs if the demand substitution is (nearly) perfect and the capital intensities differ in the first two sectors. In that event, the more capital-intensive domestic sector will stop producing in response to the corporate tax; the foreign country will produce all of that good. The domestic wage rate will be determined in the remaining domestic corporate tradable sector.

wage rate can change when the corporate cost of capital is increased by the tax. If the demand substitution elasticity between the foreign and domestic corporate tradable goods is very high, the domestic wage rate must fall sufficiently to fully offset an increase in the corporate cost of capital, as in the five-sector economy. However, if the demand substitution elasticity is small, the domestic output price can increase in sector two. In that case, the domestic wage rate does not have to fall as much in order to offset the increased corporate cost of capital. Domestic consumer prices will increase compared to equilibria when the demand substitution elasticity is high, offset somewhat by improved international terms of trade for the domestic economy. However, the real burden for domestic labor will be smaller than when the output demand substitution elasticity is higher. Further, because that demand substitution elasticity does not affect the international allocation of capital, domestic capital owners will bear a slightly larger burden because they will have to pay higher consumer prices than when the demand substitution elasticity is higher.

When the demand substitution elasticity is low for outputs of the corporate tradable sector, each country has some potential market power in international trade, even though competition is perfect at the level of the individual firm. In part, the domestic corporate tax can act like a domestic tariff on exports from the corporate sector. Under either the corporate tax or such a tariff, the domestic national income is increased at the expense of a decrease in the foreign national income. Domestic capital owners still earn roughly the same nominal return under the corporate tax as when the demand substitution elasticity is higher, but they must pay higher consumer prices, so the domestic capital owners' burden is higher when the substitution elasticity is lower. Domestic labor's burden is decreased by the rise in domestic national income when the

substitution elasticity is low. When the output demand substitution and capital mobility are perfect, foreign residents overall do not bear any burden of the tax. However, when the output demand substitution elasticity is only 1, the Gravelle and Smetters model predicts that the tariff-like effect allows the domestic economy to export about half of the total burden of its corporate income tax to foreigners.

The Gravelle and Smetters model, in effect, allows the authors to measure how the corporate tax might affect the distribution of burdens through its effects on international trade when the domestic country has some world monopoly power. The analysis in this study indicates that the trade effects and burdens will be different when there are additional corporate sectors that produce goods with higher rates of output demand substitutability between the domestic and foreign varieties. A recent study by Erkel-Rousse and Mirza (2002) estimated import price elasticities based on bilateral trade equations. They estimate larger elasticities for certain products such as rubber (-6.5) and non-metallic products (-6.6) than for other products such as beverages (-1.7) and food products (-1.0). Further, even their average elasticity estimate is fairly large: They estimate an average elasticity of -3.8 for all industries. Reasonable long-run elasticities are likely to be even larger.[44]

[44] See also McDaniel and Balistreri (2003) for a survey of trade elasticities.

Table 1: Initial Assumptions

	Share of Value Added in Sector			Share of
	Labor	Capital	Land	Output
Corporate Sectors				
Sectors 1 and 2: Tradeable	82%	18%	...	28%
Sector 3: Nontradeable	76%	24%	...	45%
Non-Corporate Sectors				
Sector 4: Tradeable, agriculture	49%	17%	34%	3%
Sector 5: Nontradeable	47%	53%	...	24%
Total	70%	29%	1%	100%
Domestic economy's share of world output		30%		
Domestic ownership share of world capital		30%		
Partial elasticity of substitution, capital and labor		0.6		

Source: Based on Gravelle and Smetters (2006).

Table 2: Economic Changes under Corporate and General Taxes

	Corporate Tax		General Tax	
	Domestic	Foreign	Domestic	Foreign
Tax rate (tax-exclusive)				
Corporate sectors	6.25%	0.0%	3.35%	0.0%
Noncorporate sectors	0.0%	0.0%	3.35%	0.0%
Capital stock changes				
Corporate sectors	-3.7%	0.85%	-1.7%	0.73%
Noncorporate sectors	0.036%	0.85%	-1.7%	0.73%
Total (weighted by capital shares)	-2.0%	0.85%	-1.7%	0.73%
Input price changes				
Cost of capital				
Corporate sectors	5.0%	-1.2%	2.3%	-0.99%
Noncorporate sectors	-1.2%	-1.2%	2.3%	-0.99%
Wage rate	-1.1%	0.25%	-0.51%	0.22%
Land rent	2.2%	0.21%	-0.43%	0.18%
Consumer price changes				
Corporate sectors				
Sector 1: Tradeable, numeraire	0.0%	0.0%	0.0%	0.0%
Sector 2: Tradeable, unique	0.0%	0.0%	0.0%	0.0%
Sector 3: Nontradeable	0.37%	-0.085%	0.17%	-0.07%
Non-corporate sectors				
Sector 4: Tradeable, agriculture	0.0%	0.0%	0.0%	0.0%
Sector 5: Nontradeable	-1.1%	-0.5%	0.99%	-0.42%
Total (Laspeyres)	-0.11%	-0.16%	0.31%	-0.13%
Private income changes (real)				
Labor	-0.99%	0.41%	-0.82%	0.35%
Capital	-1.1%	-1.0%	-1.3%	-0.86%
Land	2.3%	0.37%	-0.74%	0.32%
Total (weighted by income shares)	-0.978%	0.00%	-0.963%	0.00%
Tax revenue (percentage of output)	0.944%	0.00%	0.944%	0.00%
National income (percentage of revenue)	-3.70%	0.00%	-2.05%	0.00%
Worldwide income (percentage of revenue)	-3.70%		-2.05%	

Table 3: Burdens of the Corporate Income Tax

	Labor	Capital	Land	Total
Domestic Taxes on Capital Income at Producer Level; Burdens as Shares of Revenue				
Corporate Tax				
Domestic	73.7%	32.5%	-2.5%	103.7%
Foreign	-71.3%	72.2%	-0.9%	0.0%
Worldwide	2.4%	104.7%	-3.4%	103.7%
General Tax				
Domestic	61.0%	40.3%	0.8%	102.0%
Foreign	-61.0%	61.8%	-0.8%	0.0%
Worldwide	0.0%	102.0%	0.0%	102.0%
Replacement Taxes; Differential Burdens as Shares of Revenue				
General Tax				
Domestic	-12.7%	7.8%	3.3%	-1.7%
Foreign	10.3%	-10.4%	0.1%	0.0%
Worldwide	-2.4%	-2.7%	3.4%	-1.7%
Domestic Labor Income				
Domestic	26.3%	-32.5%	2.5%	-3.7%
Foreign	71.3%	-72.2%	0.9%	0.0%
Worldwide	97.6%	-104.7%	3.4%	-3.7%
Wordwide Capital Income of Domestic Residents				
Domestic	-73.7%	67.5%	2.5%	-3.7%
Foreign	71.3%	-72.2%	0.9%	0.0%
Worldwide	-2.4%	-4.7%	3.4%	-3.7%
Domestic Personal Income or Consumption				
Domestic	-3.8%	-3.4%	3.5%	-3.7%
Foreign	71.3%	-72.2%	0.9%	0.0%
Worldwide	67.5%	-75.6%	4.4%	-3.7%

Table 4: Burdens of the Corporate Income Tax at an Infinitesimal Tax Rate

	Labor	Capital	Land	Total
Domestic Taxes on Capital Income at Producer Level; Burdens as Shares of Revenue				
Corporate Tax				
Domestic	71.0%	31.3%	-2.4%	100.0%
Foreign	-68.7%	69.6%	-0.9%	0.0%
Worldwide	2.3%	101.0%	-3.3%	100.0%
General Tax				
Domestic	59.7%	39.5%	0.8%	100.0%
Foreign	-59.7%	60.5%	-0.8%	0.0%
Worldwide	0.0%	100.0%	0.0%	100.0%
Replacement Taxes; Differential Burdens as Shares of Revenue				
General Tax				
Domestic	-11.3%	8.1%	3.2%	0.0%
Foreign	9.0%	-9.1%	0.1%	0.0%
Worldwide	-2.3%	-1.0%	3.3%	0.0%
Domestic Labor Income				
Domestic	29.0%	-31.3%	2.4%	0.0%
Foreign	68.7%	-69.6%	0.9%	0.0%
Worldwide	97.7%	-101.0%	3.3%	0.0%
Worldwide Capital Income of Domestic Residents				
Domestic	-71.0%	68.7%	2.4%	0.0%
Foreign	68.7%	-69.6%	0.9%	0.0%
Worldwide	-2.3%	-1.0%	3.3%	0.0%
Domestic Personal Income or Consumption				
Domestic	-1.1%	-2.3%	3.4%	0.0%
Foreign	68.7%	-69.6%	0.9%	0.0%
Worldwide	67.6%	-71.9%	4.3%	0.0%

Table 5: International Spillover Effects of a Domestic Corporate Income Tax

	Burden as a Share of Revenue			
	Labor	Capital	Land	Total
Base Case (from Table 3)				
Domestic	73.7%	32.5%	-2.5%	103.7%
Foreign	-71.3%	72.2%	-0.9%	0.0%
Worldwide	2.4%	104.7%	-3.4%	103.7%
Domestic Country is a Net International Lender				
Domestic	73.7%	37.9%	-2.5%	109.1%
Foreign	-71.3%	67.0%	-0.9%	-5.2%
Worldwide	2.4%	105.0%	-3.4%	104.0%
Domestic Country is a Net International Borrower				
Domestic	73.7%	27.1%	-2.5%	98.3%
Foreign	-71.3%	77.4%	-0.9%	5.2%
Worldwide	2.4%	104.4%	-3.4%	103.4%
Sector 2 is More Capital-Intensive than Sector 1				
Domestic	59.0%	37.5%	-1.6%	94.9%
Foreign	-57.0%	67.0%	-1.3%	8.7%
Worldwide	2.0%	104.5%	-2.9%	103.7%
Sector 2 is Less Capital-Intensive than Sector 1				
Domestic	90.6%	26.7%	-3.5%	113.9%
Foreign	-87.8%	78.2%	-0.5%	-10.1%
Worldwide	2.8%	104.9%	-4.0%	103.7%

Table 6: Economic Changes under a Corporate Income Tax When Capital Intensities Differ

	Capital Intensity in Sector Two Compared with Sector One					
	Same Intensity		Higher Intensity		Lower Intensity	
	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign
Tax rate (tax-exclusive)						
Corporate sectors	6.25%	0.00%	6.25%	0.00%	6.25%	0.00%
Non-corporate sectors	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Capital stock changes						
Corporate sectors	-3.67%	0.85%	-3.46%	0.76%	-3.92%	0.96%
Noncorporate sectors	0.04%	0.85%	0.25%	0.76%	-0.21%	0.96%
Total (weighted by capital shares)	-1.98%	0.85%	-1.77%	0.76%	-2.23%	0.96%
Input price changes						
Cost of capital						
Corporate sectors	5.02%	-1.16%	5.07%	-1.11%	4.96%	-1.21%
Noncorporate sectors	-1.16%	-1.16%	-1.11%	-1.11%	-1.21%	-1.21%
Wage rate	-1.10%	0.25%	-0.69%	0.15%	-1.57%	0.38%
Land rent	2.17%	0.21%	1.55%	0.34%	2.86%	0.05%
Consumer price changes						
Corporate sectors						
Sector 1: Tradeable, numeraire	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Sector 2: Tradeable, unique	0.00%	0.00%	0.46%	-0.10%	-0.52%	0.13%
Sector 3: Nontradeable	0.37%	-0.08%	0.69%	-0.15%	0.00%	0.00%
Non-corporate sectors						
Sector 4: Tradeable, agriculture	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Sector 5: Nontradeable	-1.13%	-0.50%	-0.91%	-0.52%	-1.38%	-0.46%
Total (Laspeyres)	-0.11%	-0.16%	0.11%	-0.18%	-0.35%	-0.13%
Private income changes (real)						
Labor	-0.99%	0.41%	-0.80%	0.33%	-1.22%	0.51%
Capital	-1.05%	-1.00%	-1.22%	-0.93%	-0.87%	-1.09%
Land	2.27%	0.37%	1.45%	0.52%	3.21%	0.18%
Total (weighted by income shares)	-0.98%	0.00%	-0.90%	-0.04%	-1.07%	0.04%
Tax revenue (percentage of output)	0.94%	0.00%	0.94%	0.00%	0.94%	0.00%
National income (percentage of revenue)	-3.70%	0.00%	5.06%	-8.75%	-13.85%	10.13%
Worldwide income (percentage of revenue)	-3.70%		-3.69%		-3.72%	

Table 7: Corporate Tax Burden Shares and Relative Economy Size, Burdens Measured on an Aggregate Basis[a]

	Share of World Output	Burden as a Share of Revenue			
		Labor	Capital	Land	Total
Domestic	1%	104.3%	2.6%	-2.1%	104.8%
Foreign	99%	-101.9%	103.2%	-1.3%	0.0%
Domestic	5%	100.0%	6.8%	-2.1%	104.7%
Foreign	95%	-97.6%	98.9%	-1.3%	0.0%
Domestic	10%	94.7%	12.0%	-2.2%	104.5%
Foreign	90%	-92.3%	93.5%	-1.2%	0.0%
Domestic	20%	84.1%	22.3%	-2.3%	104.1%
Foreign	80%	-81.7%	82.8%	-1.1%	0.0%
Domestic	30%	73.7%	32.5%	-2.5%	103.7%
Foreign	70%	-71.3%	72.2%	-0.9%	0.0%
Domestic	50%	52.9%	52.7%	-2.7%	103.0%
Foreign	50%	-50.5%	51.2%	-0.7%	0.0%
Domestic	70%	32.5%	72.7%	-3.0%	102.2%
Foreign	30%	-30.1%	30.5%	-0.4%	0.0%
Domestic	90%	12.3%	92.4%	-3.2%	101.5%
Foreign	10%	-10.0%	10.1%	-0.1%	0.0%
Domestic	~100%	2.3%	102.2%	-3.3%	101.2%
Foreign	~0%	0.0%	0.0%	0.0%	0.0%

[a] Total burdens divided by total domestic revenue

Table 8: Corporate Tax Burden Shares and Relative Economy Size, Burdens Measured on a Per Capita Basis[a]

	Share of	Per Capita Burden Shares			
	World Output	Labor	Capital	Land	Total
Domestic	1%	104.3%	2.6%	-2.1%	104.8%
Foreign	99%	-1.0%	1.0%	0.0%	0.0%
Domestic	5%	100.0%	6.8%	-2.1%	104.7%
Foreign	95%	-5.1%	5.2%	-0.1%	0.0%
Domestic	10%	94.7%	12.0%	-2.2%	104.5%
Foreign	90%	-10.3%	10.4%	-0.1%	0.0%
Domestic	20%	84.1%	22.3%	-2.3%	104.1%
Foreign	80%	-20.4%	20.7%	-0.3%	0.0%
Domestic	30%	73.7%	32.5%	-2.5%	103.7%
Foreign	70%	-30.5%	30.9%	-0.4%	0.0%
Domestic	50%	52.9%	52.7%	-2.7%	103.0%
Foreign	50%	-50.5%	51.2%	-0.7%	0.0%
Domestic	70%	32.5%	72.7%	-3.0%	102.2%
Foreign	30%	-70.3%	71.2%	-0.9%	0.0%
Domestic	90%	12.3%	92.4%	-3.2%	101.5%
Foreign	10%	-89.7%	90.9%	-1.2%	0.0%
Domestic	~100%	2.3%	102.2%	-3.3%	101.2%
Foreign	~0%	0.0%	0.0%	0.0%	0.0%

[a] Local per capita burdens divided by domestic per capita revenue.

Table A1: Shares Consistent with Harberger (1995)

	Share of Value Added in Sector			Share of
	Labor	Capital	Land	Output
Corporate sectors				
Sectors 1 and 2: Tradeable	71%	29%	...	25%
Sector 3: Nontradeable	82%	18%	...	40%
Non-corporate sectors				
Sector 4: Tradeable, agriculture	49%	17%	34%	3%
Sector 5: Nontradeable	57%	43%	...	32%
Total	70%	29%	1%	100%
Domestic economy's share of world output		37.5%		
Domestic ownership share of world capital		37.5%		
Partial elasticity of substitution, capital and labor		0.6		

Sources: Based on Harberger (1995) and Gravelle and Smetters (2006).

Table A2: Reconciliation with Harberger (1995)

	Sources and Uses	Burden as a Share of Revenue Labor	Capital	Land	Consumers	Total
Small Economy, Infinitesimal Tax Rate, Shares from Table A1						
Domestic	separate	200.0%	0.0%	-4.2%	-95.8%	100.0%
Foreign	separate	-129.3%	129.3%	0.4%	-0.4%	0.0%
Domestic	combined	132.9%	-27.8%	-5.1%	...	100.0%
Foreign	combined	-129.6%	129.2%	0.4%	...	0.0%
Large Economy, 6.25 Percent Tax Rate, Shares from Table A1						
Domestic	separate	156.4%	50.0%	-4.1%	-99.1%	103.3%
Foreign	separate	-83.4%	83.4%	0.3%	-0.3%	0.0%
Domestic	combined	87.1%	21.3%	-5.1%	...	103.3%
Foreign	combined	-83.6%	83.3%	0.3%	...	0.0%
Large Economy, 6.25 Percent Tax Rate, Shares from Table 1						
Domestic	separate	81.6%	35.8%	-2.3%	-11.3%	103.7%
Foreign	separate	-44.1%	83.5%	-0.5%	-38.9%	0.0%
Domestic	combined	73.7%	32.5%	-2.5%	...	103.7%
Foreign	combined	-71.3%	72.2%	-0.9%	...	0.0%

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Chairman SMITH. Mr. LaHood.

Mr. LAHOOD. Thank you, Mr. Chairman.

I want to thank our witnesses for your valuable testimony today. I also want to thank our friends from Iowa for issuing us a visa to come to your state and be here and participate in the Iowa State Fair. What a great opportunity to be here. I actually went to college in Iowa for 4 years, and it is great to be back. First time at the Iowa State Fair, and so really, really grateful for the opportunity to be here with everybody.

And my district is contiguous to Iowa. I share a border with Congresswoman Miller-Meeks and also with Ashley Hinson. My district is very similar to the districts here in Iowa, heavy ag district. It is the tenth largest ag district in the country in terms of corn and soybean production. I have eight ethanol plants that touch my district. We produce a lot of cattle and hogs in our district, and are very involved in the biofuels conversation too. And so it is great to be here.

And I would just—as I listen to the witnesses here today and hear you articulate the benefits from TCJA, nobody can do it I think better than how you guys have done it, whether it is a large corporation, whether it is a working family, whether it is a small farming operation, a small business, medium-size business, and an entrepreneur.

As you have articulated what TCJA has done for you, I think it is remarkable, and that is why we are doing these field hearings all across the country, to hear from regular people on what TCJA has done. And as you articulated those things, I thought about everything that we have done with TCJA: reduced taxes, put more money in the pockets of middle-class and lower-class citizens, created millions of new jobs, hired more people, moved 6 million people out of poverty when we passed TCJA. We repatriated almost $3 trillion back to the United States with TCJA. And the investment that we have seen in small and medium and large businesses has been immense across the country.

And so as I think about TCJA, it may be, in my 8 years in Congress, the vote that we took on TCJA may be the most impactful vote that I have taken. And I am so grateful to hear you today articulate all of those things on why we need to be focused on this next year for the economy and for our citizenry.

And I also think about the Biden-Harris administration. They chose to remain in D.C. and have proposed $7 trillion in tax hikes, where the Ways and Means Committee has been traveling across the country to hear firsthand about the challenges of working Americans who are currently facing to develop a roadmap to get our economy back to where it was immediately following TCJA in 2017.

For example, we have set up tax teams, through Chairman Smith, 10 different tax teams that are meeting and getting feedback from across the country. I happen to chair the American Workforce Tax Team, which is considering ways to better utilize the Tax Code by hiring and retainment of more workers, and all of us are a part of those tax teams.

I have a number of questions, but I will start with you, Mr. Sukup. You mentioned in your testimony that following TCJA you

were able to significantly expand your business operation and hire more workers. Can you provide more details on how provisions from TCJA allowed you to hire and retain more workers?

Mr. SUKUP. Well, the accelerated depreciation on research and development was just critical on that, that we could take that return on investment. We invested in wages and staff and engineering, provided better products. And our customers liked our products, and we added 200 manufacturing jobs. And with accelerated depreciation, we add capital equipment, we need skilled folks to run that, and so we added 200 individuals over this time period.

Mr. LAHOOD. Excellent.

I mentioned that I have a heavy ag district. And the potential economic growth around the biofuels industry is something, again, I have been very engaged in and spent a lot of time talking about. As we look to future tax policy proposals, can you comment on the specific pro-growth initiatives that can better support our farmers and biofuel producers?

Mr. SUKUP. Well, it is one that, you know, I think Congressman Feenstra said about practically one out of every two rows of corn is going to biofuels. It provides us with energy self-sufficiency here in the U.S., which I think is just absolutely critical. And it can provide, going into like the 45Z, to give us more incentives to be—take less carbon out of our air.

Mr. LAHOOD. Thank you.

I yield back.

Chairman SMITH. Mr. Estes.

Mr. ESTES. Well, thank you, Mr. Chairman.

And thank you for our witnesses for being here. It is so heartening to hear your stories, just because it tells about the success that has happened since TCJA was passed. And whether you are talking about research and development or depreciation or being able to go through estate planning or planning your lives or, you know, how you can actually help wages increase, as we have talked so much during this panel of all the benefits that came out of TCJA, it is so great to be here. We are out of the D.C. bubble, being able to talk to people. I call it the real world out here, away from the D.C. Beltway.

You know, being here at the Iowa State Fair, it is, I know, a lot like the Kansas State Fair where people come for the rides and the food and entertainment. But I know also that people come because they want to learn more about what is going on in the agriculture arena, what kind of innovation and ideas that are out there.

Of course, not to be competitive, but the Iowa State Fair did start 20 years before the Kansas State Fair did, and also I think maybe have better marketing folks. But the one excuse I will use is that the Iowa State Fair was started before Kansas was a state, so we couldn't really call ours a state fair at that point in time.

And, you know, while we are here, as we talk about all these innovations that Americans are known for and we learn more about what is going on in terms of how American agriculture feeds and fuels and provides clothing for people around the world, I know it is tough in the rural agriculture communities. I grew up on a family farm. In fact, my mom still lives on the farm that we have back in Kansas. And farmers have benefited for more than a century

with technological advances trying to help provide that food and the benefits for the world.

Tax Cuts and Jobs Act recognizes how valuable that innovation was, and I know Americans have invented everything from air-conditioners to zippers, so innovation is strong and part of our way of life here. And we want to make sure we continue to encourage that.

I am chairing the Innovation Tax Team as we go in and look at preparations for next year, and we want to make sure that we continue to have a tax code that actually provides and encourages our ability to create an event and come up with new ideas that actually make the world a better place.

Mrs. Dewalt, there is no question that countries like China, which actually provides 10 times the tax credit of research and development now than the United States does, and they are starting to gain—actually, they have closed the gap on the United States in terms of the amount of research and development done there. Can you share your thoughts on what the United States needs to do to be a global leader in innovation?

Mrs. DEWALT. Well, I think TCJA went a long way with the provisions that you mentioned, the expensing, R&D focused, bonus depreciation, lower tax rate, competitive—globally competitive tax rate. In The Home Depot's view, it certainly has been the most impactful to us to encourage—to allow us to invest; not only to encourage but to allow us to invest further in the U.S. We are primarily U.S. We have 2,000 locations here in the U.S. that, you know, serve all communities, large and small. And so the ability to have a competitive rate in the United States, encouraging companies like ours to continue and to increase investments as we have, and to encourage companies, you know, other companies to invest and innovate in the U.S.

So I would say that there are some incredibly powerful provisions in TCJA that encourage investment of all kinds in the U.S., innovation and otherwise.

Mr. ESTES. Thank you for that.

And as you noted, you know, the 21 percent is only a portion of the taxes you pay. That is the federal portion. And that, as you said in your remarks, that you pay 24 to 25 percent, which actually puts us slightly above the developed world in terms of the tax rate still, but it makes us competitive in terms of being able to do that.

So we want to make sure that we continue to have the value out of that tax code that encourages businesses to be successful here.

Even with the lower tax code—the tax rate at the federal level, we have seen corporate tax rates increase and tax revenue increase. We have seen the royalty tax increase by over $200 billion over the last 7 years, because more research and development, more intellectual property was based in the United States and that we were able to actually benefit from that as far as federal tax receipts as well.

So I know I am out of time here, but I just want to thank all of you for being here, being able to talk about the positive aspects of the Tax Cuts and Jobs Act on each of you.

Thank you, Mr. Chairman. I yield back.

Chairman SMITH. Thank you.

Ms. Tenney is recognized.

Ms. TENNEY. Well, thank you, Mr. Chairman.

And thank you to all the witnesses and everyone for being here. This is quite an incredible experience to be at the Iowa State Fair.

And I am from Upstate New York, and we have—my district, the newly conceived 24th District, is actually the largest agricultural district in the Northeast, including the largest dairy district. So it is very different than New York City where my colleague, Nicole Malliotakis, lives.

But Zach Nunn said, so you are basically the Iowa of New York. So, yeah, in a way we are. We have an incredible output with ag, and it is really important in our district. But I am also a small business owner, so I know what it is like to struggle to make payroll, to deal with taxes and all those things.

And I also want to just—I mean, I think it is just incredible that you are all here with such a different perspective. Every one of you has a small business perspective, a large business perspective, the child care perspective. But you are all talking about the one thing that changed upstate New York in that we come from the highest taxed state is the Tax Cuts and Jobs Act. It was incredible. I voted for it. And it was always this stunning, oh, my gosh, I can't believe you are voting for that from New York.

Most of the businesses, as Ms. Pol said, in our communities are driven by small business owners, including our farmers. And so we are just grateful to all of you for putting it in your words exactly what the catastrophic results could be if we don't continue with these issues.

But I wanted to just first start with Ms. Pol. And you are an NFIB member, as we are. My business is over 40 years as NFIB. They put out great data and great statistics and advocate well for our small business community because we don't have some of the larger issues. But you talked about 199A, if it should expire.

Could you tell me just briefly what the operational changes you would have to make in the business if that were to happen?

Ms. POL. Well, currently I think what we would do is stop investing. You know, we wouldn't be able to expense out the equipment. You know, we wouldn't have the extra money to reinvest into our employees and anything else that we wanted to pursue.

Ms. TENNEY. Well, when you stop investing, you are coasting, and that means you are going downhill. That means you are not preparing for the future.

Thank you.

And I just want to move a little bit to something a couple of you touched on, especially, Mr. Sukup, you talked about this, as well as Mrs. Dewalt. I raised my son as a single parent, but I also took care of my parents who were across the street with serious health conditions, and so I am part of that sandwich generation. And it was always a struggle to find daycare and for parents—both men and women. It depends on who stays home, but now it is a mixed opportunity.

You know, we talked about like the—some of the things that we worked on. I worked on a bill called the PACE Act, and that is Promoting Affordable Childcare for Everyone, and giving employers the opportunity to invest.

And if you could just touch briefly on if it would help you to get an additional tax credit or benefit to help with child care facilities right on your properties. And maybe you could touch on that as well, Mrs. Dewalt.

Mr. SUKUP. Well, right now we are in the process, we are hoping to open October 1, to put a 112-space child care facility right across the street from our company. Right now it looks like about 40 of our employees will take advantage of that. And it is just critical to working families. You know, some of the families both are working, whether for us or down the road at Mason City or another community business. And, you know, if there are families that have two of them in child care, it is just, you know, astronomical.

And then, again, that sort of ties into the estate tax. I don't see that I would have really said, yes, let's go do it. But the third generation, daughter Emily, comes to Sheffield every day, and she goes, this is important to families. Let's do it.

Ms. TENNEY. Yeah, I would have loved to have that child care option at my office. I had to take that risk of leaving my son somewhere and not knowing what he was going to be—he always survived somehow when I got back. But I know the fear of families. They want to stick together, especially these days.

But I know, Mrs. Dewalt, you mentioned something on this same as the child care, but would an increase in a little bit more of a benefit for child care deductibility and also maybe dependent care deductibility for people like me and others who have a dependent child or family member, maybe a parent that they have to take care of, is that something that if we increase that benefit, would that be beneficial to your employees?

Mrs. DEWALT. Thank you for the question.

And certainly it most likely would benefit our associates. You know, benefits that support working families are very important to us. I mentioned, you know, the 400,000 associates we have. Most of those are front line in our stores, in our distribution centers. So certainly policies that support working families would benefit our associate population.

Ms. TENNEY. Thank you.

Well, I appreciate that. It is really incredible that you are all talk—these are really important issues. I just want to say one shout-out to one of the counties. I just went to the Wyoming County Fair in upstate New York. The county legislature—or the county supervisors do a wonderful thing. They actually hold a meeting, their August meeting at their county fair. And it is filled with all kinds of people out there to see their government in action. So shout-out to Becky Ryan, the supervisor.

And thank you, Chairman Smith, for doing this out in Iowa. We appreciate it.

Thanks. I yield back.

Chairman SMITH. Thank you.

Ms. Malliotakis, the other lady from New York.

Ms. MALLIOTAKIS. Thank you, Mr. Chairman.

We have traveled to many parts of the country hearing from people like you, and, you know, whether you are in Iowa, whether you are in my home State of New York, I mean, the reality is that the high inflation, the high interest rates, the anti-energy policies of

the Biden-Harris administration are crushing American families and American businesses.

Sixty-six percent of Americans say they are living paycheck to paycheck. And if they think it is hard now, that is nothing compared to what it will be like if Democrats have their way and allow the provisions that we are discussing today from the Tax Cuts and Jobs Act enacted by President Trump, if they allow that to expire in 2025.

Under TCJA, on average, Americans with less than 100k in income got an average of 16 percent in a tax cut. We saw the creation of millions of jobs, record low employment for African Americans, for Hispanics, for women, for veterans. We saw the middle-class wages across this country lifted, and we saw the doubling of the standard deduction, which was a major credit for working families, and also the doubling of the Child Tax Credit for working families, lifting six million Americans out of poverty. And important to New Yorkers, it got rid of the alternative minimum tax for millions of middle-class families.

Last June, I introduced legislation to increase the standard deduction by an additional $2,000 for single filers and $4,000 for married couples. If it were law today, families would benefit with a $33,200 tax deduction in 2024.

And while I want to increase it, sadly, Kamala Harris, the Democrats, they have said that they want to get rid of—they actually want to cut our deduction in half. They want to go back to what it was before we had this critical tax relief.

So I will start with Sarah. As a family, what would the standard deduction being increased even further mean for a family like yours?

Mrs. CURRY. Well, I think first and foremost—thank you for the question—reducing the standard deduction would negatively impact my family because it would raise my taxable income both at the federal and the state level. We experienced benefits from tax simplicity. I didn't have to have receipts, you know, all over the floor trying to itemize all this stuff trying to save a buck. We were able to take the standard.

But, again, Iowa and many states use the federal taxable income as the starting point for state taxes owed. And so with a reduction in the federal standard deduction, my state taxes will also go up. So I am not going to get hit once with this tax increase, I am going to get hit multiple times over.

Ms. MALLIOTAKIS. That is right. And that is exactly why I wanted to see the standard deduction not only kept but enhanced to protect more middle-class families, because that is who really benefits from it.

And with that said, the alternative minimum tax, do you have an opinion if that were to be added back?

Mrs. CURRY. Again, you know, any tax that is brought back that is hurting American families and taking more of our earned money away from us so that we can't spend it on our families and invest in our homes and our children is a bad thing.

Ms. MALLIOTAKIS. Well, that is exactly what, sadly, Kamala Harris and the Democrats have said they intend to do. $7 trillion

is what my colleague said in tax increases is what they are proposing.

But I also—you know, I don't have a farm in my district, but my constituents do eat, and they use energy. And so the Biden-Harris tax and energy policies have been crushing domestic energy production. It is driving up the cost of everything, I believe, right.

So can you talk as farmers about how energy drives up the cost of food for the people I represent in New York and also maybe want to touch on some of the renewable energy sources that we can derive from both corn—and I did visit a facility where there was renewable natural gas from food waste, from cow manure, and I thought that was really interesting. It is cleaner. It is more efficient. It is more affordable than these, you know, EVs that they are trying to push us on through all these incentives that go to Communist China.

Would you like to comment on that?

Ms. RIESSEN. Absolutely. So just to—let's talk about EVs for a moment. I know they are trying to do that to tractors. And let me tell you, that is definitely not going to work. It is going to increase the weight of that tractor by three to four times. It is going to increase the price of that tractor by that exact same amount. And then, oh, by the way, in the wintertime, 60 below, they don't start.

And getting back to your being able to use other—besides the biofuels, to use the methane, and just so you know, there is more landfill methane given off than any other source in the United States, so there is a place to tap.

But when it comes to using the other fuels, first of all, right now the ethanol is available, and we can put it right into the gas tank. We are pushing for the Next Gen Fuels Act to be passed to increase those amounts of ethanol to be put in fuel tanks. So—and for every percent of—this is from the American Lung Association. So for every percent of ethanol that we are able to put into that fuel tank, we are also reducing our healthcare costs because we are taking particulates out of the air.

So especially as I—and I have been to New York, and it is amazing, but it is not Iowa. But, anyway, just the total amount of particulates in the air just due to the pollution,.

Ms. MALLIOTAKIS. Okay. And, Mr. Sukup, I don't know if you wanted to add to that.

But I did have one small question after this, if you will, Mr. Chairman.

Mr. SUKUP. No, the biofuels are critical for the—supplying us across the U.S., energy efficiency and self-sustainable here in the U.S., and that is why we have to increase. It lowers prices throughout. You know, going back 4 years, we were a dollar lower on gasoline, and yet ethanol was practical and making money.

Ms. MALLIOTAKIS. Now, I am a New Yorker, first time in Iowa, first time at the State Fair, so a last question, very important question, in my opinion, to wrap up the hearing here. What is the food that I should try today?

Go down the line. Name one food, please.

Ms. RIESSEN. Pork chop on a stick.

Mrs. DEWALT. Well, I am smelling bacon right now, so whatever that smell is, try that. That smells great.

Ms. MALLIOTAKIS. All right.

Mrs. Curry.

Mrs. CURRY. The deep-fried pickle with the ranch dressing.

Ms. MALLIOTAKIS. All right.

Ms. RIESSEN. Sorry. Pork chop or a steak.

Ms. MALLIOTAKIS. Okay. You are the second person to tell me that.

Mr. SUKUP. Corn dog.

Ms. POL. The deep fat fried lobster on a stick.

Ms. MALLIOTAKIS. All right. Thank you.

Chairman SMITH. I want to thank the Iowa delegation for having us. I want to thank you, Congressman Feenstra, for being a stellar member of the Ways and Means Committee and for bringing us up here. I want to thank the Iowa State Fairgrounds. And I want to thank each and every one of you all for your great ideas and the policy solutions that hopefully we can move towards. I think that every member of this committee will be leaving the Iowa State Fair with additional great ideas on the Tax Code but also probably higher cholesterol.

But with that, please be advised that members 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 hearing record.

And with that, the committee stands adjourned.

[Whereupon, at 11:56 a.m., Central, the committee was adjourned.]

LOCAL SUBMISSIONS FOR THE RECORD

Date	August 16, 2024
Name (Print)	Elizabeth Burns-Thompson
Company	VP External Affairs, Landus Ag

WRITTEN SUBMISSION TO BE INCLUDED IN OFFICIAL HEARING RECORD

Committee on Ways and Means
Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest

We want to hear your story. Below please provide any personal experiences or general comments about the positive impact and importance of the Trump Tax Cuts for American families, farmers, workers, and small businesses that you wish to be included in the official hearing record.

Agriculture is the bedrock of America, and ensuring we retain a competitive economic environment is critical. The 199A tax provision is imperative to farm cooperatives, like Landus Ag, that are owned and overseen by farmers for the benefit of those same farmers. We would stress the importance of not only extending 199A, but also making that provision permanent, as was done with the corporate tax rate in the TCJA.

**The official hearing record will be made public as part of the transcript. This will be posted on the Committee on Ways and Means website at: https://waysandmeans.house.gov/*

Date	August 16, 2024
Name (Print)	Joe Gilson
Company	

WRITTEN SUBMISSION TO BE INCLUDED IN OFFICIAL HEARING RECORD

Committee on Ways and Means
Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest

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The more times you get outside of D.C. to listen to real Americans with real problems – the better your policy will be. Thank you for coming to Iowa – the best state fair in the country.

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Date	August 16, 2024
Name (Print)	A.J. Jones
Company	Citizen of Iowa

WRITTEN SUBMISSION TO BE INCLUDED IN OFFICIAL HEARING RECORD

Committee on Ways and Means
Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest

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I believe the lower tier of households should not be left holding the bag, being taxed at a greater percentag, than the wealthy and corporations. Why help corporations and wealthy make more money than allowing families to have that they need to merely survive?

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Date	August 16, 2024
Name (Print)	Debbie Ladehoff
Company	SHRM

WRITTEN SUBMISSION TO BE INCLUDED IN OFFICIAL HEARING RECORD

Committee on Ways and Means
Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest

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As an employer, we provide an education assistance benefit of $5,250 to our employees under Sect. 127, as many employers to across the country. Currently these benefits expire on Jan. 1, 2026.

Significant cost of education is impacting the financial well-being of Americans. Would you consider supporting bipartisan legislation that extends and increases Sect. 127 to keep it from expiring Jan. 1, 2026? This benefit has not increased for decades. An increase tied to an economic factor is warranted.

Thank you for helping employers invest in the growth and development of their employees which benefits our employees, our businesses, and our communities.

SHRM is a resource of 340,000 members in 180 countries working to create a better workplace for a better world.

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Date	August 16, 2024
Name (Print)	Alan Palmer
Company	

WRITTEN SUBMISSION TO BE INCLUDED IN OFFICIAL HEARING RECORD

Committee on Ways and Means
Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest

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If you were serious about relief for taxpayers, you'd stop passing unbalanced budgets.

End the Feed. Stop spending.

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Date	August 16, 2024
Name (Print)	Starlyn Perdue
Company	Farm Family

WRITTEN SUBMISSION TO BE INCLUDED IN OFFICIAL HEARING RECORD

Committee on Ways and Means
Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest

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Under the Trump administration, the ag economy was experiencing successes and moving forward in an upward trajectory. This was helping all Americans as the cost savings were felt by consumers. Farmers were able to invest in their operations, upgrading equipment, providing economic boosts to our manufacturers. The prices at the grocery store were low and affordable, allowing families of all demographics and socioeconomic status to purchase healthy food, growing healthy families.

Now under the current administration, the economy has drastically changed in less than 4 years. The cost of inputs has skyrocketed. The grain commodity prices have dropped. This is having far-reaching negative impacts for everyone, at the grocery store, at the gas pumps, and in the workforce. Iowa ag manufacturers have made the difficult decision to lay off significant portions of their workforce. This has ripple effects across our communities, our state, and our nation. Many farmers remember the tragedy of the 80's Farm Crisis. If we do not change the direction of our economy now, we are bound to repeat this with a Farm Crisis of the 2020's. The time is now to act.

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Date	August 16, 2024
Name (Print)	Monte Shaw
Company	Iowa Renewable Fuels Association

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Committee on Ways and Means
Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest

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With supply outpacing demand, expanded ag markets are essential.

1. Pass year-round EI5 legislation.
2. Urge treasury to provide safe harbor for biofuels producers as they are late with 45Z tax credit rules.
3. Maintain 45Q tax credits that Pres. Trump expanded for carbon capture.
4. Extend 45Z for at least 8-10 years to provide certainty for the investments needed to grow ag demand.
5. Renew bonus depreciation.

The steps above will spur demand for ag commodities and the investments needed to meet emerging market demands. Farm productivity continues to increase. Either help us grow demand or prepare for very expensive Farm Bills and another farm recession.

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Date	August 16, 2024
Name (Print)	Jen Sinkler
Company	Progress Iowa / Fairness for Iowa Coalition

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The Republican Tax Plan is vastly skewed to benefit big corporations and very wealthy people. It gives the wealthiest 1% an average tax break roughly 120 times bigger than the average break for the bottom 60% of households.

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Date	August 16, 2024
Name (Print)	Chuck Spencer
Company	GROWMARK and the FS Cooperative System

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Committee on Ways and Means
Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest

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Section 199A should be made permanent. Cooperatives are owned by farmers to secure farm inputs and sell farm commodities. Section 199A allows farmers to make investments in rural infrastructure, their coop, and their farm operations. Cooperatives continue to be economic engines for rural America providing jobs, local tax dollars for community government operations, and efficiencies in operations that benefit each farmer.

Any discussion of capping the amount of Section 199A available for use will not recognize the thousands of farmers that make up a cooperative. A cooperative works on behalf of all the farmers who own it. Their individual value is accumulated to an aggregate value of operation. If that value is capped, the benefit of Section 199A is not likely to be realized and a tax increase will be felt by each of the farmer members.

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Date	August 16, 2024
Name (Print)	Kevin Studer
Company	

WRITTEN SUBMISSION TO BE INCLUDED IN OFFICIAL HEARING RECORD

Committee on Ways and Means
Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest

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My view is the less money sent to DC the better off we'd all be.

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Date	August 16, 2024
Name (Print)	Tony Vola
Company	Retired

WRITTEN SUBMISSION TO BE INCLUDED IN OFFICIAL HEARING RECORD

Committee on Ways and Means
Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest

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Having worked and saved for over 50 years, there comes a time when you must move aside. Retired life becomes a "cash flow" issue. We want to enjoy our remaining time as best we can. Any tax increases reduce our ability to appreciate life as we grow older. We must maintain the lower rates and eliminate the federal taxes on Social Security, as well as protect Social Security for all generations.

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Date	August 16, 2024
Name (Print)	Bryan Whaley
Company	Iowa Cattlemen's Association

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Committee on Ways and Means
Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest

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Thank you for supporting tax relief. It is critical to Iowa's cattle ranchers and producers to continue providing a high-quality protein source, beef, for U.S. citizens. With current and natural disasters occurring in Iowa this year disaster payments and relief have been important. We hope it will continue to be a focus in the upcoming tax reform discussions. Succession planning is critical to transitioning operations from generation to generation. We must remove the estate "death" tax or it will negatively impact our rural economies and current farm families.

Reminder, we really do not own the ground, we rent it from our children.

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Date	August 16, 2024
Name (Print)	Paige Yontz
Company	AARP Iowa

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Committee on Ways and Means
Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest

We want to hear your story. Below please provide any personal experiences or general comments about the positive impact and importance of the Trump Tax Cuts for American families, farmers, workers, and small businesses that you wish to be included in the official hearing record.

On behalf of AARP's 38 million members nationwide, please pass a $5,000 tax credit to support family caregivers. Given family caregivers spend an average of $7,200/year out of pocket and veteran military caregivers spend an average of $11,500 on out of pocket expenses, it is clear these hidden heroes need financial relief to help keep their loved ones in their homes where they want to be and live with their family and friends.

A $5,000 tax credit for qualified expenses for family caregivers would be a step in the right direction to help families' quality of life. Known in Congress as the Credit For Caring Act, this initiative should be enacted into law during the next round of tax relief discussions.

On a personal note, I am a caregiver for my grandparents. I take them to doctors' appointments, buy them food/medical supplies, call their doctors, and try my best to keep them as independent as possible.

It's a joy to help them and an opportunity to see some tax relief related to the expenses incurred would be incredibly helpful to me and my family.

Thank you.

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PUBLIC SUBMISSIONS FOR THE RECORD

Thomas C. Dorr

August 16, 2024

Dear Chairman Smith and Members of the Committee:

As a former Under Secretary of Agriculture for Rural Development; former CEO of the U.S. Grains Council; member and proponent of the work of the American Carbon Alliance; corn producer, and shareholder participant in several U.S. Ethanol companies, I strongly support the extension of the 45Z Clean Fuel Production Credit.

While serving as a consultant at USDA and as the USEC for Rural Development our team was intimately involved from 2001-2008 in helping to develop and construct approximately 75% of the ethanol production industry during that period of time.

While serving as CEO of the U.S. Grains Council from late 2009 through mid-2012 I facilitated the refocusing of market development efforts of the Council. It was during that period when we rapidly expanded the international marketplace for distillers dried grains (DDGS) and began preliminary international distribution of ethanol.

The significance of these two periods of time in my career is that it corresponded with a uniquely new and non-traditional value-added market development strategy. Traditionally U.S. Agriculture was focused on the production of food, feed, and fiber. It was during the period of the early 2000's when several realizations became readily apparent.

First, U.S. agriculture could consistently produce more than traditional domestic markets needed. Secondly, the cost to society for traditional crop subsidy programs were being heavily scrutinized. Thirdly, we had an energy crisis.

Not without a lot of work, investment, innovation, and the support of the government through the Renewable Legislation of 2002 and 2005, it became apparent that grain and oilseed crops could be sustainable and efficient producers of energy as well as food, feed, and fiber.

Interestingly, as the industry matured, became more efficient, and established as a legitimate provider of efficient liquid fuels, the majority of the subsidies embedded in the 2002 and 2005 Energy Acts were allowed to lapse.

The significance of this agricultural journey into new and sustainably renewable value-added, crop uses, is what USDA Rural Development witnessed while this was occurring. This new use industry literally became the backbone of development throughout rural crop producing America!

USDA Rural Development saw substantial increases in community development projects which benefited from USDA loan guarantees. These guarantees, while I was involved with Rural Development, saw dramatic reductions in program losses. Local banks and Farm Credit organizations were required to put skin in the game, along with their local investors, while being responsible for developing the underwriting standards used to justify the investments.

New community facilities, new industries, new and much better paying jobs all evolved in association with these value-added initiatives. Simply put, opportunities were created which made it feasible for

Thomas C. Dorr 822 Burr Oaks Drive West Des Moines, IA 50266
Tele: 202-365-6518

young people to stay in rural America to raise and stay close to families and the communities which they loved.

There is no reason to believe that 45Z won't facilitate an equal jump start into not just Sustainable Aviation Fuel, but ancillary and new associated opportunities.

Without innovations and sustained risk-taking of this type, U.S. production agriculture will have a difficult time sustaining a viable and vibrant rural American economy.

The production of renewable energy crops is a unique phenomenon that has yet to truly become appreciated. The role that "Captured Carbon" and subsequent innovation, such as SAF, should not be underestimated or dismissed.

If appropriate policies and entrepreneurial risks are encouraged and allowed, recent history clearly indicates into what this kind of innovation has the potential to develop. It exemplifies what can economically grow, not in just rural America, but the "Rust Belt" as well.

One thing I know. Dependency on 10 decades old Agricultural Adjustment Act legacy programs will not sustain rural America. Risk taking by using innovative programs like 45Z have proven to be a solid foundation for newfound growth!!

Please support the extension of the 45Z Clean Fuel Production Credit. As the 2002 and 2005 Renewable Energy Acts have demonstrated, if unleashed, there is much opportunity to be found in our underused agricultural production capacity.

Respectfully submitted,

Thomas C. Dorr
Former Under Secretary for Rural Development USDA
2002-2003; 2005-2008
Former CEO & President U.S. Grains Council
2009-2012
Farmer, Marcus, IA

Thomas C. Dorr 822 Burr Oaks Drive West Des Moines, IA 50266
Tele: 202-365-6518

Statement of the Affordable Housing Tax Credit Coalition

In Response to the House Ways and Means Committee Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest

August 16, 2024

On behalf of the Affordable Housing Tax Credit Coalition (AHTCC), we extend our sincere gratitude to Chairman Smith, Ranking Member Neal, and esteemed members of the U.S. House of Representatives Ways and Means Committee for holding a hearing on the success of pro-growth, pro-worker tax policy in the American Midwest. The AHTCC is a national trade association comprised of over 260 business and organizations advocating to expand and strengthen the Low-Income Housing Tax Credit (Housing Credit), our nation's primary tool for financing the production and preservation of affordable rental housing.

Since its inception in 1986, the Housing Credit has developed or preserved over 3.85 million affordable rental homes, serving nearly 9 million households. It is a powerful tool for economic growth and opportunity, having supported over 6.3 million jobs, generated over $716 billion in wages and business income, and generated over $257 billion in tax revenue.[1] We are pleased to submit this statement for the record and offer our perspective on the importance of expanding and strengthening this vital financing tool to address the pervasive and growing affordable housing crisis across the Midwest and around the nation.

The Housing Credit is a model public private partnership and our nation's primary tool for financing affordable housing production and preservation. It has been used to finance hundreds of thousands of affordable rental homes across the Midwest's rural, suburban, and urban communities alike.[2] For example, in Ohio the Housing Credit has produced or preserved over 136,000 affordable rental homes, supported over 213,000 jobs, generated over $24 billion in wages and business income, and generated over $8.6 billion in tax revenue. Additionally, research shows that Housing Credit developments can have positive spillover effects on surrounding communities. This extends beyond removal effects, such as replacing dilapidated housing and vacant land, and includes increases in home values and reductions in crime rates.[3] Furthermore, with chronic affordable housing supply shortages driving up rents and contributing to increased inflation in recent years, the Housing Credit's role in directly producing supply makes it instrumental to the success of the national economy.

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[1] ACTION Campaign, *Low-Income Housing Tax Credit Impact in the United States,* 2023. Available at: https://rentalhousingaction.org/wp-content/uploads/2023/11/ACTION-NATIONAL-NOV-2023.pdf
[2] Ibid.
[3] Dillman, K. N., Horn, K. M., & Verrilli, A. (2017). The What, Where, and When of Place-Based Housing Policy's Neighborhood Effects. Housing Policy Debate, 27(2), 282–305. https://doi.org/10.1080/10511482.2016.1172103

As a state-administered program, the Housing Credit provides desperately needed financial resources that can be tailored to ensure that each state is able to develop housing that benefits their communities' specific needs. This includes housing for working families, veterans, seniors, persons with disabilities, and people experiencing or at-risk of homelessness, and those who live in rural and Native American areas. The locally targeted approach and private sector driven delivery are key components of the Housing Credit's long-term success and long-term bipartisan support.

In recent years, the need for affordable housing has skyrocketed. For Americans earning the lowest incomes, there is a shortage of 7.3 million affordable and available rental homes. Alarmingly, the number of severely cost-burdened renters has hit an all-time high, with 12.1 million households allocating over 50% of their income to housing expenses. This issue is persistent across the Midwest. For example, in Iowa there are over 100,000 families considered extremely low-income (earning 30% or less of the area median income), most of which are either in the workforce, seniors, or persons with a disability. Iowa needs about 58,000 more rental homes affordable for these families to meet the growing need for housing across the state. These shortages are pervasive throughout the Midwest and across the nation, with states like Illinois, Missouri, Michigan, Minnesota, Ohio, and Wisconsin having shortages ranging from upwards of 100,000 to nearly 300,000 rental homes affordable to households earning the lowest incomes.[4]

The Housing Credit is a highly successful public-private partnership that provides a market-based solution to this critical issue. With a proven track record and long-term bipartisan support, the Housing Credit is instrumental to supporting and increasing the national supply of affordable housing. The program is leveraged as a community development tool, attracting investment that often sparks economic activity beyond the production or preservation of housing for local communities. Notably, the program is built on a pay-for-performance model where the private sector bears the risk, and no taxpayer money is leveraged until properties are built to high standards and serving appropriate tenants.

Housing Credit developments are generally required to serve residents at or below 60 percent of area median income (AMI). In many communities throughout our nation, where the cost of living is high and continuing to skyrocket, this means hardworking teachers, firefighters, police officers, restaurant and hospitality, and retail workers qualify to live in Housing Credit properties. Where wages do not match the skyrocketing cost of housing, and where hardworking families nationwide are increasingly hit by lengthy commutes to work just to find housing they can afford, an increase in the availability of affordable housing will help increase the economic vitality and growth of communities to support and attract a workforce. Accordingly, expanding and strengthening the Housing Credit will increase access to affordable and safe rental housing, support economic mobility, and foster the economic growth of working communities nationwide.

[4] "Housing Needs by State," National Low Income Housing Coalition. 2024. https://nlihc.org/housing-needs-by-state

With Congress gearing up for major tax legislation in 2025, the topic of this hearing calls attention to the importance of tax policies, such as the Housing Credit, that bolster local economies and directly address the most pressing concerns for everyday working Americans. We would like to thank Chairman Smith and the House Ways and Means Committee Community Development and Rural America Tax Teams for their attention to the Housing Credit's role as an effective solution to the national shortage of affordable housing, and the urgent need to scale up and strengthen the program. As an increasing number of Americans struggle to afford housing, it is imperative that Congress leverages any opportunity for tax legislation to enact provisions from the broadly supported, bipartisan Affordable Housing Credit Improvement Act (AHCIA) of 2023 (S.1557 / H.R. 3238). The AHCIA would expand and strengthen the Housing Credit, with key production provisions estimated to produce or preserve nearly two million more affordable rental homes than otherwise possible.[5]

Earlier this year, the Tax Relief for American Families and Workers Act of 2024 (H.R.7024), which contained provisions derived from the AHCIA that would produce or preserve over 200,000 additional affordable rental homes, passed in the U.S. House of Representatives.[6] While other family and business credits accounted for the majority of the bill, Housing Credit provisions in the bill included restoring the 12.5 percent increase to the Housing Credit allocation that expired at the end of 2021 and reducing the amount of private activity bond financing required to access four percent Housing Credits. We thank the members of the Ways and Means Committee, many of whom are AHCIA cosponsors, for passing H.R. 7024 to the full House chamber, where it passed with an overwhelming majority. As the bill has not yet passed in the Senate, expanding and strengthening the Housing Credit remains an urgent need to increase access to affordable housing and economic opportunity for hardworking Americans.

The AHCIA provides a robust and actionable solution that will uplift local economies, support the workforce, and reduce financial strains on American families by increasing access to affordable housing. The bill has earned the support of nearly half of the entire 118th Congress with 230 co-sponsors in the House and 34 in the Senate, split evenly between Republicans and Democrats in both chambers. In the House, the AHCIA is led by Representatives Darin LaHood (R-IL), Suzan DelBene (D-WA), Brad Wenstrup (R-OH), Don Beyer (D-VA), Claudia Tenney (R-NY), and Jimmy Panetta (D-CA). We are grateful to have the support of nearly 80 percent of the Ways and Means Committee, including 19 Republicans and 15 Democrats who have signed on as co-sponsors of the legislation.

There are two provisions in the AHCIA that will have the most tangible, direct impact on increasing the supply of affordable housing: restoring the 12.5% Housing Credit allocation

[5] Novogradac Data May 2023: https://www.novoco.com/notes-from-novogradac/lihtc-pab-provisions-newly-reintroduced-ahcia-could-result-nearly-2-million-additional-affordable
[6] Novogradac Data January 2024: https://www.novoco.com/notes-from-novogradac/tax-legislation-announced-by-tax-writing-chairs-wyden-and-smith-would-temporarily-reduce-50-financed-by-test-to-30-for-2024-2025-restore-125-lihtc-boost-for-2023-2025

increase that was enacted in 2018 and expired in 2021, and reducing a barrier to affordable housing financing by lowering a private activity bond (PAB) threshold test. Together these production provisions could create nearly two million additional affordable rental homes than would be otherwise possible. Enacting these key provisions of the AHCIA has become even more urgent as affordable housing production has slowed at a time of unprecedented and growing need. The expiration of the 12.5 percent allocation increase for nine percent Housing Credits at the end of 2021 left state housing agencies with too few resources available to sustain prior levels of affordable housing production, and the crisis has only worsened since then. Though there is broad bipartisan support for restoring the allocation increase, demonstrated by the House's passage of an extension through 2025 as part of H.R. 7024, it has not yet been restored. As our nation's affordable housing crisis continues to grow, it is urgent that Congress not only reverse this cut to our primary affordable housing production program, but also further expand the Housing Credit.

The other production provision, which was also included in the Tax Relief for American Families and Workers Act earlier this year, would increase the amount of affordable housing that can be financed using PABs. Specifically, the provision would lower the 50 percent bond financing threshold for developments financed with PABs (the "50 percent test") to 30 percent (the AHCIA proposes lowering this threshold to 25 percent), which would unlock more four percent Housing Credits, further increasing affordable housing supply. This would free up additional tax-exempt bonds for affordable housing production or other critical community needs. More than half of the states in the U.S. are oversubscribed or using all their private activity bond volume cap. This change would provide states with more flexibility to extend these scarce and highly sought after resources. Even in states not using all their bond cap, this proposal would reduce an arbitrary barrier to development and allow for a much more efficient use of these limited and critical financial resources.

The Housing Credit provisions from the Tax Relief for American Families and Workers Act remain an urgent priority, and we urge Congress to eventually enact the full bipartisan AHCIA. In addition to the provisions described above, the AHCIA also contains other important provisions, such as additional state allocation and "basis boosts" to make more developments financially feasible for communities that are harder to reach, including rural and tribal communities, and extremely low-income tenants. The bill would also remove barriers to affordable housing preservation, streamline program rules, and promote efficiency.

The Housing Credit is vital to addressing the nation's worsening affordable housing crisis and enhancing economic growth and opportunity for families and communities. Nearly two million additional affordable rental homes could be financed through provisions in the AHCIA that would directly increase the production and preservation of affordable rental homes.[7] With

[7] Novogradac Data May 2023: https://www.novoco.com/notes-from-novogradac/lihtc-pab-provisions-newly-reintroduced-ahcia-could-result-nearly-2-million-additional-affordable

Congress approaching tax legislation of a historic scale, it is essential that affordable housing remains a priority and that AHCIA provisions are incorporated into any tax legislation that arises. Not only does the Housing Credit promote stability, growth, and economic opportunity for low-income families and individuals, it promotes stability and economic growth for broader communities in urban, suburban, and rural areas alike. We thank you for your continued leadership and look forward to continuing to collaborate with you and the entire committee on these priorities.

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[3] Dillman, K. N., Horn, K. M., & Verrilli, A. (2017). The What, Where, and When of Place-Based Housing Policy's Neighborhood Effects. Housing Policy Debate, 27(2), 282–305. https://doi.org/10.1080/10511482.2016.1172103

As a state-administered program, the Housing Credit provides desperately needed financial resources that can be tailored to ensure that each state is able to develop housing that benefits their communities' specific needs. This includes housing for working families, veterans, seniors, persons with disabilities, and people experiencing or at-risk of homelessness, and those who live in rural and Native American areas. The locally targeted approach and private sector driven delivery are key components of the Housing Credit's long-term success and long-term bipartisan support.

In recent years, the need for affordable housing has skyrocketed. For Americans earning the lowest incomes, there is a shortage of 7.3 million affordable and available rental homes. Alarmingly, the number of severely cost-burdened renters has hit an all-time high, with 12.1 million households allocating over 50% of their income to housing expenses. This issue is persistent across the Midwest. For example, in Iowa there are over 100,000 families considered extremely low-income (earning 30% or less of the area median income), most of which are either in the workforce, seniors, or persons with a disability. Iowa needs about 58,000 more rental homes affordable for these families to meet the growing need for housing across the state. These shortages are pervasive throughout the Midwest and across the nation, with states like Illinois, Missouri, Michigan, Minnesota, Ohio, and Wisconsin having shortages ranging from upwards of 100,000 to nearly 300,000 rental homes affordable to households earning the lowest incomes.[4]

The Housing Credit is a highly successful public-private partnership that provides a market-based solution to this critical issue. With a proven track record and long-term bipartisan support, the Housing Credit is instrumental to supporting and increasing the national supply of affordable housing. The program is leveraged as a community development tool, attracting investment that often sparks economic activity beyond the production or preservation of housing for local communities. Notably, the program is built on a pay-for-performance model where the private sector bears the risk, and no taxpayer money is leveraged until properties are built to high standards and serving appropriate tenants.

Housing Credit developments are generally required to serve residents at or below 60 percent of area median income (AMI). In many communities throughout our nation, where the cost of living is high and continuing to skyrocket, this means hardworking teachers, firefighters, police officers, restaurant and hospitality, and retail workers qualify to live in Housing Credit properties. Where wages do not match the skyrocketing cost of housing, and where hardworking families nationwide are increasingly hit by lengthy commutes to work just to find housing they can afford, an increase in the availability of affordable housing will help increase the economic vitality and growth of communities to support and attract a workforce. Accordingly, expanding and strengthening the Housing Credit will increase access to affordable and safe rental housing, support economic mobility, and foster the economic growth of working communities nationwide.

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[4] "Housing Needs by State," National Low Income Housing Coalition. 2024. https://nlihc.org/housing-needs-by-state

With Congress gearing up for major tax legislation in 2025, the topic of this hearing calls attention to the importance of tax policies, such as the Housing Credit, that bolster local economies and directly address the most pressing concerns for everyday working Americans. We would like to thank Chairman Smith and the House Ways and Means Committee Community Development and Rural America Tax Teams for their attention to the Housing Credit's role as an effective solution to the national shortage of affordable housing, and the urgent need to scale up and strengthen the program. As an increasing number of Americans struggle to afford housing, it is imperative that Congress leverages any opportunity for tax legislation to enact provisions from the broadly supported, bipartisan Affordable Housing Credit Improvement Act (AHCIA) of 2023 (S.1557 / H.R. 3238). The AHCIA would expand and strengthen the Housing Credit, with key production provisions estimated to produce or preserve nearly two million more affordable rental homes than otherwise possible.[5]

Earlier this year, the Tax Relief for American Families and Workers Act of 2024 (H.R.7024), which contained provisions derived from the AHCIA that would produce or preserve over 200,000 additional affordable rental homes, passed in the U.S. House of Representatives.[6] While other family and business credits accounted for the majority of the bill, Housing Credit provisions in the bill included restoring the 12.5 percent increase to the Housing Credit allocation that expired at the end of 2021 and reducing the amount of private activity bond financing required to access four percent Housing Credits. We thank the members of the Ways and Means Committee, many of whom are AHCIA cosponsors, for passing H.R. 7024 to the full House chamber, where it passed with an overwhelming majority. As the bill has not yet passed in the Senate, expanding and strengthening the Housing Credit remains an urgent need to increase access to affordable housing and economic opportunity for hardworking Americans.

The AHCIA provides a robust and actionable solution that will uplift local economies, support the workforce, and reduce financial strains on American families by increasing access to affordable housing. The bill has earned the support of nearly half of the entire 118th Congress with 230 co-sponsors in the House and 34 in the Senate, split evenly between Republicans and Democrats in both chambers. In the House, the AHCIA is led by Representatives Darin LaHood (R-IL), Suzan DelBene (D-WA), Brad Wenstrup (R-OH), Don Beyer (D-VA), Claudia Tenney (R-NY), and Jimmy Panetta (D-CA). We are grateful to have the support of nearly 80 percent of the Ways and Means Committee, including 19 Republicans and 15 Democrats who have signed on as co-sponsors of the legislation.

There are two provisions in the AHCIA that will have the most tangible, direct impact on increasing the supply of affordable housing: restoring the 12.5% Housing Credit allocation

[5] Novogradac Data May 2023: https://www.novoco.com/notes-from-novogradac/lihtc-pab-provisions-newly-reintroduced-ahcia-could-result-nearly-2-million-additional-affordable

[6] Novogradac Data January 2024: https://www.novoco.com/notes-from-novogradac/tax-legislation-announced-by-tax-writing-chairs-wyden-and-smith-would-temporarily-reduce-50-financed-by-test-to-30-for-2024-2025-restore-125-lihtc-boost-for-2023-2025

increase that was enacted in 2018 and expired in 2021, and reducing a barrier to affordable housing financing by lowering a private activity bond (PAB) threshold test. Together these production provisions could create nearly two million additional affordable rental homes than would be otherwise possible. Enacting these key provisions of the AHCIA has become even more urgent as affordable housing production has slowed at a time of unprecedented and growing need. The expiration of the 12.5 percent allocation increase for nine percent Housing Credits at the end of 2021 left state housing agencies with too few resources available to sustain prior levels of affordable housing production, and the crisis has only worsened since then. Though there is broad bipartisan support for restoring the allocation increase, demonstrated by the House's passage of an extension through 2025 as part of H.R. 7024, it has not yet been restored. As our nation's affordable housing crisis continues to grow, it is urgent that Congress not only reverse this cut to our primary affordable housing production program, but also further expand the Housing Credit.

The other production provision, which was also included in the Tax Relief for American Families and Workers Act earlier this year, would increase the amount of affordable housing that can be financed using PABs. Specifically, the provision would lower the 50 percent bond financing threshold for developments financed with PABs (the "50 percent test") to 30 percent (the AHCIA proposes lowering this threshold to 25 percent), which would unlock more four percent Housing Credits, further increasing affordable housing supply. This would free up additional tax-exempt bonds for affordable housing production or other critical community needs. More than half of the states in the U.S. are oversubscribed or using all their private activity bond volume cap. This change would provide states with more flexibility to extend these scarce and highly sought after resources. Even in states not using all their bond cap, this proposal would reduce an arbitrary barrier to development and allow for a much more efficient use of these limited and critical financial resources.

The Housing Credit provisions from the Tax Relief for American Families and Workers Act remain an urgent priority, and we urge Congress to eventually enact the full bipartisan AHCIA. In addition to the provisions described above, the AHCIA also contains other important provisions, such as additional state allocation and "basis boosts" to make more developments financially feasible for communities that are harder to reach, including rural and tribal communities, and extremely low-income tenants. The bill would also remove barriers to affordable housing preservation, streamline program rules, and promote efficiency.

The Housing Credit is vital to addressing the nation's worsening affordable housing crisis and enhancing economic growth and opportunity for families and communities. Nearly two million additional affordable rental homes could be financed through provisions in the AHCIA that would directly increase the production and preservation of affordable rental homes.[7] With

[7] Novogradac Data May 2023: https://www.novoco.com/notes-from-novogradac/lihtc-pab-provisions-newly-reintroduced-ahcia-could-result-nearly-2-million-additional-affordable

Congress approaching tax legislation of a historic scale, it is essential that affordable housing remains a priority and that AHCIA provisions are incorporated into any tax legislation that arises. Not only does the Housing Credit promote stability, growth, and economic opportunity for low-income families and individuals, it promotes stability and economic growth for broader communities in urban, suburban, and rural areas alike. We thank you for your continued leadership and look forward to continuing to collaborate with you and the entire committee on these priorities.

Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest

Written Testimony submitted on behalf of:

Corey Jorgenson, CEO for Shell Rock Soy Processing, LLC, (SRSP)
30340 220th Street
Shell Rock, Iowa 59670
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August 16, 2024

My name is Corey Jorgenson, CEO for Shell Rock Soy Processing, LLC, (SRSP) a growing Iowa company with a new soybean crush plant in Butler (County) Logistics Park in Shell Rock. We appreciate that members of the U.S. House Ways and Means Committee have come to Iowa to hear our views on federal tax policy. We are submitting this written statement to provide our view that the Tax Cuts and Jobs Act has benefited SRSP as well as the working families, farmers, and small businesses of our local communities in northeast Iowa. For this reason, we urge the Committee to preserve these pro-growth policies and make them permanent.

As the CEO of SRSP, I manage our business, our team, our ongoing investment strategies, and our place in the community and industry. My decades of experience working in the agriculture and food industries have shown me the challenges facing U.S. businesses amid growing international competition. In a past role, I worked abroad, and saw firsthand how other countries support their companies, including many countries in Asia while working in China. In addition to my professional background, I hold an Economics degree from St. Olaf College, and I completed Harvard's Executive Education Series focusing on Asia Agri Business.

Enactment of the Tax Cuts and Jobs Act reflected years of work by Congress aimed at encouraging domestic investment by freeing up growth capital for companies. Lowering the corporate tax rate allowed large corporations to invest in their supply chains and support their expansion. Any decision by lawmakers to increase corporate taxes will have swift and material consequences, including reducing competitiveness for U.S. companies.

Our new soybean crush plant has been operational since December 2022 following two years of construction and $300 million in investment. Our plant supports value-added agriculture in Iowa, and has proven a boon to our farmers, carriers, suppliers, customers, and local communities. The plant benefited from a strategic investment by Phillips 66, a leading independent U.S.-based refiner, which has also committed more than one billion dollars of capital into a West Coast renewable fuels project. Both investments were made in the years after the Tax Cuts and Jobs Act.

Our plant's workforce constitutes 64 valued employees, and operates 24 hours a day, seven days a week. We can receive up to 250 trucks of soybeans per day from hundreds of farms in northeast Iowa. The soybean meal, hulls, and oil that we produce feed animals, people, and fuel needs in Iowa, across the U.S., and in global markets. The more than 4,000 barrels per day of soybean oil we produce are often used to make renewable fuels.

The increased economic activity from the plant has benefited the small rural communities in northeast Iowa, helping our farmers, truckers, and other working families. Additionally, the plant's presence continues to support local businesses, including grain cooperatives, cafes, grocery stores, shops, and other retail operations and their employees.

We compete in global markets, against companies in Asia, Europe, and South America. Tax rates matter, directly impacting our investors' ability to support the growth of businesses like ours. A higher corporate tax rate would quickly restrain the flow of capital and hurt our company's ability to grow. We want to continue to support and incentivize our local farmers and businesses, but a higher corporate tax rate will have the exact opposite effect.

Recognizing Congress will weigh different tax priorities next year, I encourage this committee to think holistically about how policymaking can continue to spur domestic investment. Increasing the corporate tax rate or allowing the small business tax cut to expire does not support U.S. businesses amid a time of growing international competition. I know the policies enacted in

2017 have benefited the working families, farmers, and small businesses of our local communities. The tax cuts encouraged investment like our facility, helped our company expand beyond its initial vision, created high-paying jobs, and increased wages and incomes. I urge Congress to extend the tax cuts and keep corporate tax rates low, increasing economic opportunities for our families and local businesses.

Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest

Written Testimony submitted on behalf of

The RATE Coalition
Dan Combs, Executive Director
2000 K Street, NW, 9th Floor
Washington, DC 20006
(202) 572-6230

August 16, 2024

On behalf of the 55 million workers across all fifty states employed by our members and affiliates, the RATE Coalition is pleased to submit this written testimony to the Committee's field hearing on the success of pro-growth, pro-worker tax policy in the American Midwest. We commend Chairman Smith and the Committee for visiting Iowa to highlight the positive impact and importance of the Tax Cuts and Jobs Act for American families, farmers, workers, and small businesses. Since our founding in 2011, RATE has been advocating for a pro-growth tax code that increases economic growth and prosperity for all Americans.

We are confident this hearing will show the Committee the positive impact of the 2017 tax cuts, particularly the lower corporate tax rate, are having on local communities in Iowa. The Committee will receive testimony from a local company which built a new plant which has greatly benefited the working families, farms, and small businesses of the local communities in northeast Iowa.

We strongly believe that a competitive corporate tax rate is essential to promoting economic growth and prosperity, benefiting working families, farmers, and American businesses. Raising the corporate tax rate would have a devastating impact on working families, consumers, farmers, and American businesses, reducing economic growth and investment, threatening American jobs, and harming our ability to compete abroad.

According to the Committee's report on the 2017 bill, Congress enacted the 21% rate to ensure the U.S. would be "globally competitive with our international competitors." At that time, the U.S. had the highest corporate tax rate in the world, harming our economy and forcing investment and jobs overseas. The 21% rate has been enormously successful. In the two years after enactment, economic growth surged, household income increased at a record pace, and unemployment fell to a 50-year low. A recent NBER study found that capital investment increased by 20%.

The Biden-Harris administration is pushing to raise the corporate tax rate to 28%, increasing the combined federal-state tax rate to 32.4%, higher than every other OECD country but one. Numerous studies have shown that raising the corporate rate would harm economic growth, investment, and family incomes. A higher corporate rate would hit American job creators large and small. One study found that more than one million small businesses would be hit by a higher corporate rate, causing a "disaster for small businesses."

A recent Tax Foundation study found that "raising the corporate tax rate is significantly more economically harmful "than any other tax increase. Economic research has shown that raising the rate would have a harmful effect on working families, lowering their wages and incomes, increasing the prices they pay, and reducing their retirement savings. A Federal Reserve Board study found that a corporate rate hike would be "uniformly harmful" to working people, leading to "significant reductions in their jobs and income."

Further, studies by the Joint Committee on Taxation and the Treasury Department show that a corporate rate increase would raise taxes on millions of taxpayers, with more than one-third of the higher taxes falling on households with income less than $300,000. The Treasury study shows that 35% of the tax increase from a 28% corporate rate — more than $500 billion—would be borne by families making less than $300,000 a year.

Increasing the corporate rate would put US companies at a competitive disadvantage against our global competitors. In the last two decades, most of our foreign competitors have reduced their

corporate tax rates, recognizing the damage high rates do to their economy and their ability to compete. Europe's average tax rate is now 19.9%, lower than the current U.S. combined rate of 25.8%. Asia's average rate is 19.8%. Even Sweden and the other Nordic countries have lower rates, averaging 20.5%. China has reduced its tax rates to as low as 10% and 15% on industries critical to establishing supply line dominance over the U.S. Any increase in the U.S. rate would put U.S. firms at a real disadvantage over foreign competitors. Even a 25% rate (a combined rate of nearly 30%) would put the U.S. rate higher than 32 of 37 OECD countries and be nearly 50% higher than the average European and Asian corporate rates.

Raising the corporate tax rate would bring back tax inversions, which had led to the loss of American jobs and tax revenue, and devastated U.S. communities. In the two decades prior to the 2017 rate cut, nearly one hundred U.S. firms moved to foreign countries to avoid the high uncompetitive U.S. rate. Since the rate was reduced, tax inversions have disappeared and not one company has moved overseas.

While some claim that the lower corporate rate increased the deficit, corporate tax revenues have soared to record high levels. According to the CBO, corporate tax receipts in fiscal 2024 are projected to reach $525 billion, the highest level ever, and more than double corporate tax revenues are in 2020. Estimates show that federal revenues are growing at a much faster rate than CBO projected before and after the tax cuts passed in 2017. This year's CBO forecast shows that projected revenue for the ten-year period after 2017 is now $1.7 trillion higher than CBO projected after the tax cuts passed. Also, studies suggest that a higher corporate rate would lose not gain federal revenue. A higher rate would reduce economic growth and incomes and result in substantially lower federal revenue.

In conclusion, we urge the Committee to protect the current competitive U.S. rate and reject any proposal to raise the U.S. rate. Raising the corporate tax rate would be a major economic mistake, increasing the chances of an economic downturn and threatening American investment, wages, and jobs. We look forward to working with you to enact pro-growth policies that benefit working families and American businesses and increase economic growth and prosperity.

August 30, 2024

The Honorable Jason Smith
Chairman
House Committee on Ways and Means
1139 Longworth House Office Building
Washington, DC 20515

Dear Chairman Smith:

Thank you for the opportunity to comment as part of the official record for the House Committee on Ways and Means *Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest*. This hearing covers an important topic for our members and provides a platform to showcase the opportunities created by strong biofuel tax incentives. Biofuel tax incentives are critical U.S. policy for rural communities in places like Iowa and throughout the Midwest. In these areas, farmers, biofuel producers, and rural workers are driving a new era for America's bioeconomy, which supports over half a million jobs and contributes more than $50 billion annually to America's GDP.

My name is Emily Skor, and I am the CEO of Growth Energy. Growth Energy is the world's largest association of ethanol producers, representing 98 U.S. ethanol plants that each year produce 9.5 billion gallons of renewable fuel; 121 businesses associated with the ethanol production process; and tens of thousands of biofuel supporters around the country. Our members make low-carbon fuels and high-protein animal feed and supply plant-based ingredients for everything from bioplastics to safer cleaning products.

The top tax priority for our industry is the Clean Fuels Production Credit, or 45Z. As you consider how to craft a tax package next year, we would encourage the Committee to extend the 45Z incentive until December 31, 2034, making this credit a true long-term signal that Congress backs American-made biofuels and the demand they create for American farmers. This incentive is designed to open new and emerging markets for American agriculture by offering a competing vision for carbon reductions, specifically one that showcases the innovation of rural America, and does not create a one-size-fits-all approach to lower carbon emissions that removes choices for American consumers. We support 45Z as a policy because it is in line with historically bipartisan sections of the tax code like 45Q and 40A, and like these two sections of the tax code, 45Z supports American energy innovation and creates new markets for American agriculture. Without an extension of 45Z, we risk ceding critical new markets for American farmers to our foreign competitors – like China and Brazil – who offer incentives that provide their biofuel producers with a smooth pathway to these new and emerging markets.

Over the last several decades, our industry, and energy producers in general, have seen energy markets demand lower carbon products, both to meet consumer demand or to respond to state-

based or foreign policies. In response, our industry has invested billions of dollars to produce a fuel that is 46 percent lower carbon than conventional vehicle fuels, and at recent market prices, is 30 cents less expensive than conventional vehicle fuels. With the prospect of additional domestic and foreign low carbon markets, the capital investment required to further reduce carbon will be significant and will take many years to complete. That is why we are asking for additional years of this credit – to ensure we can have a competitive low carbon liquid fuels and vibrant and competitive markets for American agricultural commodities.

In addition, if properly implemented, 45Z could unlock major new investments in Sustainable Aviation Fuel (SAF), a market with huge potential to help grow the market for American agricultural commodities and help the U.S. aviation sector meet its emissions goals. If today's American ethanol capacity was converted to SAF feedstock, it could provide up to 10 billion gallons of aviation fuel, enough to supply close to half of today's domestic jet fuel demand. But without proper incentives to help guide this transition, this opportunity could be lost. In fact, according to research we commissioned, 45Z could add $21.2 billion to the U.S. economy, generate nearly $13.4 billion in additional household income, support more than 192,000 jobs across all sectors of the national economy, and provide farmers with a 10 percent premium price on low-carbon corn used at an ethanol plant.

I would be remiss if I also didn't mention the current lack of important tax guidance from the Treasury and the IRS when it comes to 45Z. While not necessarily a legislative ask, we would encourage the committee to work with the Treasury to implement a 45Z rulemaking package that puts American agriculture at the forefront of this credit. In particular, we would ask that Treasury:

- Ensure that 45Z guidance is finalized by January 1, 2025, the statutory deadline, and no later.
- Provide ethanol producers increased flexibility to lower carbon emissions by including pathways for sorghum (both starch and fiber), corn wet mills, corn kernel fiber ethanol, and other secondary feedstocks like proso millet, barley, and wheat.
- Recognize corn stover for process heat as a carbon-reducing technology to allow ethanol producers to access available biomass feedstock that can offset natural gas usage at ethanol facilities.
- Expand decarbonization technologies by including pathways listed in 40B guidance, as well as energy storage, on-site and over-the-fence combined heat and power, mechanical vapor recompression, biomass to heat, advanced yeasts and enzymes, thermal vapor recompression, on-farm energy use reductions, and both biogenic and non-biogenic carbon capture and storage (CCS).
- Unbundle and expand climate-smart agriculture practices (CSA) by recognizing more CSA practices and allowing farmers to adopt them individually without a "bundling" requirement, as stated in 40B.
- Include additional low-carbon electricity sources, such as solar, geothermal, biomass, waste, and hydro.

- Ensure U.S.-based tax incentives utilize a U.S.-based lifecycle emissions model such as Argonne National Laboratory's Greenhouse gases, Regulated Emissions, and Energy use in Technologies (GREET) model.
    - For SAF, the model used should be the International Civil Aviation Organization (ICAO) model or a model "similar" to ICAO that meets the greenhouse gas definition in the RFS (40B GREET).
    - For non-SAF fuels, the model used should be the Argonne GREET model or a "successor" model to Argonne GREET.

The ethanol industry provides a stable market for American farmers while continuing to provide a lower cost, lower carbon fuel for American drivers. 45Z puts rural America and low carbon liquid fuels at the center of innovation and opportunity for this country. We are grateful for your work to ensure our tax code works for, not against, American ingenuity. Thank you for the opportunity to weigh in and please do not hesitate to reach out to our team if you have any questions.

Sincerely,

Emily Skor, CEO

701 8th Street NW, Suite 450, Washington, D.C. 20001 | 202.545.4000 | GrowthEnergy.org

Statement for the Record

by the

Iowa Institute for Cooperatives

Submitted to the

House Ways and Means Committee
August 16, 2024
Field Hearing, Des Moines, Iowa
The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest

Chairman Smith and members of the Committee, welcome to Iowa and thank you for holding this field hearing to review tax policy impacting the Midwest. This Statement for the Record aims to feature the unique structure of farmer-owned cooperatives and the importance of making the Section 199A deduction permanent.

The Iowa Institute for Cooperatives represents cooperatives of all types including agricultural, utility, finance, and consumer cooperatives. The agricultural cooperatives in Iowa are a vital piece of our rural economy contributing over 7000 jobs generating $625 million in payroll. They also pay $45 million in property taxes to the local economies and serve the needs of over 75,000 Iowa farmer members.

For more than 100 years, farmer-owned co-ops in Iowa and around the country have allowed individual farmers to truly participate in the agricultural and food system—from farm to retail. The simple definition of a farmer cooperative is a business owned by farmers, controlled by farmer-elected boards, and existing for the benefit of its farmer members. But that single sentence does not fully capture how integral a cooperative is to the farming operations of its members—operations that are millions of small businesses across rural America. Farmer co-ops are a proven tool to help individual family farmers and ranchers through the ups and downs of weather, commodity markets, and technological change. Through their local co-ops, farmers and ranchers pool their resources to strengthen their individual bargaining power, better manage risks, and improve their income from the marketplace, allowing farmers to compete globally in a way that would be impossible as an individual producer.

America's farmer-owned cooperatives provide a comprehensive array of services for their members. These diverse organizations handle, process, and market virtually every agricultural commodity. They also provide farmers with access to the infrastructure necessary to manufacture, distribute and sell a variety of farm inputs. Additionally, they provide credit and related financial services, including export financing.

Cooperatives are formed to extend the business operations of their farmer-owners into areas that would be difficult for individuals to carry out alone — activities like building and operating processing plants, establishing and marketing well-known consumer brands, and purchasing supplies in quantities large enough to obtain significant volume discounts. Farmer cooperatives provide their farmer patrons with economies of scale and value-added services. A marketing cooperative can command a better market price for the bulk sale of all its patrons' produce than each individual farmer could command alone. They also process their patrons' commodities into consumer products (milk into butter, corn into ethanol and soybeans into renewable diesel, etc.). A supply cooperative guarantees its members a source of needed agricultural inputs and can reduce the input costs of farm supplies (e.g., seed, fertilizer, and fuel) for its patrons by buying or producing in bulk. On average, farmers who belong to a supply co-op earn approximately $5500 more per year. A farmer may have 40 acres of oranges or 4,000 acres of soybeans, but as a member of a cooperative, they are able to accomplish things that no individual farmer could do on their own.

Profits of the co-op are returned to the farmer members, usually in the form of a patronage dividend, in proportion to the amount that each individual patron transacted with the cooperative. In this way, the cooperative is the alter ego of its farmer patrons, and the farmers and their cooperative should be viewed as an economic unit. This contrasts with other forms of business, in which profits are returned in proportion to equity ownership interests.

A farmer cooperative is a corporation subject to the corporate tax on its income. In computing its taxable income, a cooperative is allowed a deduction for amounts distributed to patrons as dividends. The patrons include such amounts in income as ordinary income subject to the normal tax rates (i.e., the reduced rates applicable to dividends and capital gains do not apply). This system of taxation is contained in subchapter T of the Internal Revenue Code. This tax treatment underscores the relationship of the cooperative and its farmer members as a single economic unit. Patronage income is taxed once. The income is either retained and taxed at the cooperative at regular corporate rates or is distributed to the patrons and taxed at their individual rates.

Section 199A was passed to put co-ops and small businesses on an even footing with big corporations which saw a significant decrease in their tax rate in 2017. It has been a success and was critical in seeing farmer co-ops and their members thrive through a pandemic, unrest around the globe, and the highest inflation in a generation. It provides a replacement for prior-law Section 199 for cooperatives and their members.

Section 199A provides a tax deduction generally equal to 20% of net income for all forms of businesses except C corporations. Because C corporations received a 40% rate cut – from a top rate of 35% to a top rate of 21%, Congress recognized that other forms of business

should receive tax relief. The 199A deduction applies to sole proprietorships, partnerships, S corporations, LLCs, etc.

For farmer co-ops in particular, Section 199A(g) uniquely provides a calculation that is the same as it was under prior law Section 199 – it is 9% of the co-op's qualified production activities income (QPAI). The deduction is limited to 50% of the co-op's wages for the year and may not exceed the co-op's taxable income for the year. The co-op may choose to keep all or part of the deduction at the co-op level to offset tax liabilities or it may be passed through to their members.

Co-ops pass 95% of the deduction back to farmers, who reinvest it in their operations. The deduction benefits the economy through job creation, increased spending on ag production, and investment in rural communities. Among NCFC members alone, $2 billion was returned to farmers in 2022.

We have several case studies showing the benefits delivered by the Section 199A deduction. For example, Heartland Co-op headquartered in Clive, Iowa, has fully utilized its deductions by reducing their taxes and redeploying those savings into assets for the co-op to help ensure that they have the assets and resources available to their members to use. They have spent over $300 million in the last 10 years reinvesting in our rural communities by upgrading and adding new facilities to handle the growing needs of their members. This would not have been possible without the tax savings from the Section 199A deduction. Many rural communities would suffer had it not been for these reinvestments.

Luther, IA is an example of one of our communities struggling to survive. Heartland Co-op invested in a major facility expansion in Luther that spurred the development of updated utilities within the town that allowed the development of other businesses.

Section 199A, including provisions related to farmer co-ops, expires with respect to taxable years beginning after 2025. The corporate tax rate reduction was made permanent in 2017. The Section 199A deduction should also be made permanent to keep the competitive balance between corporate and noncorporate businesses.

Since farmers and their co-ops are not taxed like corporations, letting Section 199A expire will raise taxes on farmer co-ops and their member-owners, putting them at a disadvantage to competitors that get to keep their corporate tax rate cut.

Farmers face risks very few industries encounter. Investing in America's farming families and communities is smart economic policy. Extending these tax provisions will remove an important piece of uncertainty as producers start planning future investments. Congress should stand up for agriculture and extend this important tax provision.

Thank you for the opportunity to submit this statement for the record and we stand ready to work with the Committee to ensure Section 199A is made permanent.

American Carbon Alliance
4020 121st Street
Urbandale, IA 50323
Phone: 515-423-0694

August 28, 2024

To the House Committee on Ways and Means,

The American Carbon Alliance (ACA) appreciates the opportunity to submit comments on the positive impact and importance of recent tax credits for American families, farmers, workers, and small businesses. Representing a coalition of ethanol producers, pipeline companies, agricultural stakeholders, and energy innovators, the ACA is committed to advancing carbon capture and sequestration technologies, as well as expanding into new low-carbon fuel markets.

Ethanol Production has played a pivotal role in driving economic growth in the Midwest. It has created jobs, supported local economies, and provided an essential market for farmers.

The American Carbon Alliance strongly supports the 45Z Clean Fuel Production Credit, which is set to take effect on January 1, 2025. This credit is crucial for incentivizing the production of sustainable aviation fuel (SAF) and other biofuels with a low carbon intensity score. Extending this credit will help ensure that ethanol and other biofuels remain competitive in the market, driving continued innovation and investment in clean energy technologies. In particular, SAF opens new markets and revitalizes the agricultural economy by providing farmers with additional revenue streams from feedstocks that support SAF production.

The 45Z credit positions ethanol and biofuel producers to expand into new low-carbon fuel markets, such as sustainable aviation fuel. These markets are vital for meeting domestic energy needs while also capitalizing on global opportunities. With other countries rapidly innovating to meet the demands of international agreements and policies, the 45Z credit offers American producers a competitive advantage in these markets, ensuring long-term growth and stability. It is imperative that we seize this opportunity to lead in the global low-carbon fuel sector.

Moreover, the 45Z Clean Fuel Production Credit and supporting the ethanol industry are critical for strengthening America's energy independence. By producing low-carbon fuels domestically, we reduce our reliance on foreign energy sources and enhance national security.

In conclusion, implementing the 45Z Clean Fuel Production Credit and supporting the expansion into low-carbon fuel markets are essential steps to maintain this momentum. The ACA remains committed to collaborating with policymakers to ensure the continued success of pro-growth, pro-worker tax policies that benefit American families, farmers, workers, and small businesses.

Thank you for the opportunity to provide these comments. We look forward to continued discussion on these important issues.

Sincerely,

Nick Ryan
Director
American Carbon Alliance

Submitted by: American Carbon Alliance (ACA)
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Dear Chairman Smith and Members of the Committee,

Thank you for coming to Iowa, the heartland of American agriculture and home to dozens of ethanol plants and thousands of farmers who work tirelessly to support our nation's energy independence. The policies you are here to discuss, which include the pro-growth, pro-worker tax cuts, have played a pivotal role in enabling these farmers and producers to thrive.

However, despite these positive impacts, our agricultural economy has faced significant challenges, with thousands of layoffs across the sector. What we need now is new demand for the products we produce. One of the best opportunities for this is through the development of low-carbon fuel markets, such as Sustainable Aviation Fuel (SAF) and higher ethanol blends. These markets not only offer new revenue streams for American farmers but also help our nation achieve its energy independence goals.

1. The Role of Low-Carbon Markets in Energizing the Agricultural Economy:

The success of low-carbon fuel markets, like SAF and higher ethanol blends, will be essential to revitalizing our agricultural economy. By expanding into these new markets, we create demand for the next generation of biofuels, providing stability and growth opportunities for farmers. The pro-growth tax cuts have provided the foundation, but extending policies like the 45Z Clean Fuel Production Credit will ensure this momentum continues.

2. Meeting National Energy Goals While Supporting Farmers:

Ethanol has long been a cornerstone of America's energy strategy, reducing our dependence on foreign oil and bolstering national security. Expanding into SAF and other low-carbon fuels aligns with our nation's broader energy goals while directly benefiting rural economies. Extending the 45Z credit is not just about supporting energy policy; it is about securing the future for thousands of American farmers and producers who are looking for new markets to sell their crops.

3. Ensuring Long-Term Growth Through Policy Continuity:

The extension of the 45Z Clean Fuel Production Credit beyond its 2025 start date is crucial for the long-term growth of the ethanol and biofuel industries. This credit provides the necessary incentives for producers to continue investing in the development of low-carbon fuels, which are critical to the future of both the energy and agricultural sectors. We cannot afford to lose the momentum created by the pro-growth tax policies; extending the 45Z credit will ensure that American producers remain competitive globally and that our rural economies thrive.

4. Addressing the Agricultural Economic Challenges:

While these policies have helped create jobs and boost local economies, the agricultural sector has experienced significant difficulties, including layoffs and market instability. By fostering innovation and supporting the growth of next-generation biofuels, we can address these challenges and create new opportunities for farmers. The pro-growth tax cuts have laid the foundation, but extending the 45Z credit is vital for achieving these goals.

The policies that have supported the ethanol industry and the broader agricultural economy have had a transformative impact on the Midwest. However, the work is far from done. To continue this progress, we need to focus on expanding into low-carbon markets like SAF, extending key tax credits like the 45Z, and ensuring that the agricultural economy can thrive in a changing world.

Thank you for your continued leadership and for bringing this important discussion to Iowa. We look forward to working together to ensure that American agriculture remains a driving force in our nation's economy and energy future.

Sincerely,

Tom Buis
CEO, American Carbon Alliance

Comments for the Record
United States House of Representatives
Committee on Ways and Means
Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest
Friday, August 16, 2024, 9:00 AM CT
By Christina Banoub
National Pork Producers Council

Given the volatility that pork producers and the agriculture sector face —with fluctuating commodity prices, unpredictable weather patterns, and ever-changing market demands--a stable tax policy is essential to a pork producer's ability to navigate uncertainty and plan strategically for the future. That is why several expiring Tax Cuts and Jobs Act (TCJA) provisions as well as other provisions at risk of repeal or modification are of critical importance to pork producers.

Pork producers like Jim Boyer from Iowa say it best:

> "The agriculture industry entails a lot of unforeseen risks and challenges that we have little or no control of, i.e. weather, markets, regulations and of course financial uncertainties when it comes to tax policies. Successful livestock producers use the tools provided to them to help mitigate these risks. This is what I find most troubling about the expiration of the Tax Cut and Jobs Act (TCJA).
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> Through a lot of the provisions in the TCJA we have been able to weather a lot of the financial uncertainties that we as livestock producers have faced in the last 5 years. What concerns me is the loss of a lot of the tools we have to use going forward.
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> Tools like the cash method of accounting that we for our livestock and crop production. The tax liability expenses we would incur if we have to pay taxes on current inventory would be detrimental to our success. Changes that would force us to use the accrual method of accounting would be detrimental as would the inability to deduct certain prepaid expenses, such as feed, seed and fertilizer.
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> Also, tools like the tax-free step-up in basis or estate tax exemptions are also important. As my wife and I make plans to pass our farming operations down to the next generation, the uncertainties of the tax policies make this very difficult. Our worst fears are that our successors will be forced to sell off assets that we and prior generations have work so hard to accumulate. That's why it is so important to protect these tax tools."

Based on the economic impact of many tax provisions on small, medium, and large producers, NPPC urges the committee to:

- Permanently increase the bonus depreciation percentage to 100%, and/or significantly increasing Section 179 expensing limitations.
- Retain the current capital gains tax regime as capital gains rates in excess of current law would result in significant unintended economic consequences and increase tax burdens for producers.
- Retain the TCJA's increase of the lifetime estate tax exemption.
- Make permanent the Section 199A qualified business income deduction.
- Protect the tax-free step-up in basis at which is a vital tax provision—especially for producers seeking to pass their operations on to the next generation.
- Preserve the ability for producers to use the cash method of accounting as well as the ability to deduct certain prepaid expenses.
- Remove the interest expense limitation or restoring the pre-2022 definition of "adjusted taxable income" which increases the amount of interest expense that is deductible for pork producers.
- Remove limitations on the amount of gain eligible for deferral in a like-kind exchange which are uniquely and disproportionately harmful to pork producers.

Bonus Depreciation

When assets have a useful life extending beyond the year of purchase they typically must be capitalized and depreciated over their useful life. Bonus depreciation allows producers to immediately deduct an added or bonus percentage of an eligible business asset—like machinery, land improvements, and specialized agricultural property—the year that asset is placed into service. This encourages producers to invest in critical capital assets by speeding cost recovery—reducing after-tax costs of acquiring those assets.

For pork producers, the immediate deduction has significant impacts on real cash flow, which is critical at a time when the pork industry has been facing years of some of the toughest economic conditions possible. Should the increase to 100% bonus depreciation in the TCJA phase out as scheduled, many producers already struggling will find it harder to recover.

Section 179

Much like bonus depreciation, Sec. 179 allows for accelerated cost recovery of business assets. Again, this encourages producers to make needed investments in qualifying assets at a time operating costs and costs of equipment are high. This is particularly applicable to

small producers and, should bonus depreciation also expire, could be increasingly applicable to medium- and large-sized operations.

TCJA raised expensing limits under Sec. 179 (adjusted for inflation), which has significantly benefited producers seeing ever increasing equipment and capital expenditure costs.

Estate Tax, Step-Up in Basis, and Capital Gains

Capital Gains Rates,

The current capital gains rates are based on overall taxable income and filing status with three brackets at 0%, 15%, and 20% (with certain exceptions). This applies when a gain is realized—as unrealized gains are not currently taxable. When assets with a built-in loss are held by an individual at their death, assets receive a “step-up” in basis to the asset’s fair market value at the time of that person’s death (the individual’s death is not treated as a realization event). Step-up in basis is discussed further below.

Changes to the capital gains tax, such as the current administration’s proposal to treat the owner’s death as a realization event, would dramatically impact pork producers. This would be especially true in times of change and generational transition—when most can least afford additional tax liability.

Step-up in Basis

The concept of “step-up in basis” is critical for pork producers, especially in the context of estate planning and passing operations on to the next generation. The step-up in basis allows the value of an asset (land, buildings, and equipment which are used in pork production) to be “stepped up” to its current market value at the time of the owner’s death—if it is included in the taxable estate. This significantly reduces the capital tax liability an inheriting party faces if it decides to sell an asset.

Step-up in basis cannot be evaluated in a vacuum—where it matters most to producers is the special rule that the transfer of an asset from a decedent to their heir is NOT a taxable event. This is where the step-up in basis also correlates with the estate tax.

When a property is sold or transferred, the IRS requires the seller to recognize gain or loss upon the disposition of a property. The amount of gain or loss depends on the adjusted basis—making that basis critical. An individual who inherits a property takes a basis in the property equal to the fair market value of the property upon the decedent’s date of death.

Changes to the step-up in basis (such as treating the transfer of property upon death as a realization event for capital gain and making the appreciation on a property subject to

capital gains) may threaten the ability for current producers to pass down their operations to the next generation.

Step-up in basis is critical for producers who inherit assets including land, livestock, or equipment. The taxation of these appreciated assets at the time of death especially if paired with a reduced estate tax exemption (see discussion of estate tax below) would jeopardize pork producers of all sizes.

Estate Tax

The federal estate tax is up to 40% on decedents with a federal taxable estate above a certain threshold. Current law, under the TCJA, doubled the individual exemption from the estate and gift tax from $5.49 to $11.18 million (with adjustment for inflation). Should the exemptions return to the pre-TCJA level in 2025, the exclusion is expected to be just over $7 million per person.

Pork producers, who possess substantial real and personal property in the form of their operations, are often at risk of significant estate tax liabilities. If the TCJA provision doubling the estate tax exemption is allowed to expire, the impact on pork producers will be disproportionate due to the amount of land needed for producers (especially those with diversified operations) to operate.

Together with any change to the step-up in basis, expiration of the estate tax exemption increase could directly threaten the next generation of pork producers. That next generation would face two levels of tax on an estate—the unrealized gains on property transferred through the estate subject to capital gains tax as discussed above and the estate tax itself.

Qualified business income (Sec. 199A)

The TCJA created a temporary deduction for qualified business income (QBI) or Section 199A allowing pass-through deductions of up to 20% of qualified business income in determining federal tax liability. For those farms not structured and taxed as corporations, income flows through the business to the household directly—subject to Federal income tax at individual rates. Section 199A allows individuals, trusts, and estates with income from such pass-through businesses to deduct up to 20% QBI in determining their federal tax liability.

If QBI deduction expires after 2025 most producers structured as passthrough entities would either face an increase in tax liability or accept less flexibility and dual taxation as a corporation. This would leave already struggling producers with negative outcomes regardless of how they choose to then structure themselves.

Cash method of accounting

The TCJA increased the maximum size of businesses eligible to use cash accounting rather than accrual method. While there haven't been proposed changes to the threshold, it is critical to note how important this tool is for farmers to normalize and plan their cash flows. In an industry that faces seasonal highs and lows, this ability to regulate cash flow is indispensable for producers.

Changes or loss of cash method of accounting could at minimum spike taxable income for one year and could jeopardize producers that rely on that method to normalize their cash flows.

Ability to Deduct Prepaid Expenses

A producer using the cash method of accounting can claim deductions for prepaid expenses in the year the payment is made—this is important for expenses like feed, supplies, and veterinary services. Current law limits the amount deductible for prepaid expenses. Deducting prepaid expenses provides significant advantages for pork producers. Without it, if combined with a limitation on cash method of accounting, pork producers would have an increase in taxable income and decreased flexibility in expense planning.

Business Interest Expense Limitation

Business interest expense is interest incurred in the operation of business or trade-- like operating lines and notes payable. Under TCJA Sec. 163 (j) can't exceed 30% of a business's adjusted taxable income. However, this restriction did not apply to taxpayers that meet the $25 million gross receipts test and allows a farming business to elect not to be subject to that limitation but instead use the alternative depreciation system.

Until January 1, 2022, "adjusted taxable income" meant taxable income, plus interest expense, taxes paid, depreciation, and amortization. For tax years after 2021, "adjusted taxable income" means taxable income plus interest expense and taxes paid – with no add-back for depreciation and amortization.

It would benefit producers to add back depreciation and amortization when calculating ATI especially as pork is a very heavily capital-intensive industry that typically carry at least on operating line of credit if not multiple loans. Since the change post 2021, the definition of ATI has negatively impacted most larger producers.

Like-Kind Exchanges

Current law allows a "like-kind" exchange that provides for nonrecognition of gain or loss when a real property is replaced with a "like-kind" property and both properties are held for

productive use in a business, trade or for investment. This allows a taxpayer that exchanges one asset for a “like kind” asset, to defer gain until the taxpayer disposes of the replacement property.

The TCJA eliminated this exchange for personal property like farm equipment or livestock, and the current administration also has proposed limiting the aggregate amount of like-kind deferred gain on exchanges of real property.

While pork producers don’t necessarily engage in many real estate transactions, when it occurs there is significant appreciation in property. Proposals to limit the aggregate amount of like-kind deferred gain on exchanges of real property may force many producers to hold off on property transactions. This would eliminate the utility of like-kind exchanges and harm younger generations of producers who lack generational wealth as established producers are less likely to sell their property.

Thank you for your consideration of these critical topics. NPPC looks forward to engaging with the Committee as efforts on expiring tax provisions continue.

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