# EXPANDING ON THE SUCCESS OF THE 2017 TAX RELIEF TO HELP HARDWORKING AMERICANS

## HEARING

BEFORE THE

## COMMITTEE ON WAYS AND MEANS
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United States House Committee on
# Ways & Means
CHAIRMAN JASON SMITH

FOR IMMEDIATE RELEASE CONTACT: 202-225-3625
April 4, 2024
No. FC-23

## Chairman Smith Announces Hearing on Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans

House Committee on Ways and Means Chairman Jason Smith (MO-08) announced today that the Committee will hold a hearing to highlight the benefits of GOP tax reform and discuss the path forward for tax policy ahead of 2025. The hearing will take place on **Thursday, April 11, 2024, at 2:00 PM in 1100 Longworth House Office Building.**

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

**DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:**

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record can do so here: 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 Thursday, April 25, 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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# EXPANDING ON THE SUCCESS OF THE 2017 TAX RELIEF TO HELP HARDWORKING AMERICANS

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**THURSDAY, APRIL 11, 2024**

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

The Committee met, pursuant to call, at 2:05 p.m., in Room 1100, Longworth House Office Building, Hon. Jason T. Smith [Chairman of the Committee] presiding.

Chairman SMITH. The committee will come to order.

Seven years ago, Republicans passed the Tax Cut and Jobs Act under President Trump, delivering relief to millions of families and small businesses, and creating the best economy in our lifetime. In the first two years after passage of that tax relief, real wages grew nearly five percent, the fastest growth in 20 years; real median household income increased by $5,000, a bigger gain than the prior eight years combined; the officially-reported poverty rate dropped to its lowest level in U.S. history; and Black and Hispanic unemployment reached historic lows.

I expect my colleagues will use the same talking points about that bill being all about tax breaks for the wealthy. But the truth is the Congressional Budget Office found that the 2017 tax law increased the share of taxes paid by the top one percent of households, while reducing the burden paid by lower-income earners. As a result of the Tax Cut and Jobs Act, Americans earning under $100,000 received an average tax cut of 16 percent. Facts are clearly facts.

On the other hand, President Biden's so-called Inflation Reduction Act forced taxpayers to subsidize big banks and corporations. More than 90 percent of that bill's special interest tax subsidies for electricity go to companies with over $1 billion in sales. They also included $7,500 tax credits to purchase luxury EVs. More than 80 percent of those credits are claimed by households earning six figures.

Democrats want to blame the 2017 tax cuts for adding to the debt, while ignoring the $10 trillion they and President Biden spent during just the first 2 years of total Democrat control of Congress. Under the Republicans' tax law, revenues reached a record high of $4.9 trillion in 2022, nearly $1 trillion more than CBO's projections. Corporate tax revenues were 17 percent above projections. In fact, in the four years following enactment of the tax law, revenues averaged an increase of $205 billion per year above what was estimated.

The 2017 Trump tax cuts provided a critical blueprint that Congress can build upon to make lasting improvements to our tax code. The House has already shown strong bipartisan support for key provisions of the 2017 law by passing the Tax Relief for American Families and Workers Act earlier this year. But there is still much work to be done. Unfortunately, President Biden has shown he is willing to throw away these hard-won gains.

The President has repeatedly said that a budget is a statement of values. His most recent budget shows that he clearly values higher taxes and more inflationary spending over the well-being of the American people. The current price tag on Biden's tax hikes is five trillion, exploding to seven trillion with his suggestion to fill the gap if middle class tax cuts are extended.

Here is the bottom line: Congress must act soon to prevent what will be the largest tax hike in history on workers, families, farmers, and small businesses. If the 2017 tax cuts expire, the average family of four earning $75,000 will see their taxes increase by $1,500 a year starting in 2026. A family of five with two earners making around $100,000, would see a tax increase of nearly $7,500 a year.

President Biden and many other Democrats have called for repeal of the Trump tax cuts. Republicans won't let that happen because middle-income earners will be hit the hardest by the coming tax hikes. Small businesses will also face massive hardship with the expiration of the 199A small business deduction. We will see even more closed-for-business signs up and down Main Street when their Federal tax rate jumps to over 40 percent.

The hard work this committee put into doubling the Child Tax Credit, which we reaffirmed just a couple months ago in the Tax Relief for American Families and Workers Act, will be slashed in half after 2025. The safeguards we put in place to make it harder for the IRS to go after family farms and ranches will sunset after 2025. Democrats continue to rave about the economy, but they are forgetting one thing: you can't pay your mortgage, feed your family, or put gasoline in your car with a jobs report.

We need pro-growth solutions that will restore the economy we had under President Trump. Our committee has already made progress on pro-growth and pro-family tax policies this Congress. Now we need to come together and look at other ways we can strengthen our competitive edge against China and ensure our tax code is a help, not a hindrance to workers, families, farmers, and small businesses just trying to get by.

Chairman SMITH. I am pleased to recognize Ranking Member Neal for his opening statement.

Mr. NEAL. Thank you, Mr. Chairman. So we don't want to disappoint you, Mr. Chairman, in terms of the script. [Laughter.]

Republicans have now wasted the last 16 months on chaos, conspiracies, and, of course, talk of more tax cuts, only to end up back where they always do, proposing to cut taxes for wealthy and well-connected people. I have been around long enough to know that the life cycle of this governing goes as follows: cut taxes for special interests, the top one percent, and then take away basic benefits for middle-income Americans and those at the lower end of the economic spectrum, complain about debt, complain about costs, and then demand, when there is a Democratic president, that we should balance the budget.

I was here long enough to see the Bush tax cuts in 2001 and 2003, $2.3 trillion worth of tax cuts, while we simultaneously fought 2 wars and witnessed the collapse of Wall Street.

In the last three decades our Republican colleagues have skyrocketed the deficit with trillions of dollars in tax cuts, largely for people who don't need them and, in my memory, for people who weren't even asking for them, but always with the same result: the top one percent will benefit, with very little for the American worker.

The American economy right now is humming along. Three straight years of unemployment under four percent. Even productivity is up during the Biden Administration. I call attention to that because the simplicity of always arguing for tax cuts takes away from the complexity of trying to govern beyond that.

In 2017 Ways and Means Democrats, we saw the corporate tax cut give away for what it was, a scam. We knew that this plan would disproportionately benefit the wealthy and the well-connected. We knew it wouldn't pay for itself, which I hope we will have a thorough opportunity to discuss this afternoon. We also knew that there were large corporations and that were not workers who would not benefit.

Six years since that tax plan was signed into law, we have been proven right on every single count. It didn't pay for itself, it didn't increase revenue, and it certainly did not increase wages. A recent study, whose authors included the JCT, a well-regarded group in this town, let this idea I am about to offer sink in. They found that all of the corporate tax gains from TCJA went to shareholders and high-paid executives.

If you wonder what is driving the political debate in America right now and the populism that has engulfed the left and the right in the base, this has been a big contributor. There is very little that is really flowed to average workers from those tax cuts: 56 percent of the tax cuts enriched shareholders, the remaining 44 percent lined the pockets of many executives, 0 percent went to workers. I repeat, zero.

Democrats took a different path, and now our economy is the strongest in the world. And think of the recovery that we have witnessed compared to the rest of the world. America's economic boom continues to defy expectations. Fifteen million jobs created during the presidency of Joe Biden. That might even get close to the 22 million jobs that were created during Bill Clinton's presidency. Wages and wealth are on the rise, and consumer confidence is reaching new highs. This is no accident. Our investments in American workers and families have powered this record growth.

New jobs in clean energy, manufacturing, lower health care and energy costs, and holding wealthy tax evaders accountable. We have proof that when you use the tax code to invest in those who need it most, we all benefit. Workers, families, and our communities should come first. In the words of Joe Biden, "Grow the economy because that hurts nobody."

And our workers aren't asking for much, just a fair shot to unlock the fullest potential of that worker. They need basic workplace supports because it is the road that gets you not just to work, but to success in American life. It is child care that helps to keep you there, and it is paid leave that will keep you employed. What if we invested in our children the way that many on this panel would invest in the corporate salaries of top executives?

There are 20 years of data showing trickle-down economics doesn't work. And yet today we will see again a revisionist history of wishful thinking on a large failure of fiscal policy in decades. If workers and middle class are actually your priorities, let's put them ahead of big corporations and billionaires as we proceed.

Mr. NEAL. And with that I yield back the balance of my time.

Chairman SMITH. Thank you, Ranking Member Neal. I will now introduce our witnesses.

Senator Phil Gramm is senior advisor to U.S. Policy Metrics, and former chairman of the Committee on Banking, Housing, and Urban Affairs in the United States Senate.

We have Dr. Paul Winfree as president and CEO of the Economic Policy Innovation Center, and the former Deputy Assistant to the President for Domestic Policy.

We have Michael Ervin as the founder and co-owner of Coal River Coffee Company in Saint Albans, West Virginia.

We have Austin Ramirez as the president and CEO of Husco International, based in Waukesha, Wisconsin.

And then Dr. Kathryn Anne Edwards is a Ph.D. labor economist and public policy consultant.

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

Senator Gramm, you may begin when you are ready.

**STATEMENT OF PHIL GRAMM, FORMER CHAIRMAN, COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS, UNITED STATES SENATE**

Mr. GRAMM. Thank you, Mr. Chairman and Ranking Member Neal. I appreciate having an opportunity to be here today. I am afraid I talk slow, so I better get moving.

Any discussion of the merits of the 2017 tax cut has got to begin with talking about the corporate tax cut which took America from the highest corporate rate in the world to a 21 percent rate, which was roughly the average rate of all developed countries in the world. All available evidence suggests that the tax cut and reductions in regulatory burden that occurred at the same time that the tax cut was implemented caused real gross national product to rise by three percent in 2018, the highest growth rate in 13 years.

Now, there was no big deal about a three percent rate of growth since it had been the average prior to 2008. What was an extraordinarily big deal, and one that I hope this committee will recognize, is that there was a dramatic change in median household income, which soared, and the poverty rate, which plummeted.

As a longtime student of tax policy and a former member of the Senate Finance Committee, I was astonished at the unexpected depth and breadth of the benefits that flowed from the 2017 tax cut.

According to the Census Bureau—and I want to put this information in the record so people have it—real median household income surged the year after the tax cut by $5,220. That is almost 50 percent larger in inflation-adjusted dollars than the next highest income gain, and 11 times the average annual gain since 1967. Every quintile of earners saw their income go up by a record amount in the last 50 years. The bottom quintile saw their income rise by 9.4 percent in real dollars. The second quintile saw their income rise by 7.4 percent, the third quintile 6.9 percent, the fourth quintile 7.8 percent, and the top quintile by 7.2 percent. And those figures are from the Census Bureau.

The poverty rate plummeted by the most in half a century, hitting a new low. Now, this is a startling statement, and I would appreciate it if everybody listened to it: No tax change or spending increase in over 50 years by the United States Government delivered so great an impact on median income and poverty.

Now, how did that happen? Obviously, owners of public companies benefited. Stock markets soared in 2017 in anticipation of the tax cut and in 2018 and 2019 in response to it.

But who owns these stocks? According to the Tax Notes, 72 percent of the value of all domestically held stocks are owned by pension plans, 401(k)s, IRAs, and charitable organizations, or held by life insurance companies to fund annuities and benefits.

Corporate tax rates receive less attention than personal income tax rates only because Americans don't understand that corporations pay no taxes. A corporation is just a pass-through legal structure, a piece of paper generally filed in a filing cabinet in Delaware. That is what a corporation is. When the corporate tax rate is increased, corporations try to pass the cost onto the consumer. To the degree that the entire cost is not passed to the consumer, the tax increase is then passed to workers and investors.

Now, economists have studied this in great detail, and most economic studies suggest that 50 to 70 percent of the corporate tax increase is borne by workers, and 30 to 50 percent is borne by investors. If you consume, the corporate tax rate hits you at least once. If you consume and work for a corporation, it hits you twice. If you consume, work, and invest your retirement funds in corporate equities, it hits you three times.

Many Americans don't pay individual income taxes, but all Americans pay corporate taxes. In fact, a recent Treasury study done by the Obama—I mean by the Biden Treasury confirms that 92.6 million families, 49.5 percent of all families in this country, pay more corporate taxes than they pay individual income taxes. All this suggests to me is that Congress consistently under-appreciates the burden of the corporate tax rate, and doesn't pay enough attention to it.

Now, let me sum up since I am running out of time.

Chairman SMITH. Senator Gramm, we are over a minute, almost a minute-and-a-half over.

Mr. GRAMM. Oh, I am sorry. Well, I will stop, then.

Chairman SMITH. We will get to you in questions.

[The statement of Mr. Gramm follows:]

Testimony before the House Ways and Means Committee

BY PHIL GRAMM

To be presented before the House Ways and Means Committee on 04/11/2024

Chairman Smith, Ranking Member Neal and members of the Ways and Means Committee, thank you for your invitation to testify today on the 2017 tax cuts. Any discussion of the merits of the 2017 tax cut must begin with the corporate tax cut, which took America from a 35% corporate tax rate, the highest in the world, to 21%, the mid-range of global corporate tax rates. All available evidence suggests that the corporate tax cut and reductions in regulatory burden which were implemented at the same time caused real Gross National Product to rise by 3% in 2018, the highest growth rate in 13 years. Yet far more impressive than the 3% growth rate, median household income soared and the poverty rate plummeted.

As a long time student of American tax policy and a former member of the Senate Finance Committee, I was astonished at the unexpected depth and breadth of the benefits that flowed from the 2017 corporate tax cut. Real median household income surged by a record $5,220, almost 50% larger than the next highest income gain and 11 times the average annual gains since 1967. The poverty rate plummeted by the most in half a century hitting a new all-time low. No tax change or spending increase in over 50 years delivered so great an impact on median income and poverty.

Obviously, the owners of American public companies benefited as the Dow, the S&P 500 and Nasdaq surged in 2017 in anticipation of the tax cuts and in 2018 and 2019 in response to the tax cuts. But who are these owners? According to *Tax Notes*, seventy-two percent of the value of all domestically held stocks are owned by pension plans, 401(k)s, individual retirement accounts, and charitable organizations, or held by life insurance companies to fund annuities and death benefits.

Corporate tax rates receive less attention than personal income tax rates only because Americans don't understand that corporations do not pay taxes. A corporate entity is just a "pass through" legal structure. When the corporate tax rate is increased, corporations try to pass the cost onto consumers. To the degree that the entire cost of the tax increase cannot be passed on to consumers, those costs are borne by workers and investors. Most economic studies suggest that 50-70% of a corporate tax increase is borne by workers and 30-50% borne by investors.

If you consume the corporate tax rate hits you once. If you consume and work at a corporation, the corporate tax hits you twice. And if you consume, work, and invest your retirement funds in corporate equities, the corporate tax rate hits you three times. Many Americans don't pay individual income taxes but *all* Americans pay corporate taxes. In fact, a recent Treasury study confirms that 92.6 million families pay more in corporate taxes than they do in individual income taxes. All of this suggests that Congress consistently underappreciates the burden of the corporate income tax on middle and lower income Americans.

The extraordinary success of the corporate tax reduction contained in the 2017 bill is now jeopardized not just by the Administration's proposed corporate rate increases but by the global corporate minimum tax which the Administration negotiated with OECD. While the U.S. Treasury has never released an estimate of how much of this corporate minimum tax will be paid by Americans, the Oxford Center for Business Taxation has estimated the U.S. will pay 64%

of the global profits tax compared with 9.5% for China, 3.8% for the UK, 1.6% for Germany and 0.7% for France. The Administration has also agreed to allow countries to tax American subsidiaries to collect the equivalent of the corporate minimum tax on their U.S. earnings if Congress refuses to adopt the global corporate minimum tax.

I urge this committee to adopt legislation to mandate retaliation against any country that seeks to tax American subsidiaries in their country to collect the corporate minimum tax on the subsidiaries U.S. earnings. America's proposed tariffs on French champagne as retaliation for France's proposed digital services tax on U.S. tech companies is a perfect example.

The global corporate minimum tax circumvents the constitutional process and at any period of my service in the House and Senate, I would have vehemently opposed such a circumvention whether it was instituted by a Democratic or a Republican administration. In my opinion the Global Minimum Corporate Tax Agreement is clearly one of the greatest abuses of the Constitution which has occurred in my lifetime.

Chairman SMITH. Dr. Winfree.

Mr. WINFREE. Thank you so much. I was thinking about yielding some time there to Gramm, because he was on a roll. [Laughter.]

**STATEMENT OF PAUL WINFREE, PRESIDENT AND CEO, ECONOMIC POLICY INNOVATION CENTER**

Mr. WINFREE. Chairman Smith, Ranking Member Neal, members of the committee, thanks for having us to testify today. Wonderful opening remarks, and very interesting comments, Senator Gramm.

In 2017 Congress and President Trump enacted monumental tax legislation that reduced the tax burden on Americans and American businesses. At the time of enactment, the Tax Cuts and Jobs Act was estimated by a wide range of economists to increase investment by reducing the cost of capital while also lowering marginal tax rates. These effects were estimated to increase the size of the economy, generate additional opportunities, and increase disposable incomes for Americans at every level of the income distribution.

Estimates of the TCJA's effects on economic growth range from about 0.3 percent of GDP on the low end to over 2 percent of GDP on the high end. Any extent to which the TCJA was anticipated to depress output was associated with the fiscal effects of deficit financing, and could have—that could have triggered higher interest rates, and thus created a drag on the economy.

One of the issues that limited the growth potential of the TCJA was the expiration of provisions that reduce taxes on investment. Under current law, many of the components of the TCJA will expire at the end of 2025. That is what we are talking about today. However, we cannot view the expiration of these provisions without also considering what has changed about the broader economy, as well as the nation's fiscal position since 2017.

The nation's fiscal position has deteriorated over the past several years. Since 2020, debt held by the public has increased by $9.1 trillion. This year, roughly $8.9 trillion in Treasury bonds will mature, and the deficit is projected to be about $1.5 trillion. Between the beginning of 2020 and the end of 2023, new bonds paid for 76 percent of all new spending, money creation paid for 14 percent, and tax revenues paid for about 7 percent. The Federal Government has not relied so heavily on debt and money creation to finance new spending since the Civil War.

The increase in debt associated with the pandemic-era spending means that the Department of Treasury will need roughly $10 trillion in additional borrowing authority in 2024 alone to roll over existing debt and to pay for new debt during a period when the Federal Reserve is reducing the size of its balance sheet to reduce inflation.

Under CBO's baseline—that assumes no new wars, recessions, pandemics, relatively high potential growth, and relatively low interest rates—the rate at which debt is expected to grow will soon become so significant that it could cause the U.S. Government to enter what is called a debt spiral. At that point, interest rates will increase, fiscal space will evaporate, and it will become necessary to reduce the deficit to achieve a primary surplus. In a recent paper I estimate that this could begin happening around 2035 under current law, or 2032 under current policy.

In other words, extending the current policy baseline, including tax cuts, only pulls the debt spiral forward by three years. This highlights the underlying problem of the Federal budget being spending growth, or the unsustainable growth in spending. My estimate suggests that to delay the debt spiral from happening over the next 20 years, the Federal Government would need to implement a primary deficit reduction—that is not including interest—of about $2.1 trillion before 2035 without compromising economic growth, and that is an important point.

These broader fiscal challenges also have effects on American households. Given the reliance on debt and money creation, it is no wonder that the hidden tax of inflation has put pressure on American budgets. Between June of 2021 and May of 2023, inflation grew considerably faster than average earnings. That difference, or the wedge between the cost of living and earnings, remains a significant economic challenge.

Households have lost real purchasing power, even as inflation has slowed down. Therefore, any policy that puts additional pressure on household budgets or small businesses would be unwarranted. This includes allowing the tax cuts to expire, which would reduce take-home pay and investment.

Policymakers are going to face a number of challenges over the next several years. It will be necessary to implement a balanced approach that does not raise taxes on the middle class and does not put additional pressure on the debt. Congress can accomplish this by pairing legislation to prevent tax increases with provisions that broaden and correct the tax base, reductions in the growth in spending, and other policies such as removing regulatory burdens that grow the economy.

In essence, you cannot look at the tax question in a silo. You have to look at it with everything else that the Federal Government is doing.

With that, I will yield back the remainder of my time and look forward to your questions.

[The statement of Mr. Winfree follows:]

ECONOMIC POLICY
INNOVATION CENTER

**Testimony by Paul Winfree, Ph.D.**
President and CEO
Economic Policy Innovation Center

Committee on Ways and Means
U.S. House of Representatives
April 11, 2024

Chairman Smith, Ranking Member Neal, and Members of the Committee, thank you for inviting me to testify today.

In 2017, Congress and President Trump enacted monumental legislation that reduced the tax burden on Americans and American businesses. At the time of enactment, the Tax Cuts and Jobs Act of 2017 was estimated by a wide range of economists to increase investment by reducing the cost of capital while also lowering marginal tax rates. These effects were estimated to increase the size of the economy along with wages, generate additional opportunities, and increase disposable income for Americans at every level of the income distribution.

Estimates of the TCJA's effects on economic growth over the 10-year period ranged from about 0.3 percent of GDP (on the low end) to over 2.0 percent of GDP (on the high end). Relative to a pre-TCJA baseline, that is equivalent to an increase in the size of the economy of between $700 billion and $5.7 trillion over the 2018-2027 period.[1]

**Table 1.** Estimates of the Effect of the TCJA on Economic Growth

| | Effect Size (% of GDP) | Time Period | Source |
|---|---|---|---|
| Congressional Budget Office | + 0.7 | 2018-2027 | CBO (2018) |
| Federal Reserve Bank Dallas | + 0.3-2.4 | 2018-2020 | Mertens (2018) |
| Moody's Analytics | + 0.3 | 2018-2027 | Zandi (2017) |
| Penn-Wharton | + 0.6-1.1 | 2027 | PWBM (2017) |
| Tax Policy Center | + 0.5 | 2018-2027 | Page et al. (2017) |
| Tax Foundation | + 1.7 | 2017-2027 | Tax Foundation Staff (2017) |
| Heritage Foundation | + 1.67 | 2018-2027 | Michel and Sheppard (2018) |
| Barro and Furman | + 1.2 | 2027 | Barro and Furman (2018) |

Source: Hyperlinks are in the source column of this table.

Any extent to which the TCJA was anticipated to depress output was associated with the fiscal effects of deficit financing. However, some have argued that on a dynamic basis, the increase in revenue associated with additional economic growth would have made up any static loss in revenue from the TCJA.[2] Others have argued that the TCJA permanently lowered revenue which could trigger higher interest rates and thus create a drag on the economy.[3]

[1] This was calculated by the author using data from CBO's June 2017 economic forecast.
[2] Tax Foundation Staff, "Preliminary Details and Analysis of the Tax Cuts and Jobs Act," Tax Foundation Special Report No. 241, December 2017, https://taxfoundation.org/research/all/federal/final-tax-cuts-and-jobs-act-details-analysis/.
[3] Robert J. Barro and Jason Furman, "Macroeconomic Effects of the 2017 Tax Reform" Brookings Papers on Economic Activity, March 2018,

Given the economic contraction associated with the Covid-19 pandemic, and the increase in debt that followed, it is impossible to evaluate the validity of these earlier estimates. That said, it is worth noting the consensus among economists that the TCJA was beneficial for the economy even though there are some disagreements on the magnitude and effectiveness of individual provisions. At the same time, immediately after the TCJA was enacted there was increase in investment, economic growth, and interest rates on safe assets remained near historically low levels.[4]

One of the issues that limited the growth potential of the TCJA was the expiration of provisions that relieved tax burdens on investment. Under current law, many of components of the TCJA will expire at the end of next year. However, we cannot view the expiration of these provisions without also considering what has changed within the broader economy or the nation's fiscal position since 2017.

Specifically, the nation's fiscal position has deteriorated over the past several years. Before the Covid-19 pandemic, federal net spending as a percent of GDP was about 20 percent.[5] At its peak in 2020, federal spending was 31 percent of GDP but remains more than 22 percent despite the pandemic having ended. Since 2020, debt held by the public has increased by $9.1 trillion. This year, roughly $8.9 trillion in Treasury bonds will mature and the deficit is projected to be about $1.5 trillion.

Between the beginning of 2020 and the end of 2023, new bonds paid for 76 percent of all new spending.[6] Money creation has paid for 14 percent, while tax revenues have paid for 7 percent. The federal government has not relied so heavily on debt and money creation to finance new spending since the Civil War.

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https://www.brookings.edu/articles/macroeconomic-effects-of-the-2017-tax-reform/. Benjamin R. Page, Joseph Rosenberg, James R. Nunns, Jeffrey Rohaly, Daniel Berger, "Macroeconomic Analysis of the Tax Cuts and Jobs Act," Tax Policy Center, December 2017, https://www.taxpolicycenter.org/publications/macroeconomic-analysis-tax-cuts-and-jobs-act.

[4] Some have found that the increase in investment following the enactment of the TCJA was also motivated by increased aggregate demand related to higher disposable income associated with the tax cuts and government stimulus. Source: Emanuel Kopp, Daniel Leigh, Susanna Mursula, and Suchanan Tambunlertchia, "U.S. Investment Since the Tax Cuts and Jobs Act of 2017," IMF Working Paper WF/19/120, May 2019.

[5] Federal Reserve Bank of St. Louis, FRED Debt to Gross Domestic Product Ratios, https://fred.stlouisfed.org/series/FYONGDA188S.

[6] Paul Winfree, "New Debt has Paid for 76% of Federal Spending Since 2020," Economic Policy Innovation Center, September 26, 2023, https://epicforamerica.org/blog/new-debt-has-paid-for-76-of-federal-spending-since-2020/.

As a comparison, the federal government paid for 46 percent of the spending growth associated with World War II with new debt and about 10 percent with money creation.

In terms of the government's fiscal position, the increase in debt associated with the pandemic-era spending means that the Department of Treasury will need roughly $10 trillion in additional borrowing to roll over existing debt and to pay for new debt, during a period when the Federal Reserve is reducing the size of its balance sheet to reduce inflation.[7]

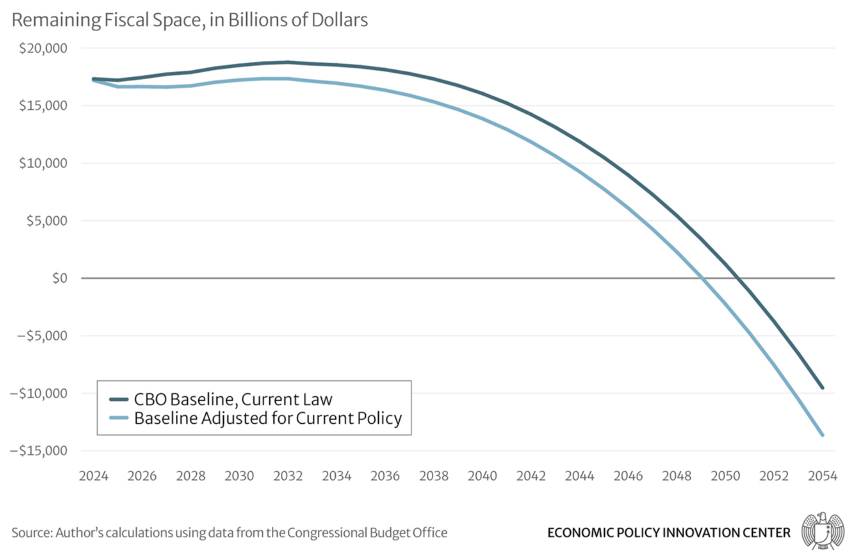
Normally, during times of crises, investors purchase Treasuries as the world's premier safe asset to hold value. However, institutional and foreign investors have been buying fewer Treasuries over the past several years. In this environment, the law of supply and demand would suggest that if much more additional debt is issued, for whatever reason, the interest rate on Treasuries will increase thus reducing the nation's fiscal space.

Even under the baseline projection that assumes no wars, recessions, pandemics, relatively high potential economic growth, and low interest rates, the rate at which it is expected to grow will become difficult to keep pace with through economic growth alone. That will cause the U.S. government to enter what is called a debt spiral. At that point, interest rates will increase, fiscal space will evaporate, and it will become necessary to reduce the deficit to achieve a primary surplus.

In a recent paper, I estimate that this would begin to happen around 2035 under current law, or by 2032 under current policy.[8] This is, coincidentally, around the same time when the Medicare Hospital Insurance and Social Security Old Age and Survivors' Insurance trust funds are exhausted.[9] In other words, extending current policy, including the tax cuts, only pulls the debt spiral forward by three

[7] Torsten Slok, Jyoti Agarwal, and Rajvi Shah, "Rising US government debt: What to watch? Treasury auctions, rating agencies, and the term premium," Apollo Global Management, February 2024, https://apolloacademy.com/wp-content/uploads/2024/02/OutlookForDemandForTreasuries2024-0203.pdf.
[8] Paul Winfree, "The Looming Debt Spiral: Analyzing the Erosion of U.S. Fiscal Space," Economic Policy Innovation Center, March 5, 2024, https://epicforamerica.org/publications/the-looming-debt-spiral-analyzing-the-erosion-of-u-s-fiscal-space/. In this paper, I also estimate fiscal space under current policy assuming an adverse fiscal event occurring in 2027. This is shown in Figure A1 in the Appendix.
[9] Congressional Budget Office, "The Budget and Economic Outlook: 2024 to 2034," February 2024, https://www.cbo.gov/publication/59710.

Figure 1: Estimates of Fiscal Space Under Current Law and Current Policy Baselines



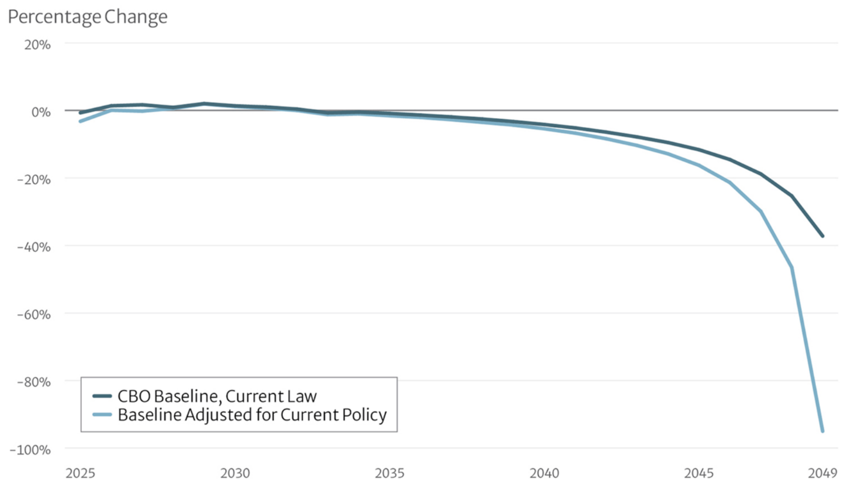

years. This highlights the underlying problem of the federal budget being spending growth at unsustainable rates.[10]

My estimates suggest that to delay the debt spiral from happening over the next 20 years the federal government would need to implement a primary deficit reduction (that is, not including interest) of about $2.1 trillion before 2035, without compromising economic growth. This is in addition to paying for any new spending or reduction in tax revenues not assumed in the Congressional Budget Office's current law baseline.

These broader fiscal challenges also have effects on American households. Given the reliance on debt and money creation, it is no wonder that the hidden tax of

[10] Almost all the erosion in fiscal space is driven by higher debt service costs and the growth in spending on federal health programs. Source: Paul Winfree, "The Contribution of Federal Health Programs to the U.S. Fiscal Challenges and the Need for Reform" Paragon Health Institute, January 2023, https://paragoninstitute.org/medicaid/post-the-contribution-of-federal-health-programs-to-us-fiscal-challenges-and-the-need-for-reform/.

Figure 2: Change in Fiscal Space Under Curent Law and Current Policy Baselines




Source: Author's calculations using data from the Congressional Budget Office

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inflation has put pressure on American's budgets. Between June 2021 and May 2023, inflation grew considerably faster that average earnings. That difference (or the wedge between the cost of living and the earnings) remains a significant economic problem. This is because households have lost real purchasing power even as the inflation rate has slowed down (see Figure A2 in the Appendix).

Therefore, any policy that puts additional pressure on household budgets or small businesses would be unwarranted. This includes allowing the tax cuts to expire which would reduce take home pay and investment. Allowing the expiration of these tax cuts would damage our ability to counteract inflation through positive wage growth and higher productivity, while also reducing aggregate demand thereby slowing domestic investment.

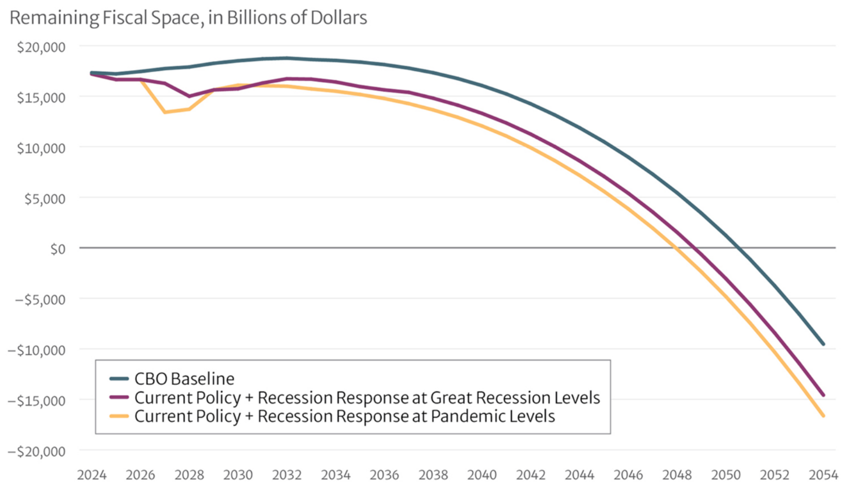
Policymakers will face a number of fiscal inflection points over the next few years.[11] It will be necessary to balance an approach that does not raise taxes on

[11] Economic Policy Innovation Center, "Upcoming Fiscal Inflection Points," EPIC Resources, March 25, 2024, https://epicforamerica.org/resources/upcoming-fiscal-policy-inflection-points/.

the middle class and does not put additional pressure on the debt. Congress can accomplish this by pairing legislation to prevent tax increases with provisions that broaden and correct the tax base, spending reductions, and other policies such as removing regulatory burdens to grow the economy.

## Appendix

Figure A1: Estimates of Fiscal Space Under Current Law and Current Policy Baselines, Including Recession Response




Source: Author's calculations using data from the Congressional Budget Office and the Office of Management and Budget

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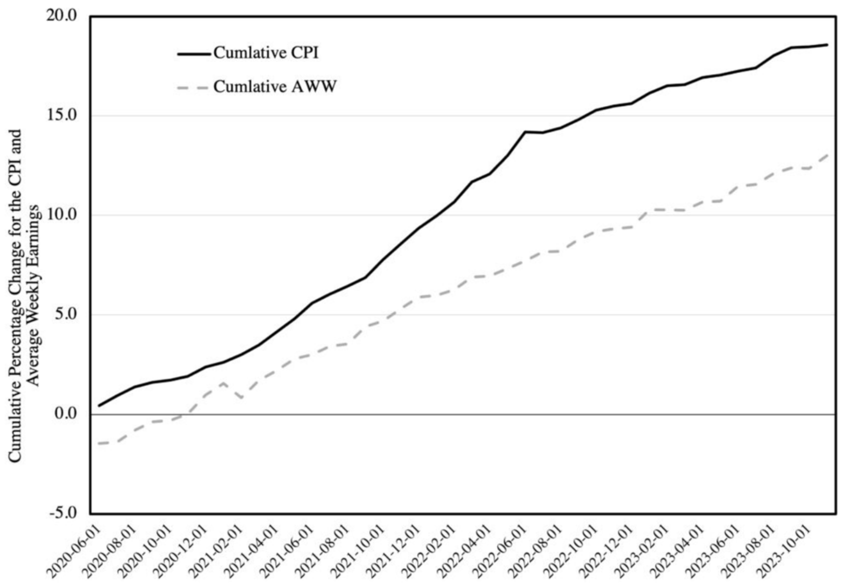
Figure A2: Growth in Cumulative CPI-U and Average Weekly Wages




Source: Beach and Winfree (2024).

Chairman SMITH. Thank you.

Mr. Ervin, you may proceed.

**STATEMENT OF MICHAEL ERVIN, FOUNDER, COAL RIVER COFFEE COMPANY**

Mr. ERVIN. Good afternoon, Chairman Smith, Ranking Member Neal, and members of the House Committee on Ways and Means. My name is Michael Ervin. I am the founder of Coal River Coffee Company in Saint Albans, West Virginia. Thank you for having me here today.

Less than 10 years ago I was, like many average Americans, a man with a dream to start a small business. I started roasting coffee as a hobby in my garage, and my wife thought it was really delicious, and thought maybe someday someone might want to buy it. So we took a chance and founded Coal River Coffee Company in 2018 not only to make money, but also to hopefully spark a revitalization, an economic revitalization in small town America, in particular Appalachia, and to prove that a thriving Main Street business is possible.

Currently, we are accomplishing this goal and hope to see more growth in the future. Right now we employ over a dozen people in our community. Additionally, I coach and train other Main Street business owners throughout my region.

Twenty-eighteen was a landmark year not only for small business, but also for the tax code. After the passage of the Tax Cuts and Jobs Act, LLCs and other pass-through businesses like mine were able to benefit from the newly-minted small business deduction, also known as 199A deduction. This provision has allowed me to deduct up to 20 percent of my business income, which has let me invest in my business, my employees, and in my community. We have been able to increase my employees' hourly wages, invest in equipment, grow from a single location to four iterations, create a mobile location, and sell my Main Street roasted coffee internationally.

However, in less than two years our business will be facing a huge, significant tax hike unless Congress acts to extend and make permanent the small business deduction. Not only will my 20 percent small business deduction go away, but my marginal tax rates will increase if Congress fails to act.

These tax increases do not exist in a vacuum. My larger competitors, like Starbucks and Tim Hortons, are organized as C corporations and pay a rate of 21 percent Federal corporate rate, which is permanent. If small business deduction lapses and the marginal rates increase, I could be staring at an effective tax rate of nearly 45 percent when you combine Federal and state income taxes.

This 45 percent tax is not on my take-home pay like high-wage W–2 employees. This is the tax on my business income. With a pass-through business like mine, I am taxed on business income whether I reinvest that money in my business and create new jobs or take it home as profits.

Down the street from my location is a larger competitor, Tim Hortons. In 2 years, if my taxes go up, the corporate rate will remain 21 percent. Tim Hortons will be paying a 21 percent Federal rate and a 6.5 percent state corporate rate, for a total combined of

27.5 percent, while my total combined rate will be closer to 45 percent. This disparity will make it extremely difficult for me to complete our mission.

I am not asking for special treatment, but I am asking that small businesses get treated equally with big businesses, and not be placed at a competitive disadvantage by the tax code. The tax code was meant to incentivize the economy, incentivize entrepreneurs like myself and other like-minded small business owners in America, not to penalize us. And in two years we are looking at a major penalty. We won't be able to reinvest in our community and create a thriving, revitalized Main Street.

How many of you want to see a Main Street with more "closed" signs on their doors? We all love our hometowns. We all love our home states, and every one of our little small towns are struggling. And what we have been able to prove since 2018 because of this deduction is that it is possible to have a thriving mom-and-pop shop that not only is successful financially, but can inspire other entrepreneurs to do the same thing right where they are from.

Congress still has time to act and help small businesses like mine. The small business deduction does not expire until the end of 2025. Bipartisan legislation introduced by Representative Smucker on this committee exists to make this legislation permanent. His legislation is appropriately titled the Main Street Tax Certainty Act. While the end of 2025 sounds far away, I will soon have to make long-term decisions based on the future expectations.

Thank you for allowing me the opportunity to share my story with you guys today. I look forward to answering any questions that you might have.

I yield the rest of my time.

[The statement of Mr. Ervin follows:]

TESTIMONY BEFORE THE UNITED STATES CONGRESS
ON BEHALF OF THE

**NATIONAL FEDERATION OF INDEPENDENT BUSINESS**

Statement for the Record of Michael Ervin
Founder & Owner, Coal River Coffee Company

United States House of Representatives
Committee on Ways and Means

*"Expanding the Success of the 2017 Tax Relief to Help Hardworking Americans"*

April 11, 2024

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

Good afternoon, Chairman Smith, Ranking Member Neal, and Members of the House Committee on Ways and Means. My name is Michael Ervin; I am the founder and owner of Coal Rive Coffee Company in St. Albans, West Virginia. Thank you for inviting me to testify at this important hearing.

Less than ten years ago I was, like many Americans, a man with a dream to start a small business. I started out roasting coffee in my garage in my hometown of St. Albans, West Virginia. St. Albans is a small town of around 10,000 people in Kanawha County, West Virginia. In 2018, my wife and I decided to take a chance and founded Coal River Coffee Company in hopes of sparking an economic revitalization and to prove a thriving Main Street business is possible. We are accomplishing this goal and hope to see more growth in the future.

Currently, we employ over a dozen people in our community. Additionally, I coach and train many other Main Street business owners throughout my region. 2018 was a landmark year not only for our small business but also for the tax code. After the passage of the Tax Cuts and Jobs Act, LLC's, and other passthrough businesses like mine were able to benefit from the newly minted Small Business Deduction, also known as the 199(a) deduction. This provision has allowed me to deduct up to 20% of my business income, which has let me invest in my business, my employees, and my community.

I have been able to increase my employees' hourly wages, invest in equipment, grow from a single location to three locations, create a mobile location, and sell my Main Street roasted coffee internationally.

However, in less than two years our business will be facing a significant tax hike unless Congress acts to extend and make permanent the small business deduction. Not only will my 20% small business deduction go away, but my marginal tax rates will increase if Congress fails to act.

These tax increases do not exist in a vacuum. My larger competitors like Starbucks and Tim Hortons are organized as C-Corporations and pay a 21% federal corporate rate, which is and payt.

If the small business deduction lapses and my marginal rates increase, I could be staring at an effective tax rate of nearly 45% when you combine federal and state income tax rates. This 45% tax is not on my take-home pay like high-wage W-2 employees, this is the tax on my business income. With a pass-through business like mine, I am taxed on business income whether I reinvest that money in my business and create new jobs or take it home as profit.

Down the street from my location is a larger competitor, Tim Hortons. In two years, if my taxes go up, the corporate rate will remain 21%. Tim Hortons will be paying a 21% federal rate and a 6.5% state corporate rate for a total combined rate of 27.5%, while my total combined rate will be closer to 45%. This disparity will make it extremely difficult for me to compete.

I'm not asking for special treatment, but I am asking that small businesses get treated equally with big businesses and not be placed at a competitive disadvantage by the tax code.

Congress still has time to act and help small businesses like mine. The Small Business Deduction does not expire until the end of 2025. Bi-partisan legislation, introduced by Representative Smucker of this Committee, exists to make this legislation permanent. His legislation is appropriately titled the "Main Street Tax Certainty Act".

While the end of 2025 sounds far away, I will soon have to make long-term business decisions based on future expectations. The lack of certainty surrounding my tax burden certainly makes long-term planning more complicated. I want to continue to grow my business, add locations, and increase the pay of my hard-working employees, but that becomes more difficult when I have less money to reinvest in my business.

Thank you for allowing me the opportunity to share my story today, and I look forward to answering any questions that the Committee may have.

Chairman SMITH. Thank you.
Mr. Ramirez.

**STATEMENT OF AUSTIN RAMIREZ, CEO, HUSCO INTERNATIONAL, INC.**

Mr. RAMIREZ. Good afternoon, Chairman Smith, Ranking Member Neal, and members of the committee. My name is Austin Ramirez, and I am the president and CEO of Husco, a privately held, family-owned business located in Waukesha, Wisconsin.

At Husco we produce critical hydraulic components for both passenger cars and off-highway vehicles. Husco is a uniquely American success story. My dad came to the States from Puerto Rico as a six-year-old, and grew up to earn a master's degree in aerospace engineering and an MBA from Harvard. He started working at the Husco division of a larger conglomerate in the 1980s before eventually leading a management buyout to establish Husco as a standalone business. At the time, my mom complained to the neighbors that he had mortgaged the house and burned through our college funds to make his vision for Husco a reality.

I took on the mantle of CEO in 2011 after 26 years of his leadership. Since my dad founded Husco in 1985, our revenues have increased from 20 million to over 500 million. This success has allowed us to give back to the community. We provide family-supporting careers for hundreds of workers. We found it K-through-12 school on the south side of Milwaukee that is now the top-rated school in the state. And we are the top corporate philanthropic donor in all of Wisconsin.

In short, our story is the embodiment of the American dream. But it was made possible by American reality. The laws that all of you write in this very room have a direct, concrete impact on our ability to succeed. This is especially true when it comes to the tax code. Pro-growth tax policy allows Husco to create jobs, invest in R&D, and compete globally.

In 2017 the Tax Cuts and Jobs Act reduced taxes for job creators throughout the economy. At Husco the new pass-through deduction and the reduced individual tax rates allowed us to invest nearly $50 million in the most significant renovation of our headquarters in 70 years. Tax reform was unquestionably a success, dramatically increasing the capital that manufacturers had available to invest in growth and job creation.

But passing the 2017 tax reform was only the first part of the story. Now critical tax reform provisions have begun to expire. Husco now has to amortize our R&D expenses, making it far more costly for us to design customized proprietary products for our customers. Debt financing is now more expensive for companies like many manufacturers that have significant depreciable assets, and we can no longer immediately expense the full cost of our capital equipment purchases, forcing Husco to make smaller investments spread out over many years.

Fortunately, the Ways and Means Committee is leading the effort to reverse these damaging changes. I want to thank each of you for passing the Tax Relief for American Families and Workers Act, and I hope the Senate will soon follow your lead.

But your work is not yet done. We are rapidly approaching the final act of the tax reform story. In just 20 months, small manufacturers in America will experience a series of damaging tax increases. At the end of 2025 individual tax rates will increase and individual tax brackets will decrease. These changes mean that pass-through businesses like Husco will have more of our income subject to a higher rate of tax.

At the same time, the pass-through deduction will expire completely, doubling down on the tax hikes that we face. We will also see an increase in the estate tax, making it more difficult for family-owned manufacturers to pass their business on to the next generation, and R&D expensing, interest deductibility, and accelerated depreciation will be back on the chopping block.

Twenty-twenty-five will be nothing short of a tax reckoning, as Congress decides how to end the tax reform story. And the stakes are high. Allowing tax reform to sunset will undermine much of the progress we have made since 2017. At Husco, tax hikes will slow our growth and prevent us from investing in job-creating projects that support our community and our economy.

Tax reform was a historic step towards a competitive tax code for manufacturers in America, but it was only the first step. Congress must act now to restore expired provisions and be prepared to act in 2025 to forestall even more damaging tax increases. Only by preserving the Tax Cuts and Jobs Act can Congress ensure that uniquely American stories like Husco remain possible, and that companies like ours can prosper here at home and compete on the world stage.

Thank you for having me today, and I look forward to your questions.

[The statement of Mr. Ramirez follows:]

**TESTIMONY OF AUSTIN RAMIREZ**

**PRESIDENT AND CEO, HUSCO**

**U.S. HOUSE OF REPRESENTATIVES**

**COMMITTEE ON WAYS AND MEANS**

**"EXPANDING ON THE SUCCESS OF THE 2017 TAX RELIEF TO HELP HARDWORKING AMERICANS"**

**APRIL 11, 2024**

Good afternoon Chairman Smith, Ranking Member Neal and members of the committee. My name is Austin Ramirez, and I am the President and CEO of Husco. I appreciate the opportunity to testify today on how Congress can and *should* build on the success of the Tax Cuts and Jobs Act to support the growth of small manufacturers in the United States.

Husco is a privately held, family-owned business based in Waukesha, Wisconsin. We are a critical part of the manufacturing supply chain—we produce hydraulic and electro-mechanical components that are used in both passenger cars and off-highway vehicles. As vehicle technology has continued to evolve, including trends toward electrification and automation, Husco's proprietary products have remained vital enablers of safe, productive and efficient vehicles.

At Husco, we employ just over 1,600 workers, a large portion of which are at our home facilities in Waukesha and Whitewater, Wisconsin. We are an economic driver for our local community, and I am incredibly proud of our ability to provide family-supporting careers to people from all walks of life. In the 77 years that we've been headquartered in Waukesha, our company has seen countless first jobs, career milestones, retirement parties and more.

We've also sought to be a leader in helping others access the benefits of American opportunity. We were honored to hire a group of Afghan refugees fleeing the Taliban in 2016; not only were we able to provide jobs for these families, but we also did our best to make them feel at home in our workplace and our community. From translation services to training opportunities to dedicated spaces for daily prayers, our refugee program—which has also welcomed Burmese refugees—has been embraced by our local employees and has built and strengthened our new employees' ties to America.

We take our role as a pillar of the community seriously. Husco is the top corporate philanthropic donor in all of Wisconsin—far outpacing even our larger peers operating in the state. Our success in business allowed us to fund and build a new K-12 school in Milwaukee that has grown into an education leader in our state. Last year, St. Augustine Preparatory Academy—which we call "Aug Prep"—was rated the top publicly funded K-12 school in the state. Nearly 90% of Aug Prep's students qualify for free or reduced-price lunch, and we are proud to play our part in giving them an opportunity to flourish and become the character-driven leaders that our community needs.

Husco's values are a reflection of my own, uniquely American story. My dad is originally from Puerto Rico; my grandparents brought him to Miami, Florida as a six-year-old, chasing the American dream. Dad—who everyone calls Gus—excelled as a student and an athlete in the Coral Gables public school system and eventually achieved a master's degree in aerospace engineering from Georgia Tech and an MBA from Harvard. He moved to Wisconsin to work at Husco in the early 1980s. Growing up in the Milwaukee suburbs, my parents made sure that my sisters and I learned the value of a good education and a hard day's work.

At the time, Husco was one division of a larger conglomerate, mostly manufacturing components that were used by the other business lines within the company. In 1985, my dad took a leap of faith and led a management buyout to purchase Husco and run it as a standalone company. One of my earliest childhood memories is hearing my mother explain to our neighbor that we might be living on the street because they had mortgaged the house (and drained our college funds) to raise the capital to support Gus's vision for an independent Husco.

I interned at Husco in high school and college, mopping floors and painting walls. I came back home to work at the company full-time in 2003. By 2011, Gus decided the time was right to transition leadership of the company—and I stepped in as CEO. Under Ramirez family leadership, Husco's annual revenues grew from $20 million in 1985 to more than $500 million today. I'm humbled to be the steward of this proud legacy, and I work every day to continue improving the lives of Husco families and building an enterprise that all our stakeholders are proud to be a part of.

I truly believe that Husco's story—and the story of those of us who earn our living at Husco—are embodiments of the American dream. But the American dream can be tempered, for better or worse, by American *reality*. Laws, regulations, taxes, trade: the decisions that all of you make here in these historic rooms and hallowed halls have a direct, concrete impact on Husco's ability to create jobs and plan for the future.

This is especially true when it comes to taxes. A pro-growth tax code frees up capital that can be used for expansion, incentivizes job-creating investments like research and development and ensures that American businesses can compete on the world stage. An inefficient and unworkable tax code does just the opposite—hampering our ability to create jobs, limiting our investment opportunities and putting the U.S. economy at a competitive disadvantage.

Looking back, my life can be broken down into a three-part story: as a kid, my parents taught me the importance of hard work; as a teenager and young adult, I watched my dad build Husco from a small business into an industry leader; as Husco CEO, I've been able to build on his legacy. Congress is now in the middle of its own three-part story—the story of tax reform.

**Part 1: The Tax Cuts and Jobs Act**

The Tax Cuts and Jobs Act was the first act of this trilogy: historic tax reform, comprehensively updating the code for the first time since 1986. TCJA is the perfect example of what happens when Congress focuses on removing obstacles and putting the right incentives in place.

Husco saw the benefits of tax reform right away. TCJA reduced our tax burdens by lowering the individual tax rates that dictate our tax obligations as a pass-through. It also created the new 20% pass-through deduction, which leveled our playing field with our peers organized as corporations. As a family-owned business, we also benefit from the increase in the estate tax exemption as we prepare for the next generation to lead the company one day in the future. Each of these changes has increased the capital that Husco has available to invest in our business and our workers.

Following TCJA's passage, Husco was able to complete the most significant renovation of our Waukesha, Wisconsin headquarters in 70 years. We invested nearly $50 million to modernize our office, renovate our shop floor and install new capital equipment—which has enabled Husco to add nearly $150 million to our top line since 2017.

Our customers and suppliers also felt the benefits of TCJA. Many of Husco's customers are organized as corporations, so the move to a globally competitive corporate rate allowed them to expand production and ultimately purchase more components from companies like Husco. Virtually all manufacturers benefited from 100% accelerated depreciation given the importance of capital equipment purchases in our industry. Without the benefit of accelerated depreciation, our capital investments in 2018 and 2019 would have been smaller and spread out over many years, resulting in a lower growth rate for Husco. Similarly, manufacturers' reliance on capital equipment ("depreciable assets" in accounting terms) meant that TCJA's interest deductibility standard—based on a company's earnings before interest, taxes, *depreciation* and amortization—allowed us the flexibility to debt finance these significant investments. TCJA also maintained the U.S.'s historic policy of immediate R&D expensing—an absolutely critical mechanism for ensuring Husco and other manufacturers can invest in groundbreaking and job-creating research.

In short, tax reform was a shot in the arm for manufacturing in the U.S. A pro-growth, pro-competitive tax code means that manufacturers like Husco can continue leading American economic growth, creating jobs and supporting our local communities.

**Part 2: The Tax Relief for American Families and Workers Act**

We are now in the second act of the story of tax reform. Critical TCJA provisions have begun expiring over the past two years:

- As of 2022, companies are now required to amortize their R&D expenses rather than expense them in the year incurred. This reversal of more than 70 years of U.S. R&D policy has had a detrimental impact on Husco's ability to innovate. Husco's business model is built on the premise of designing and manufacturing customized, proprietary products for our customers. This requires us to make significant, ongoing investments in R&D. Husco's inability to expense these costs since 2022 has cost us more than $20 million in liquidity, wiping out a large portion of the TCJA benefits and creating a disincentive to invest in innovation. The global competitiveness of the American manufacturing sector is based on our ability to deliver value through innovation in both product design and manufacturing process technology; requiring amortization of R&D expenses puts our primary competitive advantage at risk.

- Also in 2022, companies' ability to take a tax deduction for their interest payments on business loans was severely limited. The interest deductibility calculation is now based on our EBIT rather than our EBITDA, specifically excluding the depreciation and amortization expenses so common for manufacturers from the interest deductibility formula. This change has had a disproportionate impact on companies like Husco, making it more difficult and more costly to finance new projects—effectively punishing us for making long-term investments.
- And in 2023, 100% accelerated depreciation began to phase down. We are now only able to expense 60% of the value of capital equipment when it's purchased—and first-year expensing will sunset entirely in 2027. This phase-down is devastating for capital-intensive industries like manufacturing; for Husco, it will result in smaller investments, ultimately slowing our growth.

Fortunately, the second act of this story may yet have a happy ending. The House has passed commonsense, bipartisan legislation—the Tax Relief for American Families and Workers Act—to reverse these damaging expirations. The Ways and Means Committee has been the leader in this vital effort. I know that a 40-3 vote is almost unheard of in today's partisan environment, but I want to extend my thanks to each and every one of you for your support of this important bill, and to Chairman Smith for his leadership.

I hope that the Senate can follow in your footsteps and pass the Tax Relief for American Families and Workers Act into law. Disincentivizing R&D and making capital investments more expensive directly harms manufacturers like Husco, limiting our ability to support our workers and drive the American economy. On the other hand, enacting the Tax Relief for American Families and Workers Act will remove these barriers to growth and unlock manufacturing potential across the country.

**Part 3: 2025 and Beyond**

Even if the Tax Relief for American Families and Workers Act makes it to President Biden's desk, Congress's work is not yet done. We are rapidly approaching act three of the tax reform trilogy: the expiration of the vast majority of TCJA's small business provisions at the end of 2025.

In just 20 months, small manufacturers in America will experience a raft of tax increases that threaten to undo much of the progress made under tax reform:

- All but one of the individual tax rates will revert back to their pre-TCJA levels. These tax increases will hit every American making more than $11,000 per year. This includes pass-through businesses that pay tax at the individual rates. Companies like Husco will have *more* of our income subject to a *higher* rate of tax, as the tax brackets will decrease at the same time the tax rates increase. This will have a direct impact on the capital we have available to pay our employees and invest for the future.
- Additionally, the 20% pass-through deduction will expire completely. This deduction is critical to protecting business income from individual taxation—especially given that the individual rates will increase at the same time the deduction expires. Without the pass-through deduction, companies like Husco will face a significant tax hike. Many small

manufacturers are organized as pass-throughs, so the loss of this deduction will be felt throughout the industry.

- TCJA's increase in the estate tax exemption limit also will sunset, exposing more family-owned businesses' assets to the estate tax. I am proud that Husco is a second-generation family business, and we hope to keep the company in the family for generations to come. But the estate tax hits hard in manufacturing, where most of our value is tied up in illiquid assets like capital equipment. Increasing the estate tax burden thus makes it much more difficult to pass our business on to the next generation.
- Finally, even if Congress passes the Tax Relief for American Families and Workers Act, immediate R&D expensing, pro-growth interest deductibility and accelerated depreciation will still be on the chopping block at the end of next year. As I've made clear, these three incentives are critical for manufacturing growth in America, so retaining them at the end of 2025 should continue to be a congressional priority.

Congress simply cannot allow these provisions to expire. We have already seen the economic impact of the TCJA expirations that took effect in 2022 and 2023—adding even more economic damage in 2026 would be exponentially worse. At Husco, the loss of TCJA's small business provisions would severely hamper our growth trajectory. The combination of an increased tax rate and the loss of the pass-through deduction would be especially damaging, tilting the playing field against Husco and other pass-through manufacturers.

These tax increases are just the ones with the most significant, most direct effects on Husco. Congress also will have to wrestle with a range of corporate and international provisions that will impact manufacturers throughout the supply chain. Along with preserving critical small business incentives, Congress must protect the U.S.'s globally competitive corporate rate and the international tax provisions that support TCJA's territorial tax system.

It is no exaggeration to say that 2025 will be a tax reckoning for Congress: an opportunity to write the end of the tax reform story. If Congress allows taxes on manufacturers to increase, it will reverse our progress from the past seven years and undermine America's economic leadership on the world stage. However, Congress can craft a happier ending—by extending critical provisions, making TCJA permanent and supporting job creation and growth at manufacturers of all sizes.

* * * *

Tax reform is a uniquely American story. Policymakers saw that the tax code was out of date, harming manufacturers' ability to compete on the world stage—and you came together to do something about it. TCJA was a historic moment: legislation three decades in the making, a giant step toward a more long-term competitive tax code for the United States. But it was only the first step.

Today, that progress is at risk. If Congress fails to pass the Tax Relief for American Families and Workers Act, companies like Husco will have a more difficult time investing in groundbreaking research and job-creating capital projects. And the end of 2025 promises even more damaging tax increases if Congress doesn't act.

Manufacturers in America can compete and win against anyone in the world. Barriers like bad tax policy force us to swim upstream against the current; rather than stymieing our growth, Congress should ensure manufacturers have a level playing field that protects our intellectual property, fights back against foreign state-subsidized competitors, improves our ability to fight back against foreign market-distorting practices and gives us a competitive, pro-growth tax and regulatory environment.

I have faith that Congress will do the right thing. I want to thank you again for allowing me to testify today about why Congress *must* do the right thing, both now and in 2025. Husco, and manufacturers across the country, stand ready to help you write the perfect ending to the tax reform story.

Chairman SMITH. Thank you.
Dr. Edwards.

**STATEMENT OF KATHRYN ANNE EDWARDS, PH.D., LABOR ECONOMIST**

Ms. EDWARDS. Thank you, Mr. Smith and Mr. Neal, for having me.

Policy evaluation comes down to three questions: What did the policy intend to do? What did it actually do? And what did it cost?

So let's start with what the policy intended to do. The 2017 tax law was billed as a way to increase wages, income, and the U.S. economy. It cannot be credited with achieving either of those things.

What did it actually do? The primary achievement of the 2017 tax law was that it was timed with full employment and economic recovery. Those statistics that you cite of a growing economy, of growing wages, and growing income are all on trend from where they had been growing from the 2008 recession recovery. Otherwise, it was a designed tax transfer to the richest. The Tax Policy Center estimates that, in absolute terms, the after-tax increase in income was 67 times larger for the top 1 percent than it was for the middle 20 percent, the difference between a lower tax bill of $61,000 for the top 1 percent and $900 for the middle.

That is not to say that taxes weren't court cut for everyone, but they weren't cut by the same amount or to the same degree. Even in percentage terms, the top 1 percent saw a 3 percent raise from the tax cut, the middle saw a 1 percent raise, and the bottom 20 percent saw a 0.4 percent raise from the tax cut.

It didn't spur economic growth by much. The Congressional Research Service concluded that the tax law increased output by 0.2 percent in the year after enactment, the year in which the effect would be the largest. That was below expectations of 0.3 to 0.8 percent, but was still a fraction of the over 7 percent needed to generate growth to pay for itself.

It is not a mystery why it didn't increase growth the way that you perhaps wanted. Tax cuts are but an arrow in the economic policy quiver, a way to boost aggregate demand. To work effectively, they must be limited in scope, well targeted, and perfectly timed, short-term relief that goes to the people who are most likely to spend it at a time when demand is faltering, like during a recession. The law is off on all three marks.

Corporate tax cuts are similarly an arrow in the quiver, one aimed at supply, increasing the after-tax income of businesses so that they can invest more in labor and capital. But unfortunately for workers, the labor investment that was made after the tax cut was concentrated amongst managers and executives, with no discernible wage increase for the bottom 90 percent.

And then there is the final question of what did it cost? The 10-year estimate for the 2017 tax law was between 1.9 and $2.25 trillion, according to the Congressional Budget Office. A quarter of that estimate was debt servicing. Even for the Federal Government, $2 trillion is a lot of money. For comparison, that is the equivalent of two-thirds of what Congress owes the Social Security Trust Fund. It is 25 percent higher than the fully refundable and expanded Child Tax Credit that halved child poverty in a year, and it is enough to create a universal child care and preschool program in the U.S. five times over. It is enough to have universal paid family leave and medical leave for every worker in the U.S. eight times over.

In addition to the opportunity cost, there is the pattern of sacrificing fiscal health. In the last three years of the 20th century, revenue as a share of GDP was over 19 percent. After the tax cuts in 2001, 2003, extensions in 2012, more cuts in 2017, CBO projected that revenue will be around 16 percent through 2026. To put that in comparison, had the Federal Government been collecting revenue at the rates that it had at the end of the 20th century, you would have $850 billion more each year. Bad policy, bad precedent with serious and accumulating consequences. There is no justification for extending it.

I will end with the reminder that even bad policy creates winners. But that is not the job of policy. The job of policy to be effective at its aim and the barometer of success for economic policy is much higher. It has to be effective at addressing economic needs.

So if I were to pretend for a moment that I was a nominee for the Federal Reserve Board of Governors, which is not something I am aspiring to do, and I told you that, no matter what, I was going to lower interest rates because people like paying less for houses and they like paying less for borrowing, you wouldn't let me have a seat at the table because that is not the job. The job is effective economic policy. And it is not your job, either. The Federal Government needs to raise revenue, and that is the most important conversation to have.

[The statement of Ms. Edwards follows:]

"Hearing on Expanding the Success of the 2017 Tax Relief to Help Hardworking Americans"
House Ways and Mean Committee, Thursday, April 11th

Testimony of Kathryn Anne Edwards, Ph.D. Labor Economist

### Summary

Policy evaluation and assessment is about cost relative to effectiveness in service of a stated aim. What did the policy intend to do, what did it actually do, and what did it cost. This is the return on investment, the bang for the bunk, or simply a question of whether it was worth it.

The 2017 tax law was a failure. Its clearest effects were increasing the incomes of the richest Americans and the largest year for stock buybacks in history at the time. It did not significantly grow the economy or wages for the bottom 90% of workers. Seven years later researchers cannot agree if it increased corporate investment, though were an effect large, it wouldn't be that hard to find. The cost of this failure was not just the exorbitant price tag but the opportunity cost for other policy and the increased price tag of all future policy, given its contributions to the debt.

There is no policy justification for extending the 2017 tax law, especially not with a 50% higher price tag.

## Key Point 1: The 2017 Tax Law Cost $2 Trillion for Little in Return

### *The Primary Effect of the Law: Decimated Federal Revenue*

The Congressional Budget Office (CBO) estimated that the 2017 tax law (P.L. 115-97) cost $1.9 - $2.25 trillion.[i] The cost of the law is the sum of the cost of revenue reduction from lower tax collection and the increased cost of debt servicing, referred to respectively as the revenue and debt costs. Those two components each have estimates based on whether potential economic effects are included. The law was projected to increase the economy's output, which lowers revenue cost, but increase the federal government's debt, which raises debt cost. Table 1 summarizes the four composite estimates.

Table 1. Summary of CBO Projections of the 2017 Tax Law's Ten-year Costs

| Source | **Deficit cost** (reduction in revenue due to law) | **Debt cost** (increase in debt servicing due to law) | **Economic feedback projections** |
|---|---|---|---|
| CBO | $1.8 trillion[ii] | $450 billion | Not included |
| CBO | $1.3 trillion | $600 billion | Includes higher income and higher interest on debt |

In the best-case scenario, the law reduced revenues by $1.3 trillion over a ten-year period, an incredible addition to the deficit. And regardless of the revenue loss, there is a high cost to adding so significantly to debt, accounting for 20-30% of the total cost of the bill.

Even at passage, there was no forecasted projection or published analysis of the law's economic effects that claimed it would generate sufficient growth to recoup the revenue lost from reduced tax collection through higher output. Put differently, tax cuts do not pay for themselves, and no one who uses data or analysis to make assessments of policy claimed that they would.

The Congressional Research Service (CRS) estimated that in order for the 2017 tax law to pay for itself, the law would have to had increased GDP by 6.7% in a single year, when in reality, it increased it in 2018 by 0.2%, which was actually below forecast range of 0.3 – 0.8%.

Table 2. Summary of Projected Effects of 2017 Tax Law on Economic Output in 2018, as Reported by Congressional Research Service[iii]

| Source | Estimate |
|---|---|
| Congressional Budget Office | 0.3% |

| | |
|---|---|
| Joint Committee on Taxation | 1.2% |
| Goldman Sachs | 0.3% |
| International Monetary Fund | 0.3% |
| Moody's Analytics | 0.4% |
| The Tax Foundation | 0.4% |
| Barclays | 0.5% |
| Macroeconomic Advisors | 0.1% |
| Tax Policy Center | 0.8% |
| | |
| *Actual* | 0.2% |

The output effects relative to the cost of the bill suggest a fractional return on investment. From the federal budget's perspective, this 2017 tax law was an overwhelming loss.

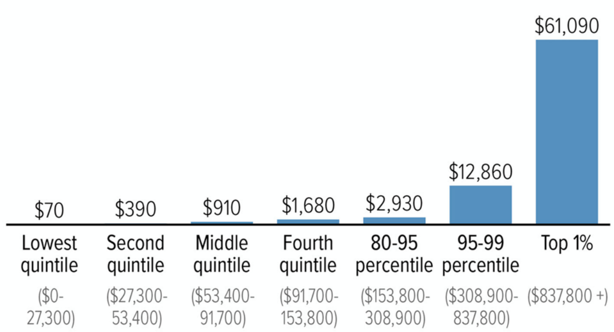
### *The Primary Beneficiaries of the Law: Highest Income Americans*

The 2017 tax law did little for average Americans. Whether examined on an absolute or relative level, the rich got more from the tax cut and while low- and middle-income Americans got nearly nothing. A distributional analysis from the Tax Policy Center of the changes to individual taxes shows the extent of the disparity, and is illustrated in Figures 1 and 2.[iv]

In absolute terms, Americans from the lowest quintile will pay an estimated $70 less in taxes in 2025, the final year the household provisions are in effect. For reference, a worker earning the federal minimum wage of $7.25 working 40 hours a week for 52 weeks earns $15,080. The lowest quintile has less than $27,300 in income, a 40-hour, 52-week wage equivalent of $13.13.

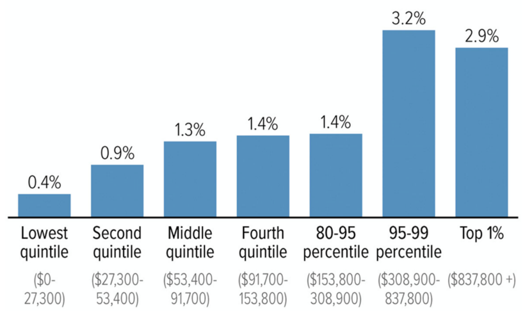
The middle quintile will pay $910 less, compared to top 1%, who will pay $61,090 less. So the richest 1% of Americans gets a 67x larger tax cut than the average American.

Figure 1. Average Federal Tax Change in 2025[v]




An absolute comparison misses that individuals have very different tax bills based on whether they are high or low income. But even when expressed as the percent change in their after tax income, the tax bill still greatly favored the highest income households.

Figure 2. Percent Change in After-Tax Income in 2025[vi]




Note: After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

In 2025, the lowest quintile will see a 0.4% boost to their income from the 2017 tax law, the middle quintile will see a 1.3% increase, and the top five percent will see a 3.2 – 2.9% increase. Increase in income at the top is still more than twice as large as the increase in the middle.

The reason for this severe skew in benefits towards the top is a reflection of design. The 2017 law reduced marginal tax rates for workers at the highest income levels, greatly reduced the estate tax, and created a pass-through deduction for sole proprietor income.

There is no single interpretation of "hardworking Americans," the subject of this hearing, as it does not have a clear income or employment correlate. However, it is likely that many more Americans would identify as hardworking that those benefited by the 2017 tax law.

For example, the corporate side of the 2017 tax cut was initially billed as a boon to workers.[vii] With more money in hand, corporations would be able to give workers a wage increase, with some estimates as high as $4,000 – $9,000 in the long-term.

However, the CRS assessment of the law's effect found no change to wages for the "ordinary worker."[viii] While other researchers have found mixed results of the corporate tax cut on outcomes like the amount of spurred investment, none of have found significant wages increases for the bottom 90% of workers.[ix] Indeed, one research team questioned the gains from cutting corporate taxes, given that they 80% of the total benefit accrues to the top 10% of earners, particularly concentrated among managers and executives.[x]

The 2017 tax law came in at enormous costs with the plain and obvious effect of raising incomes of the richest Americans. If it had greatly benefited "hardworking Americans," it should not be so hard to find or quantify those gains.

### *The Law's Clear and Obvious Lesson*

Unless the intention of the 2017 tax law was to directly transfer income to the richest Americans at incredible expense to ordinary Americans, it was a failure. It was expensive and the economic return was pennies on the dollar. That extending provisions of the tax law are being considered reflects a remarkable unwillingness to consider or listen to policy assessment. There is no justification for repeating this mistake, or rather doubling down on it.

The Committee for a Responsible Federal Budget, using estimates from the CBO, projects that extending the 2017 law would cost $3.3 trillion over ten years.[xi] The Tax Policy Center projects $3.6 trillion.[xii] This decimation of federal budgets has no viable economic justification.

### *Key Point 2: The Opportunity Cost of Failed Tax Policy is Significant*

Even by federal standards, $2 trillion is a lot of money. The direct effects of the policy are lost revenue and higher incomes for the highest income households. But federal resources are not limitless, and prioritizing revenue-reducing tax cuts creates a large opportunity cost for other use of federal funds.

For example, $2 trillion over ten years:

- Is over two-thirds[xiii] of what Congress owes the Social Security trust fund ($2.8 trillion), which has to be paid back over the same period, as trust funds are projected to be depleted by 2034.
- Is more than the estimated ten-year cost ($1.6 trillion) of a fully refundable and expanded child tax credit at American Rescue Plan Act levels, in which the credit goes to all children, is increased to $3,600 for families with children under 6 and $3,000 for older children.[xiv] The one-year extension in effect in 2021 lifted 2.9 million children out of poverty, and resulted in the lowest child poverty rate on record.[xv]
- Is five times the estimated ten-year cost of greatly expanded child care and universal preschool ($381.5 billion).[xvi]
- Is over 8 times the estimated ten-year cost of establishing a new social insurance program to provide universal access to paid family and medical leave ($228 billion).[xvii]
- Is just under six times the combined costs of National School Lunch Program (NSLP), School Breakfast Program (SBP), Summer Food Service Program (SFSP), and the Child and Adult Care Food Program (CACFP) in their highest year of recorded spending ($34 billion), summed for ten years ($340 billion).[xviii]

These policy tradeoffs are summarized in Table 3.

Table 3. Ten-year Cost of 2017 Tax Law ($2 Trillion) and Extension of 2017 Tax Law ($3.5 Trillion) Versus Other Federal Policies

| **Compared to 2017 Tax Law ($2 Trillion)** | **Compared to 2017 Extensions ($3.5 Trillion)** |
|---|---|
| = 0.7 * Debt owed to the Social Security Trust Fund | = 1.25 * Debt owed to the Social Security Trust Fund |
| = 1.25 * Fully refundable and extended ARPA CTC | = 2.2 * Fully refundable and extended ARPA CTC |
| = 5 * Universal preschool and subsidized child care | = 9 * Universal preschool and subsidized child care |
| = 8 * Federal universal paid family and medical leave | = 15 * Federal universal paid family and medical leave |
| = 6 * School meals | = 10 * School meals |

These are direct "deficit" costs of action and do not include the accumulating costs of growing debt and more expensive borrowing.

### *Key Point 3: The Accumulating Budgetary Cost of Failed Tax Policy is Significant*

#### *Fails to Raise Adequate Revenue*

In 2005, the President's Advisory Panel on Federal Tax Reform was tasked with making the tax code simple, fair, and pro-growth. Their first finding[xix] averred:

> *"We have lost sight of the fact that the fundamental purpose of our tax system is to raise revenues to fund government."*

The federal government is not adequately funded, and tax policy cannot avoid blame. It is failing to fulfill its fundamental purpose. Several members of Congress past and future have warned that debt as a percentage of GDP could augur "the end of the Republic" its situation is so dire.[xx]

Yet, the past 25 years have seen a historic decline in federal revenues. The 2017 tax law was preceded by 2010 and 2012 laws that made 2001 and 2003 tax cuts permanent. In the three years before 2001, federal revenue as a share of GDP averaged 19.2%. In the years after the 2017 tax law, revenues are expected to average 16.9%. That works out to an annual difference of $850 billion a year in revenue.[xxi]

Some researchers have argued that the deterioration of America's fiscal trajectory is due almost entirely to tax policy. Comparing revenue and spending projections from the Congressional Budget Office over successive years, they point out that spending projections, especially in the long-term, have varied little and some spending has even come in below projections. But revenue's projections have fallen significantly. They argue that without the 2001, 2003, 2010, 2012, and 2017 tax changes, debt would be falling as a share of GDP.[xxii]

#### *Fails to Learn Lessons*

The effects of the 2017 tax law—its enormous cost with benefits limited to the elite—is fresh evidence of a lesson that should have been learned previously. Tax policy is an arrow in the economic policy quiver; it *can* be directed to boost the economy, but it doesn't necessarily.

On the household side, tax cuts increase economic output through increased demand. Give individuals more money, they spend that money, and the economy increases. But this is not a blanket policy that is indiscriminately effective. Individuals are not equally inclined to spend money if they receive it—some would spend any windfall right away, others may wait and save it or invest it. And the need for increased demand varies with economic conditions; it tends to be highest when the economy is weakest.

Hence, for individual tax cuts to increase economic output, they must be both be effectively targeted and appropriately timed—getting money to people who will immediately spend it when the economy needs that spending.

The 2017 tax law is a perfect example of a poorly targeted and poorly timed tax policy. It flowed primarily to highest income households who are the least inclined to spend and it was enacted when the economy was roaring at full employment. Even at passage, the CBO assumed the household provisions of the 2017 tax law would have no effect on demand or boost output for these exact reasons.

On the corporate side, tax cuts have a similar mechanism for boosting output—more money enables more spending—but corporate spending manifests through increased investment or increased wages of employees, rather than through demand directly. However, like individuals, corporations are not equally likely to put money to use that has the highest immediate economic return.

Again, the 2017 tax law sets the standard for policy outcomes contrary to policy aims. The CRS notes that the largest demonstrated effect of the corporate tax cut was a trillion dollars of stock buybacks in 2018, the highest in any years since a corporate tax holiday in 2004.[xxiii]

### *Conclusion*

Unless the goal of Congress is to enrich the richest whilst adding to the debt, there is no benefit to continued tax cuts.

[i] Appendix B, "The Effects of the 2017 Tax Act on CBO's Budget and Economic Projections," from *The Budget and Economic Outlook: 2018-2028*, Congressional Budget Office, 2018. Link.

[ii] That is higher than the Joint Committee on Taxation's estimate of $1.5 trillion in revenue reduction. See Appendix 2 (page 433), "General Explanation of Public Law 115-97." The Joint Committee on Taxation, 2018. Link.

[iii] For a discussion of output estimates see page 2, for enumerated estimates, footnote 9, and for actual output estimates, page 3-4, of "The Economic Effects of the 2017 Tax Revision: Preliminary Observations." R45736 Congressional Research Service, 2019. Link. According to CRS, CBO's estimate was included in the 2018 Economic Outlook Appendix, but JCT's was not explicitly. Their estimate is backed out from the revenue feedback they projected in 2018.

[iv] "Distributional Analysis of the Conference Agreement for the Tax Cut and Jobs Act." Tax Policy Center, 2017. Link.

[v] The source for this table as notes is Table 2, Tax Policy Center, "Distributional Analysis of the Conference Agreement for the Tax Cut and Jobs Act." Tax Policy Center, 2017. The graphics are from the Center on Budget and Policy Priorities, reprinted here with permission. Link.

[vi] The source for this table as notes is the Tax Policy Center, but the graphics are from the Center on Budget and Policy Priorities, reprinted here with permission.

[vii] "The Growth Effects of Corporate Tax Reform and Implications for Wages." Council of Economic Advisors, October 2017. Link. "Corporate Tax Reform and Wages: Theory and Evidence." Council of Economic Advisors, October 2017. Link.

[viii] The Economic Effects of the 2017 Tax Revision: Preliminary Observations." R45736 Congressional Research Service, 2019. Link.

[ix] Researchers at the International Monetary Fund found that the reduced tax rates failed to spur investment, largely because many corporations now have significant market power. See Kopp et al. "U.S. Investment Since the Tax Cuts and Jobs Act of 2017." IMF Working Paper WP/19/120, 2019. Link. A separate group found that investment was higher than initially estimated, though they question whether it was worth the significant cost to revenue. See Chorodow Reich et al. "Tax Policy and Investment in a Global Economy." Working paper, 2024. Link. Another found that the tax cut had broadly positive effects on sales profits, and investments, but that earnings were solely accrued by the very top earners. See Kennedy et al. "The Efficiency-Equity Tradeoff of the Corporate Income Tax: Evidence from the Tax Cut and Jobs Act." Working paper, 2024. Link.

[x] Kennedy et al. "The Efficiency-Equity Tradeoff of the Corporate Income Tax: Evidence from the Tax Cut and Jobs Act." Working paper, 2024. Link.

[xi] "Tax Cut Extensions Cost Over $3.3 Trillion." Committee for a Responsible Federal Budget, August 14, 2023. Link. CRFB references "Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues." Congressional Budget Office, May 2023. Link.

[xii] Model Revenue Tables. "T22-0142 - Make the Individual Income Tax and Estate Tax Provisions in the 2017 Tax Act Permanent, Impact on Tax Revenue (billions of current dollars), 2023-42 Fiscal Years." Tax Policy Center, November 30, 2022. Link.

[xiii] See "Actuarial Status of the Social Security Trust Funds." Social Security Trustees. Link.

[xiv] "Re: Budgetary Effects of Making Specified Policies in the Build Back Better Act Permanent." Letter to Sen. Graham and Rep. Smith, December 10, 2021. Congressional Budget Office. Link. This is the most generous and therefore most

expensive version of the child tax credit, and a discussion of policy options can be found in "Factors Affecting the Cost of the Extending the Child Tax Credit."IN11851 Congressional Research Service, 2022.

[xv] Burns and Fox, "The Impact of the 2021 Expanded Child Tax Credit on Child Poverty." Working Paper SEHSD-WP2022-24, United States Census Bureau, 2023. Link.

[xvi] "Economic Effects of Expanding Subsidized Child Care and Providing Universal Preschool." Congressional Budget Office, 2021. Link.

[xvii] "H.R. 1185 The FAMILY Act." Congressional Budget Office, 2019. Link.

[xviii] "School Meals and Other Child Nutrition Programs: Background and Funding." Congressional Research Service, December 18, 2023. Link.

[xix] Executive Summary of "Simple, Fair, and Pro-Growth: Proposal to Fix America's Tax System." *Report of the President's Advisory Panel on Federal Tax Reform*, 2005. Link.

[xx] "Sounding the Alarm: Examining the Need for a Fiscal Commission." Hearing of the House Budget Committee, October 19, 2023. Link.

[xxi] Marr, "For Tax Day, 7 Charts on the 2017 Trump Tax Law and Why Congress Should Set a New Course." April 8, 2024. Center on Budget and Public Policy Priorities. Link.

[xxii] Kogan, "Tax Cuts are Primarily Responsible for the Increasing Debt Ratio." March 27, 2023. Center for American Progress.

[xxiii] "The Economic Effects of the 2017 Tax Revision: Preliminary Observations." R45736 Congressional Research Service, 2019. Link.

Chairman SMITH. Thank you. We will now proceed to the question-and-answer session. Mr. Buchanan is recognized.

Mr. BUCHANAN. Thank you, Mr. Chairman. I want to thank our committee folks being here today, especially the Senator. I followed his expertise over a lot of years. Let me start out quickly with Mr. Winfree.

You touched on—I wasn't planning on going down this road, but you did touch on the debt and the deficit, about, you know, the problem, the challenge with that. Looking at a number today somebody put in front of me a couple of days ago, the spending this year in 6 months for the Department of Defense is $440 billion, and the interest on the debt, I think, is $480 billion. And I have seen a lot of balance sheets, I have been in business 30 years, built businesses from scratch, good-sized businesses, and I don't—you know, 35, 36 trillion, it doesn't—it is just a matter of time until it ends badly.

So here we talk about all these other things, and I am glad I have got some things I want to talk about today, but I do want to put that back in your lap because you opened the door a little bit about what that looks like. If you can, take just a minute or so and tell us your thoughts on it.

Mr. WINFREE. Sure, thanks so much.

As I mentioned, I don't think that you can look at the expiration of the TCJA or any of the other fiscal inflection points that this committee and this Congress is going to have to deal with over the next 24 months in a silo. And you have to take the debt question at hand.

I mean, one of the things that we have seen is rates on short-term treasuries increase by almost five percentage points just over the last four years, right? That is the market trying to tell us something, right? It is trying to tell us to get control of the debt question.

And I—you know, I have to commend the committee on the bill that was passed earlier this year that my colleague, Austin, referred to earlier.

Mr. BUCHANAN. Hey, Doctor, let me move on. I only got five minutes.

Mr. WINFREE. Sorry, yes.

Mr. BUCHANAN. Thank you.

Mr. Erwin, I wanted to—explain a little bit more, just in a minute or so, the 199A, how important it is, that 20 percent reduction. We went—corporate rates 35 to 20, 21, and we are still looking at 39.6 percent, but there was a reduction of 199A, which was 20 percent, which is huge. And it is not like you take all the money home, put it in your mattress. You use it to grow and expand your business. So take a second on that.

Ms. EDWARDS. Thank you. So if we don't have that deduction, I will just go this direction, if we don't have that deduction, there are some things that I am personally going to lose as a business owner. One of those in particular is putting back into my community.

We do a lot of philanthropic work, thankfully, and that was always one of the goals. One example is that we have a partnership with the West Virginia Collegiate Recovery Network, and with that partnership we have developed a coffee roast that we sell, and the profits go directly to a scholarship for people that have gone through recovery, are in college, and this will help them and reward them for their progress. That would be threatened in a major way. This is something that we are intrinsically changing lives for because of this deduction.

Also, we have inspired organizations to begin. Just for one, there is an organization called the On Purpose Project. What it does is it exists to help our community—help communities, yes.

Mr. BUCHANAN. I only got one more question.

Ms. EDWARDS. Sure, go ahead.

Mr. BUCHANAN. Mr. Ramirez, you are talking about full expensing, the power of that. For many years it was you write something off over five years, then we had bonus depreciation, you get 50 percent and 10 percent for 5 years. But now the full expensing—in my opinion, there is no more powerful tool, whether you are buying or selling, than full expensing. And it is a timing issue. But what are your thoughts?

Mr. RAMIREZ. Yes, accelerated—thank you, Congressman. Accelerated depreciation does two things. One, it gives me more liquidity, more cash now to make more investments, and it improves the return on the investments that I make. So when you have accelerated depreciation I am going to make bigger, faster investments. When I don't have accelerated depreciation——

Mr. BUCHANAN. You are going to get that depreciation, anyway, over five years. So why not create the incentive of getting it up front? That is my point.

Mr. RAMIREZ. That is right. It creates—when you have accelerated depreciation, the cash cost to me in the year I make the investment is lower. So I have more cash to invest in more equipment.

Mr. BUCHANAN. Do you find yourself either buying or selling more than maybe you would otherwise, ideally, because of the deduction for tax planning and other things?

Mr. RAMIREZ. Absolutely. With accelerated depreciation we are going to pull investments forward. We are going to invest more now. And it also stimulates the broader economy. So not only does it impact us in a micro way, us making bigger investments, but throughout the supply chain that happens and that stimulates demand.

Mr. BUCHANAN. Let me just say one thing, that when you are able to keep more money, people always say, why is that so important? Because you are the job creators in America. Most businesses are 50 employees or less, 90 percent of businesses that are organized are 50 employees or less.

With that, I yield back, Mr. Chairman.

Chairman SMITH. Mr. Neal.

Mr. NEAL. Thank you, Mr. Chairman.

Dr. Edwards, as you know, our colleagues often, in support and defense of the TCJA, they really distort and move away from the really important issue that distributional tables tell. They lump all taxpayers together into one undifferentiated group, and then claim that "an average taxpayer" receives a significant benefit from TCJA.

Your research, however, into the law's distributional effects paints a very different picture for taxpayers who are in the lowest three quintiles of income distribution. Could you please reiterate for us how the 2017 tax cuts were distributed across income groups?

Ms. EDWARDS. Yes. So the top 1 percent saw a reduction in taxes of $61,000, an increase of post-tax income of 3 percent. The middle 20 percent income quintile saw a reduction of taxes of $910. That is a difference of about 1.3 percent. The lowest 20th—the lowest quintile, the bottom 20 percent, saw a reduction in taxes of $70, a difference of 0.4 percent.

Mr. NEAL. So your testimony also states that taxpayers who received the largest tax cuts aren't necessarily the ones spending the extra cash. Why is that important?

Ms. EDWARDS. Well, the mechanism by which we think a tax cut grows the economy is that when you give households money, they then go out and spend it. So for the tax cut to be most effective, it has to go to those most likely to spend it immediately.

The problem with most tax cuts as they are legislated is that the people who pay the most in taxes and the people who receive the largest cuts are those also least likely to immediately spend it, right? If you have sufficient income, you don't have to run out to the grocery store if you got more money.

This is a lesson that I think Congress knows very well because during recessions in 2008, or in 2008 and 2009 and during the pandemic, this stimulus checks were, in fact, tax rebates that were limited to which households received them and sent out as a one-time check. That is exactly how tax policy is meant to increase aggregate demand.

Mr. NEAL. So in your testimony you also discussed how not all tax cuts are created equal. We know that to be true in both the nature of the tax cut and the timing of the tax cut. So I would like you to reflect on the latter part of this question.

Ms. EDWARDS. The timing?

Mr. NEAL. Yes.

Ms. EDWARDS. You know, the 2007 to 2009 recession, I will always say, earned its title as being the Great Recession. And the hole that it left in the labor market took almost seven years to recover from. But when that recovery did occur, the U.S. economy was growing at a healthy clip, increasing income and wages every year.

The tax cut essentially fell right in the middle of it, which is why it is really not credited with any of the growth that happened after the fact. It is—you know, happening at the same time doesn't mean one causing the other. The economy's tailwinds of a four percent unemployment rate just matters so much more than that tax policy.

Mr. NEAL. So on the heels of the balanced budgets of Bill Clinton's administration, the next administration, President Bush, they enacted two tax cuts, $1.3 trillion in 2001 and another trillion in 2003, which we have never recovered from fiscally, including 2 wars. Then, of course, there were the irresponsible tax cuts in 2017.

You outlined in your testimony that there is a time, in terms of perspective, to talk about tax cuts, and there is a time to suggest that those tax cuts as proposed don't make any sense. Do you want to elaborate?

Ms. EDWARDS. I will give credit that the 2005 President's Commission on Bipartisan Tax Reform that made it—you know, with a mandate to make it simple, fair, and pro-growth, that Chairman Connie Mack said in his executive summary, "We have lost sight of the fact that the fundamental purpose of our tax system is to raise revenue to fund government. Sometimes you need a tax cut. Sometimes you just need to pay the bills. This is a moment as many have been alarming. I was in the Joint Economic Committee three months ago, and they discussed the end of the Republic. You need to pay your bills. You must raise revenue."

Mr. NEAL. Sure. I am just going to finish with this, because frequently my experience here is the following. Republicans complain about government spending when there is a Democrat sitting in the White House. I have seen that through my career. Bill Clinton should balance the budget, Barack Obama should balance the budget, and now Joe Biden should balance the budget. Republican Presidents should cut taxes. And there is a huge differential there, but it has been part, I think, of the tension that exists as we talk about fiscal policy.

Thank you for your testimony.

Chairman SMITH. Mr. Smith.

Mr. SMITH of Nebraska. Thank you, Mr. Chairman, and thank you to our panel. Great perspectives.

Senator, welcome back to Capitol Hill. Your service and your priorities while you served and currently serving, as well, are certainly appreciated.

We worked very hard on tax reform that culminated in 2017. It didn't start that year. It started, I would say, perhaps even before 2011. But that is when we started gathering in a bipartisan basis with working groups that I found to be very productive. And throughout that discussion, even President Obama acknowledged that we needed to be more competitive worldwide on the corporate tax side.

Now, I don't think anyone would think it wise to just give corporations a tax cut and nothing on the personal side or the family side, and so that is why TCJA was a very well-thought-out approach to tax reform, a broad-based tax reform, by the way. Both sides up here want to want to give tax relief, but very differently, I might add, and I don't have time to get into that.

But we wanted to make sure that small businesses, as our witnesses pointed out here today, also benefited. And I think the numbers speak for themselves. And I am glad to say that we had a very bipartisan vote the other day to return us to a 2017 policy that we found to be very productive. And when I say "productive," I mean in terms of revenue, but also our priority in 2017 with TCJA was to increase productivity across the economy.

And I will tell you it is my speculation, but I think that we are in a much stronger place today because of the priorities of productivity in 2017 that increased wages and, like I said, increased that productivity that we can all benefit from. In fact, our supply chain would be far worse off now if we hadn't done that.

So I am puzzled as to some of the comments. Of course, it is somewhat predictable. But, you know, around this town there is such demonization of prosperity, you would never know that our tax code depends very heavily on prosperity so that we can pay our bills, because I think paying our bills is important.

Mr. Ramirez, I certainly appreciate your story, the personal story, certainly, of your father leading the way to buy a business that he was working in, employing local workers. Incredible story. I certainly appreciated that you called out the importance of the increased death tax exemption for helping keep family businesses local and family run, I think that is a good priority. The same is true, I would add, for farmers, ranchers, and family-owned manufacturers in my own district. I hear from them all of the time, especially as it relates to this.

Now, a recurring tax proposal from the Biden Administration is the repeal of the stepped-up basis. It would be just as detrimental to family businesses, I might add, that taxing supposed gains on, for example, the value of your family business, which you have never actually realized.

So could you discuss what the repeal of the stepped-up basis would look like as you think about the future of your business?

Mr. RAMIREZ. Thank you, Congressman. I would just like to note I think family businesses are an indispensable part of the U.S. economic system. You know, we take long investment horizons. We invest in our communities. We have consistency of leadership. And, you know, you want policy that encourages multi-generational family businesses.

And both stepped-up basis and the death tax do the opposite. They make it more difficult for families to maintain businesses and have, you know, these entities pass from one generation to the next.

Mr. SMITH of Nebraska. Thank you.

Does anyone else wish to comment on the impact of repealing the stepped-up basis?

Dr. Edwards?

Ms. EDWARDS. Thank you, Mr. Smith. I realize I am the bad guy at this end of the table, but I would like to point out that I do think family businesses are important, but not to the disadvantage of people who didn't have rich parents.

You know, I have a friend who——

Mr. SMITH of Nebraska. Would you believe the government is entitled to take a large chunk of the value of that family business?

Ms. EDWARDS. We had the government taking a similar large chunk up until, you know, the law went into effect, and we still had many family businesses and small businesses and small proprietors——

Mr. SMITH of Nebraska. Okay.

Ms. EDWARDS. I just wonder if you would want to——

Mr. SMITH of Nebraska. Reclaiming my time, I think it is important to note that a family business or a family would have to take out a loan. This is a fairly common situation, where a family would have to take out a loan in order to just maintain the family business. We used to have a member of this committee, now governor of South Dakota, who very articulately told her story. That, to me, is not what America should be about.

Of course, we need modest tax policy so that we can pay our bills. Let's not penalize individuals.

Senator, turn on your microphone.

Mr. GRAMM. If you eliminate the step up in basis, you are going to pay a 20 percent tax on the gain of anything you ever own in your life. And then, when you die, you are going to pay a 40 percent death tax. You pay taxes on every penny you earn when you earned it. So when we are talking about taking 60 percent of people's life's work, that is just not America. And maybe you want the money, maybe you think you could spend it better than your children and grandchildren.

But the point is, the person who is paying that tax earned it. They created it, and they created jobs, growth, and opportunity in the process.

Mr. SMITH of Nebraska. That sounds like a great conclusion.

Thank you, I yield back.

Chairman SMITH. Thank you.

Mr. Doggett.

Mr. DOGGETT. Thank you, Mr. Chairman. While I think this hearing certainly does illustrate that our committee and our country have two very distinct paths, one path follows Donald Trump, the clever genius, as he describes himself, the self-styled king of debt, and the sorry legacy of the 2017 tax law and the estimated $2 trillion in red ink that it added to our nation's debt, and all the failed promises of trickle-down economics.

Who benefited from this budget-busting king-of-debt effort? Well, the best place to look is Donald Trump himself. Just last weekend, in a $50 million fundraiser at a Palm Beach home of a billionaire hedge fund investor, Trump boasted about how much he had done to help the rich get richer, and that he would do the same once again.

The heart of the Trump tax scam was a massive, budget-busting 40 percent cut in the corporate tax rate because that was the top priority for Trump and Republicans. They made the corporate tax cut permanent and left everybody else hanging with temporary. In the first year after these tax cuts, the non-partisan Joint Committee on Taxation determined that the largest 88 American multinationals paid an average tax rate of 7.8 percent.

Indeed, the 55 large, profitable corporations—55 large corporations paid no tax whatsoever in 2018, and 23 have not paid any tax at all in the 5 years since the law was passed. Meanwhile, we know that a single mom with 2 children who earns the average wage pays an effective tax rate for all of her Federal taxes, including payroll, of 20 percent. It may be that corporations don't pay taxes, but you would never know it from the horde of corporate lobbyists that descend on this committee like a plague of locusts whenever a corporate tax bill is up.

And Dr. Edwards, I would ask you, what evidence is there that these cuts for large corporations and the wealthiest few ever trickle down to help that single mother who is paying a higher tax rate than these big corporations?

Ms. EDWARDS. I would say that a $2 trillion investment shouldn't be so hard to find the benefits of for the workers who it was intended for.

There have been some academic debates of researchers looking for investment to trickle down to workers, and they haven't found it to a large degree. The best evidence was that the majority of pay raises that came after the corporate tax cuts were concentrated amongst managers and executives. Thank you.

Mr. DOGGETT. Well, and if the tax cuts aren't trickling down to help the single mom, it is also important to realize that the same Republicans who boosted the debt with their tax breaks are the same ones who want to cut benefits when it comes to Social Security and Medicare.

We haven't had a real balanced budget since President Clinton, and $10 trillion has been added in debt from a couple of rounds of Bush tax cuts and the Trump tax cuts. We have got a number of members of this committee, a significant number of Republicans in the House who have called for big changes in Social Security and Medicare because they say we can't afford to keep providing them in the current way.

I think it is also significant—and Mr. Chairman, I would ask unanimous consent to put in the record—a new study from Steve Rosenthal and Olivia Muccio that show that foreign investors own 42 percent of all American corporate stock. They were among those who were the greatest beneficiaries of this massive 40 percent reduction in the corporate tax rate.

Chairman SMITH. So ordered.

[The information follows:]

# Who's Left to Tax? Grappling With A Dwindling Shareholder Tax Base

by Steven M. Rosenthal and Livia Mucciolo

Steven M. Rosenthal is a senior fellow and Livia Mucciolo is a former research analyst at the Urban-Brookings Tax Policy Center. They thank Reuven Avi-Yonah, Lily Batchelder, Patrick Driessen, Daniel Hemel, Jeffrey Kadet, Mark Mazur, Kyle Pomerleau, Bob Pozen, Will Rice, Les Samuels, Michael Schler, Daniel Shaviro, and Jim Wetzler for their helpful comments. They also acknowledge Lydia Austin, Evan Avila, Theo Burke, and Erin Huffer for their previous research assistance.

In this article, Rosenthal and Mucciolo confirm and update the extent of the shift in U.S. corporate stock ownership from taxable shareholders to foreign investors and domestic tax-exempt shareholders, and they examine the tax policy implications of that shift.

The views and any mistakes herein are the authors' and not those of the Tax Policy Center, the Urban Institute, the Brookings Institution, or any other entity or person. The authors' work on this project was made possible by a grant from Arnold Ventures.



## I. Introduction

From 1965 to 2022, the share of outstanding U.S. stock held in taxable brokerage and mutual fund accounts declined from 79 percent to 27 percent (see Table 5[1]), as reflected in data from the financial accounts of the U.S. government collected by the Federal Reserve.[2] The share of publicly traded stock held in taxable accounts similarly declined from 81 percent to 28 percent (see Table 7). Foreign investors, retirement accounts, and other tax-exempt entities now dominate U.S. stock ownership.[3]

First publicly reported in 2016,[4] the pronounced shift from taxable to tax-exempt shareholders complicates tax policy. Policymakers who seek to increase shareholder taxes, for instance, must grapple with a relatively small group of taxable accounts. Policymakers pursuing corporate tax cuts could send a large share of the benefit to foreign investors, at least in the short run.[5] And policymakers seeking to stem corporate stock buybacks must address the tax advantages of buybacks over dividends to foreign shareholders — and to a lesser extent to domestic shareholders.

This study updates and confirms the earlier-reported shift in stock ownership from taxable to tax-exempt accounts. It examines both the total

[1] All tables are located in the Appendix.

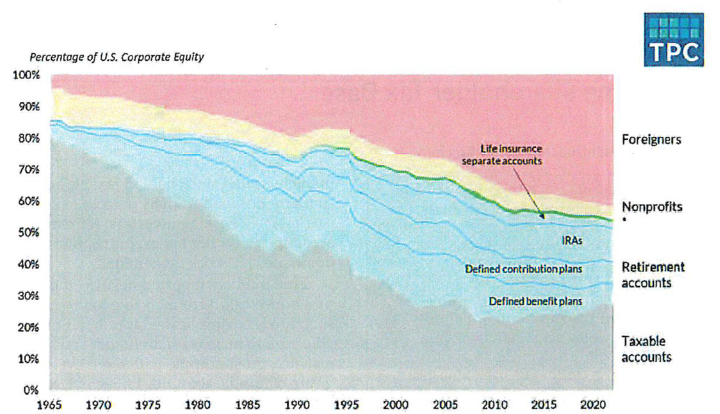
[2] Federal Reserve, "Financial Accounts of the United States: Flow of Funds, Balance Sheets, and Integrated Macroeconomic Accounts, Third Quarter 2023" (Dec. 7, 2023).

[3] We treat foreign investors as tax exempt, despite occasional tax payments by foreign investors on dividend distributions. Foreign investors almost always are exempt on their capital gains and, with the rise of stock buybacks, receive fewer dividends (and are taxed at reduced rates on those distributions when they do).

[4] *See* Steven M. Rosenthal and Lydia Austin, "The Dwindling Taxable Share of U.S. Corporate Stock," *Tax Notes*, May 16, 2016, p. 923 (describing the ownership shift for publicly traded U.S. stock); Rosenthal's testimony before the Senate Finance Committee, "Integrating the Corporate and Individual Tax Systems: The Dividends Paid Deduction Considered" (May 17, 2016). *See also* Leonard E. Burman, Kimberly A. Clausing, and Austin, "Is U.S. Corporate Income Double-Taxed?" 70 *Nat'l Tax J.* 675 (2017) (corroborating the ownership shift first observed by Rosenthal and Austin).

[5] *See* Rosenthal, "Slashing Corporate Taxes: Foreign Investors Are Surprise Winners," *Tax Notes*, Oct. 23, 2017, p. 559.

**Figure 1. Ownership of U.S. Corporate Stock, 1965-2022 (direct and indirect holdings)**




*Source*: Board of Governors of the Federal Reserve System, "Financial Accounts of the United States"; Tax Policy Center calculations.
*Federal, state, and local government holdings, including equity in 529 college savings plans.

holdings of U.S. equity (which includes foreign direct investment (FDI) (10 percent or greater holdings in a U.S. company) and publicly traded stock holdings only, which do not include FDI. It details more fully in the Appendix the method used to document the shift.

Policymakers have begun to address the challenges to corporate tax policies presented by the shift in stock ownership from taxable to foreign and other tax-exempt investors. In particular, they have begun to reflect this important change into discussions on the long-debated issues of corporate tax integration, corporate tax incidence, and the taxation of stock buybacks and dividends. This study also describes those efforts.

## II. Shifting U.S. Corporate Equity

U.S. corporate equity is owned by both domestic and foreign investors. It may be either publicly traded or closely held (that is, not publicly traded). Closely held corporate equity includes ownership of shares in nontraded C and S corporations.[6] The Federal Reserve reports ownership of publicly traded and closely held (both C and S corporation) stock separately.[7]

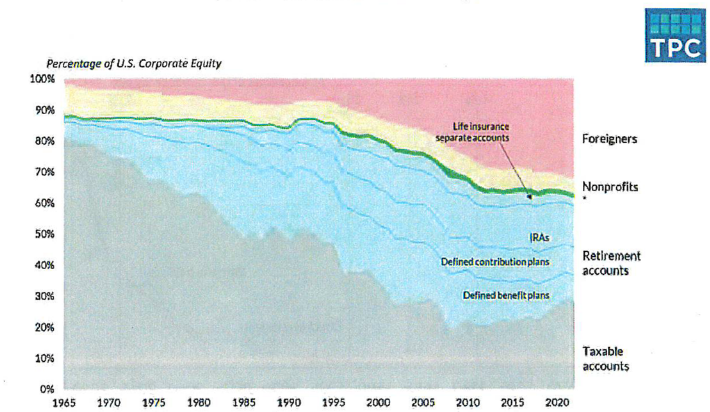
Foreign investors own U.S. corporate equity as either FDI or portfolio investments. In the United States, FDI is the ownership or control, by a foreign person or entity, of 10 percent or more of the voting securities of an incorporated U.S. business enterprise, or the equivalent interest in an unincorporated U.S. business enterprise.[8] Foreign investment that is not direct investment is portfolio investment.

[6] C corporations are traditional corporations, which are subject to the corporate income tax, and S corporations are corporations that have elected a special (tax-exempt) status with the IRS to pass through their income to their shareholders, who pay any tax due on their personal returns at individual rates.

[7] *See* Federal Reserve, *supra* note 2, at Table L.224, lines 29 and 30.

[8] Alicia M. Quijano, "A Guide to BEA Statistics on Foreign Direct Investments in the United States," 70 *Survey Current Bus.* 29 (Feb. 1990) (Bureau of Economic Analysis (BEA) monthly journal).

**Figure 2. Ownership of U.S. Publicly Traded Corporate Stock, 1965-2022 (direct and indirect holdings)**




*Source*: Board of Governors of the Federal Reserve System, "Financial Accounts of the United States"; Tax Policy Center calculations.
*Federal, state, and local government holdings, including equity in 529 college savings plans.

**Examples:** FDI would include the whole ownership of a U.S. subsidiary by an international conglomerate like the German company Siemens AG. Portfolio stock would include the ownership of a small stake of the outstanding shares of a U.S. publicly traded corporation like Apple by a sovereign wealth fund like Norway's.

U.S. taxable accounts once dominated both the total and publicly traded stock markets, but now foreign investors, domestic retirement accounts, and other tax-exempt entities (including charities and endowments) predominate. The shift in stock ownership is striking, whether we examine the ownership of total U.S. stock outstanding or only the publicly traded portion.[9] (See figures 1 and 2.)

Each figure — total stock ownership and just the publicly traded portion — is important for analyzing different aspects of corporate tax policy. Knowing how much of total corporate stock is owned by foreigners helps answer the question of how much of the benefit from, say, a corporate tax rate cut will flow to overseas investors versus domestic ones (that is, is a corporate tax cut really "America First"?). Calculating the proportion of foreign owners of publicly traded stock helps weigh the impact of certain policies like the new buyback excise tax, since only publicly traded U.S. corporations are subject to that tax.

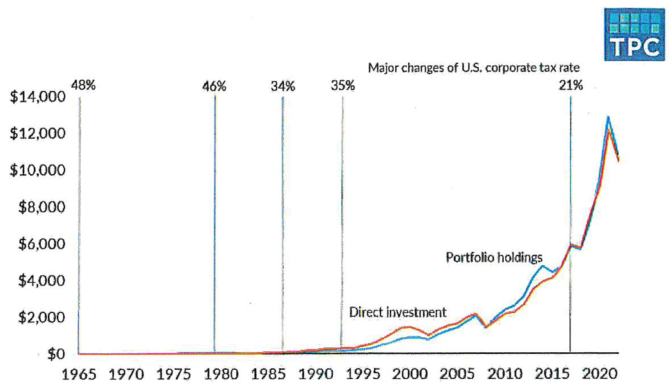
## A. Ownership of Total U.S. Corporate Equity

The share of total U.S. equity[10] in taxable accounts has fallen sharply, from about 79 percent in 1965 to just 27 percent in 2022 (Figure 1 and Table 5). The big slide actually ended in 2008, when the percentage of stock in taxable accounts leveled out, and then rose slowly as the stock market recovered from the Great Recession.

[9] We define publicly traded U.S. stock as all U.S. stock outstanding less (1) closely held corporate equity and (2) FDI.

[10] Other than S (and other passthrough) corporate equity.

Figure 3. Foreign Ownership of U.S. Equity, 1965-2022
(billions of dollars adjusted to 2022 dollars)




*Source*: Board of Governors of the Federal Reserve System, "Financial Accounts of the United States"; Tax Policy Center calculations.

### B. Ownership of Publicly Traded U.S. Stock Only

Publicly traded stock is composed of total U.S. equity outstanding less (1) closely held corporate equity and (2) FDI. The share of publicly traded stock held by taxable investors has likewise fallen sharply since 1965, from 81 percent to 28 percent (Figure 2 and Table 7).

## III. Foreign and Retirement Investors

### A. Foreign Investors

The foreign share of total U.S. corporate equity grew sharply over the past few decades. Foreigners held just 16 percent of total U.S. equity in 1986 but increased their share steadily in subsequent decades to 20 percent in 1996, 31 percent in 2007, and 42 percent at the end of 2022. (For publicly traded stock, the equivalent figures are 8, 9, 21, and 32 percent.)

This growth is largely attributable to the United States' favorable tax treatment of foreign investors. That favorable treatment begins with the U.S. policy of taxing foreign investors only on income that is derived from U.S. sources. But by the federal government's definition, that does not include capital gains from the sale of U.S. investment assets, which generally are sourced to the residence of the seller rather than the location of the asset or the market on which the sale occurred.[11] So a French seller of Amazon stock on the New York Stock Exchange generally would not owe U.S. tax on any capital gains.

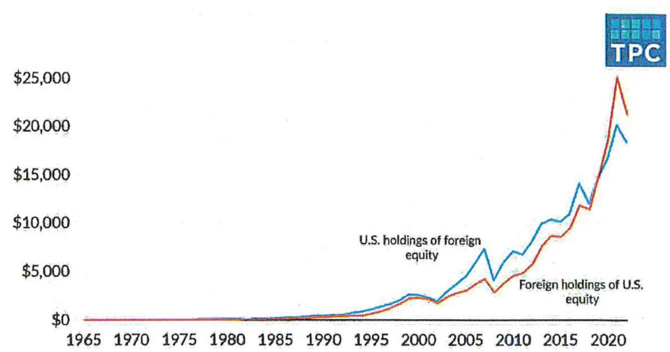
By contrast, dividends are sourced to the residence of the payer, so dividends paid by U.S. corporations to foreign investors are considered U.S. source.[12] For example, dividends paid by Intel to a Japanese owner would be subject to U.S. taxes. By statute, dividends paid to foreign investors are subject to a 30 percent tax rate, without any allowance for deductions attributable to the income.[13] However, the rate is

[11]Section 865(a). Capital gains from the sale of U.S. real property are an exception to this rule.

[12]Section 861(a)(2).

[13]Section 871(a)(1).

**Figure 4. Cross-Border Equity Investment, 1965-2022**
**(billions of dollars adjusted to 2022 dollars)**




*Source*: Board of Governors of the Federal Reserve System, "Financial Accounts of the United States"; Tax Policy Center calculations.

often reduced by tax treaties between the United States and the home country of the foreign investor: from 30 percent to 15 percent on *portfolio* investment dividends, for example, and 5 percent or even 0 percent on dividends from *direct investments*. As described later, publicly traded U.S. corporations increasingly use stock buybacks rather than dividends to distribute profits to their shareholders. The result is that foreign stock investors are generally exempt from U.S. income tax — completely for their capital gains, and to a large extent on the dividends that have become a less significant part of shareholder returns in recent years.

Both portfolio and direct investment by foreigners in U.S. equities increased dramatically, and at a similar rate, over the last two decades. (See Figure 3.) Although the U.S. Bureau of Economic Analysis (BEA) defines FDI as any stake of 10 percent or greater in a U.S. firm, that direct investment almost always takes the form of majority ownership.[14]

Over the last several decades, Congress repeatedly slashed the U.S. corporate income tax rate, in part to attract foreign investment. Foreign countries, too, reduced their corporate income tax rates, also in part to attract foreign investment in the increasingly globalized capital markets.[15]

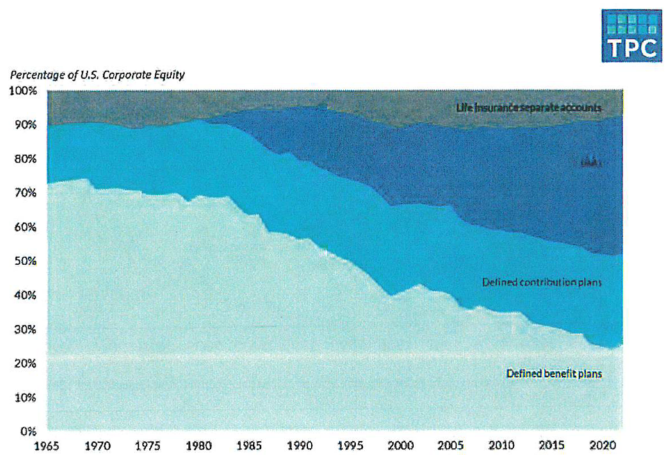
For most of the last 60 years, total foreign holdings of U.S. equities rose at a similar clip as U.S. holdings of foreign equity.[16] (See Figure 4.) However, in recent years, the value of U.S. equity

[14] U.S. corporations that are more than 50 percent controlled by foreigners make up more than 90 percent of the FDI by employment and assets. *See* BEA, "International Economic Accounts" (last modified Sept. 20, 2023).

[15] Cristina Enache, "Corporate Tax Rates Around the World, 2023," Tax Foundation (Dec. 12, 2023).

[16] Europe predominantly accounted for FDI in the United States, with Asia second, and Canada a distant third (the same order goes for U.S. investment abroad). BEA release, "Direct Investment by Country and Industry, 2022" (July 20, 2023).

**Figure 5. U.S. Corporate Stock in Retirement Accounts, 1965-2022**




*Source*: Board of Governors of the Federal Reserve System, "Financial Accounts of the United States"; Tax Policy Center calculations.

held by foreign residents grew much faster as a result of sharp increases in U.S. equity prices.[17]

## B. Retirement Investors

After foreign investors, the largest holder of U.S. stock is domestic tax-exempt retirement accounts. While these accounts held only about 7 percent of total U.S. equity in 1965, they held about 27 percent in 2022. (For publicly traded stock, the equivalent figures are 7 percent and 34 percent.)

There are several different kinds of retirement plans.[18] (See Figure 5.)

The oldest retirement arrangements, defined benefit (DB) plans, generally make annuity payments to retired workers based on years of work and earnings.[19] They started in the late 19th century after some employers began to pay employees a percentage of their salary upon disability or retirement.[20] DB plans took hold during World War II, when employers could not raise wages because of wage and price controls

[17] *See* Andrew Atkeson, Jonathan Heathcote, and Fabrizio Perri, "The End of Privilege: A Reexamination of the Net Foreign Asset Position of the United States" (July 12, 2023) (finding that "the welfare impact of rising [corporate] asset values for a representative U.S. household has been quite negative given extensive foreign ownership of U.S. corporate equity").

[18] In total, retirement tax benefits are the largest income tax expenditure on the books, costing several hundreds of billions of dollars a year. Joint Committee on Taxation, "Estimates of Federal Tax Expenditures for Fiscal Years 2023-2027," JCX-59-23 (Dec. 7, 2023).

[19] "What Are Defined Benefit Plans?" Tax Policy Center Briefing Book, at ch. 3 (updated May 2020).

[20] *See* Elizabeth A. Myers et al., "Pensions and Individual Retirement Accounts (IRAs): An Overview," Congressional Research Service, R47119 (June 1, 2022).

and thus increased other forms of compensation, such as pensions.[21]

For tax purposes, an employer can deduct contributions to a DB plan. Later, employees include retirement payments in their taxable income. DB plans generally are fully funded (that is, sufficient funds are set aside to pay for promised future benefits), and the income on the funds set aside is tax exempt. To qualify under current tax rules, a DB plan is capped on how much it can pay each retiree annually. This limit increases each year with inflation; in 2024, it is $275,000.[22]

Both private and public employers can offer DB plans. However, over time, most private employers turned away from DB plans because of their large long-term funding burdens.[23] In 1965 DB plans accounted for more than 70 percent of the stock held in retirement arrangements, but by 2022 they made up only about 25 percent. And as a share of total U.S. equity held, DB plans fell from a high of 22 percent in 1985 to 7 percent in 2022. As of 2022, government pension plans accounted for about 75 percent of the stock held by DB plans.[24]

As the name implies, defined contributions (DC) plans contrast with DB plans in that they set only the amount of contributions that go into the employee's account, not the amount that will be paid out upon retirement.[25] The employee owns the account, the balance in which — and therefore the ultimate size of its later distributions — depends on the size of the contributions and the accumulated returns on investments, including stock. The maximum combined employer and employee contribution is capped each year. For 2024, the limit is $69,000, with an extra $7,500 catch-up contribution by employees aged 50 or over, for a maximum total of $76,500.[26]

Though versions of DC plans existed earlier, Congress first codified them in section 401(k) in 1978, which took effect in 1980.[27] Since then, DC plans have remained popular and have held around 7 percent of total U.S. equity for the last four decades. DC plans now include section 401(k) plans, section 403(b) plans for nonprofit employees, section 457(b) plans for state and local government employees, and the federal government's Thrift Savings Plan.

Congress introduced traditional IRAs in 1974 and expanded eligibility widely in 1981 (to all workers, regardless of their participation in an employer pension plan). A different form of IRA, the Roth, was added to the system in 1997. IRAs are like DC plans, but without an employer's participation. Since 1981 IRAs have grown steadily and now hold 11 percent of total U.S. equity. Congress initially set the IRA contribution cap at $1,500, but it's now $7,000, with an extra $1,000 catch-up contribution for older workers, for a maximum total of $8,000. The largest increase occurred in 2001, when Congress increased the limit from $2,000 to $5,000 over a five-year phase-in and added the extra $1,000 catch-up.

The steady hikes in the contribution limits for IRAs are, in small part, responsible for their larger stock market share, but more responsible is the growth in contribution limits for employer plans (both DC and, to a lesser extent, DB plans[28]). That's because most of the growth in IRAs' holdings has been fueled by rollovers of large balances in employer plans, which is permitted upon job changes and retirement.[29]

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[21] *Id.* at 2.

[22] Notice 2023-75, 2023-47 IRB 1256.

[23] Nathan Bomey, "'It's Really Over': Corporate Pensions Head for Extinction as Nature of Retirement Plans Changes," *USA Today*, Dec. 31, 2019.

[24] Because the governments must ultimately make the promised pension payments regardless of the performance of the stock, we could consider taxpayers as the beneficial owners of the stock held in public sector DB plans. *See* Alan J. Auerbach, "Who Bears the Corporate Tax? A Review of What We Know," 20 *Tax Pol'y & Econ.* 1, 7 (2006).

[25] "What Are Defined Contribution Retirement Plans?" Tax Policy Center Briefing Book (updated May 2020).

[26] Notice 2023-75.

[27] Before 1980 some employers offered their employees deferred cash and profit-sharing plans, which the IRS first approved but later questioned. *See* JCT, "General Explanation of the Revenue Act of 1978," JCS-7-79, at 82-84 (Mar. 12, 1979).

[28] In the last two decades there's been an explosion of cash balance plans, which technically are DB plans but function like DC plans. *See* FuturePlan, "National Cash Balance Research Report" (Mar. 2023). The benefit of a cash balance plan is stated in terms of an account balance, not ultimate payouts. A cash balance plan can be rolled over into an IRA upon one's leaving a job. For 2021, assets in cash balance plans were about $1.3 trillion, while assets in traditional DB plans were about $2.4 trillion. Employee Benefits Security Administration, "Private Pension Plan Bulletin" (July 26, 2023).

[29] Sarah Holden and Daniel Schrass, "The Role of IRAs in US Households' Saving for Retirement, 2018," 24 *ICI Res. Persp.* (Dec. 2018). Rollovers of balances in cash balance plans to IRAs, described above, are a recent phenomenon.

Investment income earned by retirement accounts generally is tax exempt. That's true whether the income is from assets held in a DB plan, DC plan, or IRA. And it's true whether the IRA is a Roth IRA (with taxes on contributions paid upfront) or a traditional IRA (with taxes paid on distributions at the back end). And if tax rates remain constant, the tax exemption for Roth and traditional IRAs generally is equivalent.[30]

Life insurance companies hold stock in segregated reserves to fund whole life insurance and annuity contracts.[31] Whole life insurance (that is, insurance contracts with a cash value) and annuities are similar to other tax-favored vehicles such as retirement plans — including section 401(k) plans and section 529 qualified tuition programs — because investment growth is not taxed as it accrues and assets held until death may escape income tax entirely.[32] Since 1960 ownership of life insurance policies has declined, with rates of cash value life insurance ownership declining most rapidly.[33] Stock holdings in segregated accounts as a share of the total market have shown little change over the period we studied.

## IV. Rethinking Corporate Taxes

### A. Taxing Corporate Profits More Effectively

The taxation of U.S. corporate profits often is criticized for occurring twice: once to corporations, then again to shareholders (upon, for example, distribution of the profits). Many observers have complained that the two levels of tax distort important business decisions, including whether to establish as a corporation, partnership, or other business form; whether to finance with debt or equity; and whether to retain or distribute earnings.

But the real problem is not that corporate profits are taxed twice; it's that they are taxed ineffectively each time. The shift from taxable to nontaxable shareholders is just one manifestation of that larger problem.

Corporate tax receipts as a share of the economy have fallen greatly over the last 60 years, from 3.6 percent of GDP in 1965 to 1.7 percent in 2022. This decline, often observed, is attributable in part to the shift of business profits from traditional C corporations to S corporations, partnerships, and other passthrough entities.[34] These entities pass through their profits, without taxation, to their owners, who pay any tax due on their individual returns. But the decline in corporate tax receipts is also attributable to the sharp decline in the top corporate income tax rate over the same period, from 48 percent to 21 percent, as well as to artificial profit shifting through transfer pricing and other devices.[35]

From 1965 to 2022, the share of U.S. stock held by taxable shareholders dropped from 79 percent to 27 percent. The top tax rate for dividends received by these shareholders dropped from 70 percent to 23.8 percent, and for capital gains from 25 percent to 23.8 percent (and unrealized capital gains continue to disappear for tax purposes if they are held until death).

Paradoxically, addressing the double taxation of corporate profits could be a way to strengthen taxation of corporate capital. It might be easier to properly tax these profits if that taxation occurred only once, but comprehensively.

This sought-after tax reform of reducing two corporate taxes to one is called "corporate integration." One method to achieve it would be to eliminate the corporate-level tax altogether and instead collect more from shareholders. Some commentators have supported that plan with the observation that corporations generally are more mobile than their shareholders — able, at least on

[30] *See* Burman, William G. Gale, and Aaron Krupkin, "Roth IRAs Versus Traditional IRAs: Implications for Individuals and Government," Tax Policy Center (Sept. 5, 2019) ("Investment income accrued with both Roth IRAs and traditional IRAs is effectively tax free over the life of the account. This is obvious for Roth IRAs, because earnings on the accounts and withdrawals are never subject to income tax. But it's also true for traditional accounts because the up-front tax deduction effectively represents the government's share of the individual's investment."). *See also* "What's the Difference Between Front-Loaded and Back-Loaded Retirement Accounts?" Tax Policy Center Briefing Book (updated May 2020).

[31] The insurance companies are not subject to tax on the income from the segregated accounts. Rather, the beneficiaries themselves will generally be subject to tax to the extent that payments exceed basis.

[32] JCT, "Present Law and Background on the Income Taxation of High Income and High Wealth Taxpayers," JCX-51-23, at 68 (Nov. 7, 2023).

[33] Daniel Hartley, Anna Paulson, and Katerina Powers, "What Explains the Decline in Life Insurance Ownership?" *Econ. Persp.*, Federal Reserve Bank of Chicago (2017).

[34] "What Are Pass-Through Businesses?" Tax Policy Center Briefing Book (updated May 2020).

[35] *See, e.g.*, Clausing, "5 Lessons on Profit Shifting From U.S. Country-by-Country Data," *Tax Notes Federal*, Nov. 9, 2020, p. 925. *See also* Reuven S. Avi-Yonah et al., "Commensurate With Income: IRS Nonenforcement Has Cost $1 Trillion," *Tax Notes Federal*, May 22, 2023, p. 1297.

paper, to quickly, easily, and frequently change taxing jurisdictions in search of a better deal — and are therefore harder to tax.[36] And indeed, collecting taxes from corporations with U.S. operations has proven difficult in recent years because of profit shifting and other tax-dodging strategies.

In 2016 the Senate Finance Committee held hearings on corporate integration. The committee's plan would have allowed corporations to deduct dividends paid to shareholders, which would have effectively eliminated the corporate-level tax on earnings.[37] Higher taxes on shareholders — who would benefit from the increased stock prices of tax-free companies and, presumably, the greater dividends that the companies could pay — would help make up the shortfall. Orrin Hatch, committee chair at the time, correctly observed that "if done right, corporate integration promises to eliminate the distortive double taxation of corporate earnings and further modernize the tax code."[38]

But the transformed nature of stock ownership in recent decades — from overwhelmingly taxable to overwhelmingly nontaxable — doomed that plan to failure.[39] As one of the authors of this report testified to Hatch's committee at the time, relatively few shareholders are subject to income tax on their stock holdings these days (and they are taxed at reduced rates).[40] To keep Hatch's shift of taxes from corporations to shareholders revenue neutral, Congress would have needed to substantially increase the tax rate on dividends and capital gains — or broaden the tax base by eliminating the exemptions of currently tax-exempt accounts and institutions. Neither was politically viable, so Hatch's effort failed.

## B. Determining Corporate Tax Incidence

In 2017 Congress reduced the U.S. corporate tax rate from 35 percent to 21 percent but did not increase taxes on the income that shareholders derive from their stock holdings.[41] As a result, shareholders benefitted, indirectly, from lower corporate taxes without paying more taxes directly.

As described earlier, the vast majority of stock owners benefiting from lower corporate taxes are tax exempt, with foreign investors constituting the most sizable portion by far. Noting this shift, Paul Krugman, the Nobel Prize-winning economics columnist for *The New York Times*, facetiously described the corporate tax relief enjoyed by offshore investors from the 2017 law as a "$700 billion foreign aid program."[42]

Of course, there is much debate about who benefits when corporate taxes go down (and who pays when they go up).[43] Those impacts, called "tax incidence," ripple through the economy over time.

In the short run, it's clear that reducing corporate income taxes increases after-tax returns for capital invested in the companies and thus benefits the owners of corporate capital — that is,

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[36] *See* Eric Toder and Alan D. Viard, "Major Surgery Needed: A Call for Structural Reform of the U.S. Corporate Income Tax," Tax Policy Center (Apr. 4, 2014). Those authors later proposed to cut the corporate rate to 15 percent, not eliminate it. Toder and Viard, "Replacing Corporate Tax Revenues With a Mark-to-Market Tax on Shareholder Income," 69 *Nat'l Tax J.* 701 (Sept. 2016). Similarly, Harry Grubert and Rosanne Altshuler proposed to lower the corporate tax rate to 15 percent and increase the tax rate for dividends and gains to shareholders. *See* Grubert and Altshuler, "Shifting the Burden of Taxation From the Corporate to the Personal Level and Getting the Corporate Tax Rate Down to 15 Percent," 69 *Nat'l Tax J.* 643 (Sept. 2016). Rather than publicly traded stock being marked to market, they would impose a deferred interest charge on gains from stock when the stock is sold.

[37] Senate Finance Committee release, "Hatch to Hold Finance Hearing on Corporate Integration" (May 11, 2016).

[38] *Id.*

[39] To evaluate corporate integration, only holdings of publicly traded stock should be considered (*i.e.*, FDI should be ignored). That's because tax on earnings attributable to FDIs effectively is integrated already: The U.S. subsidiary pays tax on its earnings, but the foreign parent — despite a statutory 30 percent U.S. tax rate on dividends received by foreign investors — typically pays little (often 5 percent) or no tax on dividends thanks to tax treaties that the United States maintains.

[40] Rosenthal testimony, *supra* note 4.

[41] "An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution of the Budget for Fiscal Year 2018," P.L. 115-97, commonly known as the Tax Cuts and Jobs Act. The TCJA's reduction in the corporate tax rate was only partially offset by the broadening of the corporate tax base.

[42] Krugman, "Trump's $700 Billion Foreign Aid Program," *New York Times Blog* (Oct. 25, 2017) ("OK, this analysis from Steven M. Rosenthal at the Tax Policy Center is revelatory. It makes a simple point, but one everyone — myself included — somehow missed: the Trump tax plan is a huge giveaway to foreigners.").

[43] Reducing corporate income tax rates, narrowing the corporate tax base, or increasing corporate tax incentives are alternative ways to lower corporate taxes. *See, e.g.*, Institute on Taxation and Economic Policy, "Impacts of the Tax Relief for American Families and Workers Act" (Feb. 2, 2024) (estimating that foreign investors would benefit by $20 billion with extensions of corporate incentives for research and development, investment, and interest expense in pending legislation).

the shareholders.[44] Krugman argues that reaching the long run can take many years — more than a dozen — just to achieve half the adjustment.[45] As he explained, "One does not simply unbolt machines in other countries from the floor and roll them into America the next week."

The two official federal budget scorekeepers, Treasury and the Joint Committee on Taxation, acknowledge the short-run incidence of a corporate tax but exalt the long run, after the tax ripples through the economy.[46]

Using this framework, the two scorekeepers project that cutting corporate taxes will eventually benefit all owners of capital, and to a lesser degree, U.S. workers. That is because as the after-tax returns for capital invested in the corporate sector increase, capital from the noncorporate sector is drawn to the corporate sector, which increases the returns to capital still invested in the noncorporate sector.[47] The reduction in corporate taxes also might increase returns to labor because workers in the corporate sector are more productive with more capital to work with and could demand higher wages.[48] (The reverse also would be true: An increase in corporate taxes would reduce returns both to capital and labor.)

But even after accepting this long-run hypothesis, the exact split of the incidence of corporate taxes between capital and labor is a matter of speculation. Treasury assigns 82 percent of the benefit of reducing corporate taxes (or the burden of increasing them) to capital and 18 percent to labor. The JCT assigns 75 percent of the incidence to capital and 25 percent to labor. According to both formulations, the corporate tax still is overwhelmingly borne by capital holders, including foreign investors, even as labor bears a minor share.

However, there is considerable confusion on the assignment of the benefit or burden of changes in corporate tax policy to foreign investors. Treasury's official distribution allocates no impact at all to overseas shareholders. The JCT allocates a portion of the burden on capital to foreign investors, but only for their portfolio holdings, not their FDI. (It's easy to miss FDI because the Fed reports direct investments on a table separate from other holdings of corporate equity.[49]) But reducing corporate taxes benefits both a foreign investor that holds a small amount of stock in its portfolio and one that wholly owns a U.S. corporation.[50]

Though these structural errors persist, government scorekeepers now are beginning to account more fully for foreign stock holdings. When the Biden administration proposed to raise the corporate income tax rate to 28 percent, it explained that a "significant share of the effects of the corporate tax increase would be borne by foreign investors."[51] And recently, JCT economists, in an unofficial paper, acknowledged

[44] For existing shareholders, the effect is instantaneous through the process of capitalization, as a stock's price rises to reflect anticipated higher after-tax earnings (or falls to reflect lower after-tax earnings). Auerbach, *supra* note 24, at 10.

[45] Krugman, "The Transfer Problem and Tax Incidence (Insanely Wonkish)," *New York Times Blog* (Oct. 5, 2017). *See also* Auerbach, *supra* note 24, at 10 ("while computers can be moved from one office to another, it is considerably more difficult to turn a nuclear power plant into a tractor").

[46] Julie-Anne Cronin, "U.S. Treasury Distributional Analysis Methodology," Treasury Office of Tax Analysis (May 2022); Cronin et al., "Distributing the Corporate Income Tax: Revised U.S. Treasury Methodology," Treasury Office of Tax Analysis (May 2012); JCT, "Modeling the Distribution of Taxes on Business Income," JCX-14-13 (Oct. 16, 2013).

[47] Arnold C. Harberger, "The Incidence of the Corporate Income Tax," 70 *J. Pol. Econ.* 215 (1962).

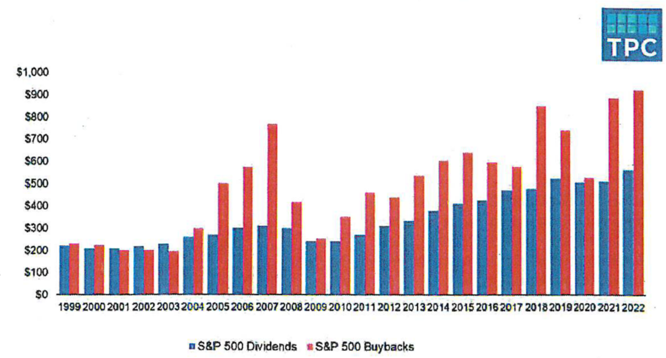
[48] However, the corporations' owners also would be the sole beneficiaries, even in the long run, to the extent that corporate income tax is collected from supernormal returns (*i.e.*, a return that is greater than the normal return, which typically is attributable to intangible property that is unique to the company). That is because shareholders that earn supernormal returns would not shift their capital in response to tax rate changes. And supernormal returns are large and have been getting larger, increasing from 60 percent to about 75 percent of the U.S. corporate tax base over the period of 1992-2013. Laura Power and Austin Frerick, "Have Excess Returns to Corporations Been Increasing Over Time?" 69 *Nat'l Tax J.* 831 (2016). *See also* Edward G. Fox, "Does Capital Bear the U.S. Corporate Tax After All? New Evidence From Corporate Tax Returns," 17 *J. Empirical Legal Stud.* 71 (2020); Fox and Zachary Liscow, "A Case for Higher Corporate Tax Rates," *Tax Notes Federal*, June 22, 2020, p. 2021.

[49] Federal Reserve, *supra* note 2, at Table L.225.a, "Direct Investment Equity," not Table L.224, "Corporate Equities of the Financial Accounts." Last year the Fed shifted direct investment equity (formerly at Table L.230, now at Table L.225) closer to other corporate equity (Table L.224).

[50] Foreign corporations often operate their U.S. businesses as branches (*i.e.*, unincorporate). But for U.S. tax purposes, branches are effectively treated as corporations.

[51] *See* Treasury, "General Explanations of the Administration's Fiscal Year 2025 Revenue Proposals" (Mar. 11, 2024). When the Biden administration first proposed the increase, it explained, "Since foreign shareholders own a significant share of U.S. equities, much of the benefits of the corporate tax cut accrued to foreign, rather than U.S. investors." Treasury, "The Made in America Tax Plan," at 5 (Apr. 2021) (citing an early draft of this article).

**Figure 6. Stock Buybacks and Dividends (billions of dollars adjusted for inflation)**




*Source*: S&P Global and Yardeni Research Inc.

the significance of the large share of U.S. stock owned by foreign investors.[52]

In sum, the drastic change in the nature of corporate shareholders — from largely domestic investors with taxable accounts to mostly untaxed foreign investors and retirement account holders — adds a further wrinkle to the study of tax incidence. Taxable shareholders simply are in short supply. And it's not enough to determine how much impact a change in corporate tax policy has on shareholders; rather, the analysis must consider who those shareholders are and how they are taxed.

### C. Taxing Distributions More Equitably

Publicly traded companies now spend more than $1 trillion annually to repurchase their own stock. Those buybacks far surpass cash dividends, which used to be the main way corporations distributed profits to their shareholders. (See Figure 6.)

The rise in foreign ownership of publicly traded U.S. corporate stock fueled the shift to buybacks. As the share of foreign ownership of U.S. publicly traded stock tripled over the last three decades, the ratio of buybacks to dividends doubled.[53]

For foreign investors, the preference for buybacks is particularly clear: As noted earlier, the United States generally does not tax foreigners on the capital gains that stock buybacks can produce. By contrast, dividends paid to foreign investors on *portfolio* stock are subject to a withholding tax, which is 30 percent under U.S. law — though it often is reduced to 15 percent by treaty (treaties typically reduce the tax for *direct investment* to 5 percent or 0 percent). So capital gains from selling portfolio stock are never taxed to foreign investors, whereas dividends from portfolio investments are.

Also, for some domestic investors, buybacks are more attractive than dividends, even though both are taxed at the same top rate of 23.8 percent. First, a portion of the cash received by individuals who sell stock in a buyback is a recovery of

[52]*See* Patrick J. Kennedy et al., "The Efficiency-Equity Tradeoff of the Corporate Income Tax: Evidence From the Tax Cuts and Jobs Act" (Nov. 14, 2023) (asserting, correctly, that foreign investors owned about 38 percent of C corporation equity in 2016).

[53]Rosenthal and Thomas Brosy, "Stock Buyback Excise Taxes: What We Know and Don't Know," TaxVox Blog (Mar. 10, 2023).

invested capital (cost basis) and is not taxable, while for dividends, the entire amount of cash received is taxable. Also, buybacks, unlike dividends, are taxed to a particular investor only if the investor takes an affirmative step: selling her appreciated stock. That is, the shareholder controls the timing of taxation. These advantages to buybacks for domestic investors, although important, are substantially smaller than the advantages of buybacks for foreign investors.

In a separate paper, we estimated, based on effective tax rates, the U.S. tax advantage for buybacks over dividends at 7.2 percent before any excise taxes.[54] We estimate that about two-thirds of the total U.S. tax advantage is attributable to foreign shareholders, largely stemming from their exemption from capital gains taxes.

To reduce the tax advantage of buybacks over dividends, the Inflation Reduction Act of 2022 introduced a 1 percent excise tax on the value of stock buybacks by U.S. publicly traded corporations.[55] Yet buybacks have not been slowed, presumably because the 1 percent excise tax is too small.

In its fiscal 2025 budget, the Biden administration noted that the buyback tax as constituted had not proven much of a curb on the practice, and it proposed that the levy be quadrupled to 4 percent. The budget predicted that "increasing the tax rate on buybacks would reduce [the] disparity" between buybacks and dividends.[56] From our calculations, even a 4 percent buyback tax still would leave buybacks with a tax advantage over dividends.[57] Our estimates suggest that increasing the buyback excise tax could raise additional federal revenue and still leave a tax advantage for buybacks.

## V. Conclusion

The transformation over the past 60 years in the nature of U.S. stock ownership from overwhelmingly domestic taxable accounts to overwhelmingly foreign and tax-exempt investors has many important policy implications, including how we can most effectively tax corporate profits; who is affected by changes in corporate taxation; and the form of corporate payouts to shareholders. Policymakers must continue the process, only now beginning, of grappling with the dwindling shareholder tax base.

## VI. Appendix: Methodology

We draw our data largely from quarterly reports by the Federal Reserve, which tally the total value of U.S. corporate equity issued, as well as the value of stocks issued by foreign corporations but held by U.S. residents.[58] The Fed allocates the holdings of these corporate equities to one of 17 business and governmental categories and assigns the remaining equities to a residual category, which it labels the "household sector."[59]

But the Fed's awkward sorting of the data obscures our tax trends. Most importantly, the Fed's residual category — the household sector — includes stock held by nonprofit institutions, not just stock held by U.S. households, as traditionally viewed. The Fed also combines taxable and tax-exempt stock holdings by U.S. households, such as taxable holdings in brokerage accounts and tax-exempt holdings in IRAs. Finally, the Fed does not allocate the stock held by passthrough corporations, such as mutual funds, to the stock's beneficial owners (that is, the owners of the passthrough corporations).[60]

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[54] Brosy and Rosenthal, "What Is the U.S. Tax Advantage of Stock Buybacks Over Dividends?" Tax Policy Center (forthcoming 2024).

[55] Rosenthal, "New Buyback Excise Tax Snares Foreign Investors," TaxVox Blog (Aug. 16, 2022).

[56] Sens. Sherrod Brown, D-Ohio, and Ron Wyden, D-Ore., likewise have introduced legislation to increase the buyback excise tax rate to 4 percent. Brown release, "Brown, Wyden Introduce Legislation to Increase Tax on Stock Buybacks" (Feb. 14, 2023).

[57] By comparison, Penn Wharton estimates the tax advantage to buybacks at 4.6 percent with a stylized model that ignores U.S. tax advantages to foreign shareholders. Wharton, "The Excise Tax on Stock Repurchases: Effects on Shareholder Tax Burdens and Federal Revenues" (Mar. 9, 2023). CRS estimates the tax advantage to buybacks at 9.875 percent, without reducing for future tax savings as we do. Jane G. Gravelle, "The 1 Percent Excise Tax on Stock Repurchases (Buybacks)," CRS, R47397 (updated Feb. 15, 2023).

[58] Federal Reserve, *supra* note 2, at Table L.224.

[59] The Fed's 18 categories of holders are the household sector, nonfinancial corporations, the federal government, state and local governments, monetary authority, U.S.-chartered depository institutions, foreign banking offices in the United States, property casualty insurance companies, life insurance companies, private pension funds, federal government retirement funds, state and local government retirement funds, mutual funds, CEFs, ETFs, brokers and dealers, other financial business, and "the rest of the world." The household sector includes taxable accounts, as well as IRAs, section 529 holdings, and nonprofit organizations.

[60] A beneficial owner is a person that enjoys the benefits of ownership even though the title to the property is held by another person.

To unravel the Fed's data, we replace its 18 categories with eight new ones, grouped by tax attributes, allocating the Fed categories accordingly. We calculate, separately, the share that each of these tax categories represents both for total U.S. equity and publicly traded U.S. equity alone. We track the changes in relative shares of the two types of stock held in the eight tax categories from 1965 to 2022.

Below, for 2022 we (1) reorganize the Fed's categories, (2) subtract stock issued by passthrough corporations and allocate the stock held by them to their owners, (3) subtract foreign-issued stock and add FDI in U.S. equity to determine holdings of total U.S. equity, and (4) remove stock issued by closely held corporations and FDI, to calculate the holdings of publicly traded U.S. stock only.

We start with the Fed's estimate of total corporate stock held, which the Fed sets equal to total stock issued. We reassign equity from the Fed's holder categories to tax holder categories — which become our numerators — and total equity issued, our denominator. At each step of our calculations, we balance our tax numerators and tax denominator, thereby hewing close to the Fed's premise: Total stock held must equal total stock issued.

The data collection and modification are all intended to get the most accurate picture possible of who owns U.S. corporate equity. In several instances, we made simplifying assumptions, which we describe below.

### Step 1: Remove double-counted corporate equity and reorganize Fed categories.

To avoid double counting the value of corporate equity, we subtract the value of stock that is held by other corporations (that is, intercorporate holdings) from both our numerator and denominator.[61] (See tables 1 and 2.)

**Example:** If Corporation A holds stock of Corporation B, the owners of Corporation A beneficially own a stake in Corporation B's stock. To avoid double counting, we subtract the value of the stock that Corporation A holds in Corporation B.[62]

Once we subtract intercorporate holdings, 11 categories of Fed holders remain, as shown on the left side of Table 1. We consolidate these 11 categories into nine categories of holders, which we group by tax attributes, as shown on the right side of Table 1: foreigners, life insurance separate accounts, DB plans, DC plans, IRAs, government, nonprofits, taxable accounts, and passthrough corporate holders (mutual funds, exchange-traded funds (ETFs), and closed-end funds (CEFs)).[63]

We then allocate the stock that is held in the Fed's residual category — the household sector — to taxable and tax-exempt holders (IRAs, section 529 plans, and nonprofits). As noted earlier, the Fed includes equity holdings by nonprofit institutions in the household sector. From 1988 to 2000, the Fed determined the equity that was held by nonprofits based on Fed surveys and IRS data (but later, the Fed reported corporate equities and mutual fund holdings, in combination, by nonprofits). For the periods before 1988 and after 2000, we extrapolate the share of equities (of equities and mutual funds) held by nonprofits. We also estimate the stock that is directly held in self-directed brokerage accounts of IRAs and in section 529 plans.[64]

For our tax denominator, we simply subtract intercorporate holdings of corporate equity, as shown in Table 2.

As a check, the equity issuances in Table 2 equal the equity held in Table 1.

[61] Life insurance companies hold stock in their general accounts for the company's benefit, and separate accounts for their customers' benefit. We treat the stock held in general accounts as intercorporate but treat the stock held in separate accounts as customers'.

[62] The extra level of corporate ownership effectively increases the tax burden for stock that is held through these structures, although the tax law mitigates the burden by permitting a deduction to a corporation for dividends received from another corporation. Auerbach, *supra* note 24, at 7.

[63] For assets in section 529 savings plans, see Federal Reserve, *supra* note 2, at Table B.101, line 43. Life insurance separate account equity holdings are on Table 116.s, line 6. Private DB plan equity holdings are on Table L.118.b, line 12. Private DC plan equity holdings are on Table L.118.c, line 12. Federal DB plan equity holdings are on Table L.119.b, line 9. Federal DC plan equity holdings are on Table L.119.c, line 9. And state and local defined plan equity holdings are on Table L.120.b, line 12.

[64] Section 529 plans are a small, but tax-exempt, holder of equities. Section 529 plans don't fit squarely in any of our tax-exempt holders. We allocate section 529 plans to the nominal holders (state governments), although often the section 529 plan beneficial owners are individuals (*i.e.*, individuals effectively own the assets in the college savings plans, but not the tuition guarantee programs).

**Table 1. U.S. Corporate Equity Holdings (tax numerator)**

| Fed. Categories of Equity Holders (in bold) | |
|---|---|
| **All equity holdings less intercorporate holdings** | **$61,440** |
| **Rest of the world** | $10,840 |
| **Life insurance companies; separate accounts** | $505 |
| **Private pensions** | $2,934 |
| Private pension funds; DB plans (move to DB plan category) | $1,040 |
| Private pension funds; DC plans (move to DC plan category) | $1,894 |
| **Federal government retirement funds** | $419 |
| Federal government; DB plans (move to DB plan category) | $16 |
| Federal government; DC plans (move to DC plan category) | $403 |
| **State and local government; DB plans (move to DB plan category)** | $2,985 |
| **Federal government (move to government category)** | $33 |
| **State and local governments (move to government category)** | $239 |
| **Mutual funds (move to passthrough holdings category)** | $11,867 |
| **Closed-end funds (move to passthrough holdings category)** | $99 |
| **Exchange-traded funds (move to passthrough holdings category)** | $5,059 |
| **Household sector** | $26,460 |
| IRAs (make into IRAs category) | $4,310 |
| 529 college savings plans (move to government category) | $266 |
| Nonprofits (make into nonprofits category) | $2,106 |
| Taxable accounts (make into taxable accounts) | $19,778 |

Market values in billions of dollars, 2022

| Tax Categories of Equity Holders (in bold) | |
|---|---|
| **All equity holdings less intercorporate holdings** | **$61,440** |
| **Foreigners** | $10,840 |
| **Life insurance separate accounts** | $505 |
| **DB Plans** | $4,041 |
| Private pension funds; DB plans | $1,040 |
| Federal government; DB plans | $16 |
| State and local government; DB plans | $2,985 |
| **DC Plans** | $2,297 |
| Private pension funds; DC plans | $1,894 |
| Federal government; DC plans | $403 |
| **IRAs** | $4,310 |
| **Government** | $538 |
| 529 college savings plan | $266 |
| Federal government | $33 |
| State and local governments | $239 |
| **Nonprofits** | $2,106 |
| **Taxable accounts** | $19,778 |
| **Passthrough holdings (mutual funds, ETFs, CEFs)** | $17,025 |
| Mutual funds | $11,867 |
| Closed-end funds | $99 |
| Exchange-traded funds | $5,059 |

**Table 2. U.S. Corporate Equity Issuances (tax denominator)**

| | |
|---|---|
| Total corporate equity issuances (issued or held in the U.S.) | $64,702 |
| – Intercorporate holdings of corporate equity | ($3,262) |
| **= Equity issuances less Intercorporate holdings** | **$61,440** |

**Table 3. Remove Passthrough Issuances and Allocate Passthrough Holdings**

| | Equity holdings (direct and indirect) | – Passthrough issuances (ETFs, CEFs, REITs, S Corps) | + Passthrough holdings (mutual funds, ETFs, CEFs) | = Total holdings |
|---|---|---|---|---|
| Equity holdings less intercorporate holdings | $61,440 | ($13,668) | | $47,772 |
| Foreigners | $10,840 | ($487) | $1,037 | $11,390 |
| Nonprofits | $2,106 | ($400) | $851 | $2,557 |
| Government | $538 | ($50) | $106 | $594 |
| Life insurance separate accounts | $505 | ($668) | $1,422 | $1,259 |
| DB Plans | $4,041 | ($191) | $407 | $4,257 |
| DC Plans | $2,297 | ($2,177) | $4,229 | $4,349 |
| IRAs | $4,310 | ($2,080) | $4,427 | $6,657 |
| Taxable accounts | $19,778 | ($7,615) | $4,546 | $16,709 |
| Passthrough holdings (mutual funds, ETFs, CEFs) | $17,025 | | $17,025 | |

**Table 4. U.S. Corporate Equity Issuances**

| | |
|---|---|
| Total corporate equity issuances (issued or held in the U.S.) less intercorporate holdings | $61,440 |
| – Passthrough issuances (tax-transparent) | ($13,668) |
| **= Equity issuances less Intercorporate holdings, passthrough issuances** | **$47,772** |

### Step 2: Subtract equity issued (and add equity held) by passthrough entities.

Next, we remove stock issued by several specialized types of investment companies — ETFs, CEFs, and real estate investment trusts — and by S corporations. These corporate entities are passthroughs, which pay no corporate tax. Instead, they pass through their earnings to their owners, who pay any tax due on their individual returns at personal rates.[65] (See tables 3 and 4.)

The Fed excludes issuances by mutual funds as equity, but it counts the issuances of other passthrough corporations as equity. To be consistent, we also subtract the equity *issued* by these other passthrough entities ($13,668).

We then allocate the equity *held* by passthrough entities ($17,025) to their owners (that is, to one of our remaining eight tax categories of holders).[66] We are assisted in this task by the Fed's reporting of the stock held by mutual funds, ETFs, and CEFs.[67] The Fed also reports the share of mutual funds owned by different kinds of investors — individuals, companies, governments, etc. — which allows us to assign the stock held by mutual funds to their owners.[68] Although the Fed does not break down the owners of ETFs and CEFs, we assume the owners are proportionally the same as the owners of regular mutual fund shares. We then assign the corporate equity that is held by mutual funds, CEFs, and ETFs to their owners, within our eight remaining categories. The configuration of equity issued and held by passthroughs is shown in tables 3 and 4.

Again, the total stock held and the total stock issued balance.

[65] Hedge funds and private equity funds are partnerships, which are passthroughs for tax purposes. The Fed leaves stock that is held by *domestic* hedge and private equity funds in its household sector, the residual category. Federal Reserve, "Enhanced Financial Accounts: Hedge Funds" (Dec. 15, 2023). The Fed allocates stock that is held by *foreign* hedge and private equity funds to foreign investors. In theory, we ought to reallocate the funds' holdings to the funds' owners, and allocate among our owner categories, but we lacked the data to do so. However, we estimate the amounts of U.S. equity that would be reallocated from foreign to domestic investors, on net, would be relatively small, about 1 percent of publicly traded U.S. equity and 2 percent of total U.S. equity, based on data compiled by the Fed (Federal Reserve, *supra* note 2, at Table B.101.f, line 17) and the SEC Division of Investment Management, "Private Fund Statistics" (Jan. 9, 2024).

[66] As noted above, the Fed already subtracted issuances by mutual funds, which is why the issuances that we subtract are less than the holdings that we add.

[67] Federal Reserve, *supra* note 2. Corporate equities held by mutual funds are on Table L.122, line 12; ETFs are on Table L.124, line 6; and CEFs are on Table L.123, line 6. REITs generally own real property and mortgages — not stocks. We also do not assign stock that is held by S corporations, which the Fed correctly leaves in the residual household sector (*i.e.*, taxable shareholders generally are the only owners of S corporation stock.)

[68] The Fed reports the holders of mutual fund shares on Table L.224.

**Table 5. Remove Foreign-Issued Stock and Add Foreign Direct Investment (FDI)**

| | Total Equity | - Foreign-Issued Stock | + Share of FDI | = All U.S. Equity | Share of Equity |
|---|---|---|---|---|---|
| Total holdings | $47,772 | ($10,306) | $10,477 | $47,943 | |
| Foreigners | $11,390 | | $8,660 | $20,050 | 42% |
| Nonprofits | $2,557 | ($724) | $128 | $1,961 | 4% |
| Government | $594 | ($168) | $30 | $456 | 1% |
| Life Insurance separate accounts | $1,259 | ($357) | $63 | $965 | 2% |
| DB Plans | $4,257 | ($1,206) | $213 | $3,264 | 7% |
| DC Plans | $4,349 | ($1,232) | $217 | $3,335 | 7% |
| IRAs | $6,657 | ($1,886) | $333 | $5,104 | 11% |
| Taxable accounts | $16,709 | -$4,733 | $835 | $12,810 | 27% |

**Table 6. U.S. Corporate Equity Issuances**

| | |
|---|---|
| Total corporate equity issuances (issued or held in the U.S.) less intercorporate holdings, and passthrough issuances | $47,772 |
| - Foreign-issued stock | ($10,306) |
| + FDI | $10,477 |
| **= U.S. corporate equity issuances** | **$47,943** |

**Step 3: Subtract foreign-issued equity and add FDI in U.S. equity.**

Next, we remove the share of foreign-issued stock that the Fed assigns to U.S. residents since we are interested only in the ownership of U.S. stock. The Fed does not report which U.S. residents own the foreign-issued stock, so for simplicity we assume that foreign-issued stock is held proportionately — about 28 percent — by each category of U.S. holder (that is, we assume that U.S. residents hold the same mix of domestic- and foreign-issued stock).[69] (See tables 5 and 6.)

We also add FDI, which, as described earlier, are large stakes in U.S. corporations, typically subsidiaries of foreign multinational corporations.[70] Some U.S. residents own the stock of these foreign multinational corporations, so they effectively own U.S. stock indirectly through their offshore holdings. We allocate these indirect holdings across our U.S. holders.[71]

The subtraction of foreign-issued stock and the addition of FDI are displayed in tables 5 and 6, which yields our allocation of total U.S. equity.[72]

**Step 4: Subtract closely held equity and FDI to isolate publicly traded U.S. equity.**

For our final step, we remove stock issued by closely held C corporations — stock that is not publicly traded (we previously removed stock held by S corporations). We subtract that closely held stock from taxable holders, not tax-exempt holders.[73] We also remove the FDI that we included in our prior step. (See tables 7 and 8.)

Tables 7 and 8 display this final step, which yields our allocation of publicly traded stock. We also confirm that publicly traded U.S. stock holdings and issuances still balance.

[69] Foreign equity held by U.S. residents/total equity held by U.S. residents = $10,306/($47,772 - $11,390) = 28 percent.

[70] Federal Reserve, *supra* note 2. FDI equity values can be found on Table L.225.a, line 18.

[71] Using data from the World Federation of Exchanges, we estimate the percentage of all foreign publicly traded equity owned by U.S. investors to have been about 17 percent in 2022.

[72] We allocate some FDI to U.S. residents to reflect their holdings of the foreign corporations that make the FDI.

[73] Because of tax rule limitations, IRAs and other retirement accounts rarely own stock issued by closely held C corporations.

**Table 7. Remove Closely-Held Equity and Share of Foreign Direct Investment (FDI)**

| | Total Equity | − Closely-Held C Corp Equity | − Share of FDI | = All Publicly Traded Equity | Share of Equity |
|---|---|---|---|---|---|
| **Total holdings** | $47,943 | ($1,940) | ($10,477) | **$35,526** | |
| Foreigners | $20,050 | | ($8,660) | $11,390 | **32%** |
| Nonprofits | $1,961 | | ($128) | $1,833 | **5%** |
| Government | $456 | | ($30) | $426 | **1%** |
| Life insurance separate accounts | $965 | | ($63) | $902 | **3%** |
| DB Plans | $3,264 | | ($213) | $3,051 | **9%** |
| DC Plans | $3,335 | | ($217) | $3,117 | **9%** |
| IRAs | $5,104 | | ($333) | $4,771 | **13%** |
| Taxable accounts | $12,810 | ($1,940) | ($835) | $10,036 | **28%** |

**Table 8. U.S. Corporate Equity Issuances**

| | |
|---|---|
| Total corporate equity issuances (issued or held in the U.S.) less intercorporate holdings, passthrough issuances, and foreign-issued stock, plus FDI | $47,943 |
| − Closely-held equity | ($1,940) |
| − Share of FDI | ($10,477) |
| **= Publicly traded equity** | **$35,526** |

Mr. DOGGETT. Meanwhile, the same tax law provides tax incentives—and I certainly agree with you, Mr. Ervin, that we do need our tax laws to treat small businesses the way that corporations are treated. Unfortunately, corporations are given, under the Trump tax law, an incentive to shift their factories abroad because they pay half of the corporate tax rate on their investments overseas as to what they do here.

There is so much more that needs to be done. I think a trade war with our allies is the wrong way to go, and a global minimum tax that stops the race to the bottom is the right way to deal with our future.

And I yield back.

Chairman SMITH. Mr. Kelly.

Mr. KELLY. Thank you, Chairman. I want to thank everybody for being here.

Senator Gramm, I wanted to go to you because I think you had a lot more to say. I do talk faster than you, but I want you to go ahead and go through because you were leading into some questions we really have on jurisdictional rights and who has the right to enter into agreements, tax agreements around the world.

If you could pick it up, because as you started talking about how if you consume, the corporate tax rate hits you. And then, if you would, go down through that because you only have a couple of paragraphs here. But I would really like you to dwell on that, because it seems to me, for a long time, before I ever got here, I listened to you because I thought everything you said was spot on.

Mr. GRAMM. Thank you very much.

First of all, if large corporations are not paying taxes, it is because you gave them deductions which they are using. So if you don't want them to have the deductions, take them back. But raising the rate is a wrong way to go about it.

In my opinion, we have a lot of industrial policy in the tax code. I would love for it to be eliminated, and I would love for the rates to go down. In talking about who pays the tax, the bottom 30 percent of Americans pay 0 in income tax. The top one percent pay 45.5 percent of all the income taxes. So needless to say, when you are cutting taxes you affect taxpayers. The only way people get a tax cut when they are not paying taxes is welfare. Now, we call it a refundable tax credit, but you are giving people money they didn't earn to begin with.

Now, let me address the issue, if I can, about what the tax bill actually did. The bottom 20 percent of income earners in America got the largest share of income growth from the 2017 tax cut. Now, that is a Census number, and it doesn't even count refundable tax credits because the Census does not count any tax change as a change in income. So the largest beneficiary in percentage terms, no matter how you want to say it by distorting the figures in comparing tax cuts to people that pay taxes with tax cuts to people that don't pay taxes, the biggest beneficiary in terms of income was the bottom 20 percent of income earners.

And look, how did they get the benefit? They got jobs. A job is a better housing program, a better welfare program, a better food stamp program, a better childcare program than any program ever adopted by this Congress. In fact, of all the programs passed by

Democrats and Republicans, no program, or at least for no year, has anything outdone your cut in the corporate tax rate.

That is what is amazing to me. I never expected that to be the case. The tax cut was small, $160 billion a year, and yet it produced this extraordinary result. Why? Because everybody pays corporate taxes. Because when we cut corporate taxes, the two job creators sitting in the middle found it possible to expand their business. And that is the miracle of this tax cut you adopted.

So in talking about the fact that the bottom 50 percent of income earners got no tax cut, the bottom 50 percent of income earners in America with refundable tax credits, for all practical purposes, pay no income taxes. So I don't understand this unhappiness that people who aren't paying taxes don't get tax cuts. Tax cuts are for taxpayers.

Mr. KELLY. Just in the few seconds we have left, the global corporate minimum tax and how it circumvents the Constitution, just as quick as you can, because——

Mr. GRAMM. Yes, I will tell you this——

Mr. KELLY. Just as quickly as——

Mr. GRAMM. The greatest abuse of the Constitution of the United States in my lifetime was President Biden going to Europe and negotiating a minimum corporate income tax, and giving them the power to tax corporate income in America, but you don't raise the tax rate. It was extortion committed against the Congress. And I can't imagine at any day that I served in the House and Senate, any President, Republican or Democrat, that I would not have opposed that circumvention of the Constitution.

This global corporate minimum tax is an extraordinary abuse which every Member of Congress ought to be against.

Mr. KELLY. I totally agree. Thank you.

Chairman SMITH. Thank you.

Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman, and thank you to all the witnesses for being here today.

You know, over the years this committee has met many times to consider major reforms to our tax code. And I am struck today by how little the majority's arguments have changed over the past 40 years: tax reform in 1981, 1986, 2001, 2003, and 2017. Every time the Republican message has been the same: slash taxes for rich people, and the benefits trickle down to everyday Americans.

My Republican colleagues evidently still believe that tax cuts pay for themselves, cutting taxes on the wealthy is a good way to help the middle class, and that children's health programs add to the deficit but tax cuts for the wealthy don't. None of these things are borne out by any of the evidence, and that is what I would like to focus on today.

So Dr. Edwards, I particularly appreciate the way you described how this committee should evaluate our policy decisions. What did the policy intend to do? What did it actually do? And what did it cost? Those are the key questions. And as you point out, it is not enough to just look at what the 2017 tax cuts did. We have to also look at what they cost, particularly relative to other things we could have spent that money on.

Given the TCJA cost, was it worth it? Has it paid for itself?

Ms. EDWARDS. It hasn't paid for itself, but that is a very unreasonable bar for any piece of legislation. I mean, I don't think it is a productive part of conversation to say that one thing would pay for itself versus not. I don't think it was worth it, well short of not paying for itself.

Mr. THOMPSON. I would also like to draw a contrast here in the terms of our priorities. Dr. Edwards, as you know, Democrats in this committee passed the enhanced Child Tax Credit in the American Rescue Plan. That credit lifted millions of children out of poverty. And while we have passed bipartisan legislation making improvements to the current CTC, my Democratic colleagues and I would like to fully restore the credit to the ARP levels.

Dr. Edwards, which do you think would do more for low-income children and families, reinstating the fully refundable, expanded CTC or extending tax cuts that primarily accrue to the one percent?

Ms. EDWARDS. Well, that is a softball. It is going to be giving the kids——

Mr. THOMPSON. Every once in a while you need a softball.

Ms. EDWARDS. Yes, it is going to be—it is a lesson for policy design that you will hopefully hit where you are aiming. If you want to help children in low-income families, you should just direct policy right to them and not get an intermediary of their employer or their corporation.

It is not to say that money can't be spent beneficially in the corporate side, but if you want to help workers, you should give money to workers.

You know, one of the studies I cited showed that some workers did benefit in their capacity as shareholders of corporations that received more money, which is just very much not the same thing as a wage increase.

Mr. THOMPSON. And Dr. Edwards, you highlighted here that what we face are trade-offs. Do we have to direct our Federal resources to the wealthiest in our society?

But my colleagues across the aisle who are promoting the extension of the 2017 tax reforms are choosing to do just that, and we would be doing so at the expense of policies that would really help working families, as you just articulated, in every one of our districts. That is something that I think we should consider.

And before I yield back, I just want to mention one thing. The conversation today got a little off topic regarding estate tax and estate tax reform, and it was mentioned that you shouldn't have to pay taxes after you die. And I just want to, for the record, point out once you die, you don't pay any taxes.

I yield back.

Chairman SMITH. No, but your family members do.

Mr. Schweikert.

Mr. SCHWEIKERT. Thank you, Mr. Chairman.

Dr. Winfree, thank you. You actually had some very interesting things in the written portion of your testimony. I want to take you to something that is a little more difficult.

And first off, in your opening testimony I actually think the most updated CBO numbers, OMB numbers are actually much darker. Yesterday's Treasury statement said just interest this year will be

$1,146,000,000,100, I think, and that was before they calculated in the most recent inflation data with the new interest rate pops.

So I come to you and say, okay, I appreciate a debate of relitigating, you know, their spending on Inflation Reduction Act and, you know, corporate welfare, and their attacks of us on trying to do a more progressive income tax system, which is what happened, you know, with our tax cuts. Fine.

From today forward, you are the consultant for this committee. How do you walk us through to how do we maximize economic expansion? Because growth is moral. And at the same time stabilizing the fact that 2 days ago we broke through borrowing over $100,000 a second, a 365 average. We are now borrowing close to or over $100,000 a second.

So walk us through the truth. What do we do to maximize economic growth and stabilize receipts?

Mr. WINFREE. Again, it is a holistic approach. I think that it starts with the administration. There is a lot that can be done on regulatory reform to free up these guys to create more jobs, to create more growth. And there is a lot that you can do to oversee the regulation that is going on within the administrative branch.

On the tax issue, really what we are talking about here—and I think that, you know, I think we are missing something, and that is that we are talking about two different philosophies, right? Philosophy one is lower rates and fewer carve-outs, and philosophy number two is higher rates and more carve-outs.

Mr. SCHWEIKERT. And I need you to back up and sort of——

Mr. WINFREE. Sure.

Mr. SCHWEIKERT. Let's make sure everyone understands. Let's use the firm base-broadening——

Mr. WINFREE. Yes.

Mr. SCHWEIKERT [continuing]. Instead of carve-outs, just so that we are all using the same lingo. Walk me through that.

Mr. WINFREE. So sure. So you need more people with skin in the game, right? You need more people who are ultimately taxpayers and treat everybody, ultimately, the same. And with that, again, it frees up these guys, who know way more about payroll and creating wealth than a budget nerd in Washington, D.C. to go out and do what they do best, right?

The American people are incredibly innovative. It is one of the things that has held us together for the last 250 years. And if we treat them fairly, and we treat the tax code fairly, then ultimately these guys can go out and create more growth.

Mr. SCHWEIKERT. One of my concerns, and I have tried to do multiple presentations, is we have a demographic issue. A couple of days ago I think it was either OMB or one of the others updated that just Medicare spend will be up 10 percent this year.

Mr. WINFREE. Sure.

Mr. SCHWEIKERT. At our current burn rate, if you do just the true total debt, we are right now borrowing 9.6 percent of the economy in this year.

Mr. WINFREE. Yes.

Mr. SCHWEIKERT. So the model on all the tax hikes on $400,000 and up, when you adjust for economic impact, you get a point and a half of GDP. Most of us who want to cut things, I can find about a point and a half of GDP. I have got a math problem. The tax hikes and the cuts don't get me anywhere near when we are borrowing 9.6 percent of the economy in a single year. And if these interest rates continue to, you know, normalize, we are walking into a level of financial brutality.

Okay, so you have regulatory. We got to change the cost of delivering health care. Walk me through one more time. What does your base broadening look like?

Mr. WINFREE. One of the things that we have not talked about today is that the thing that is expiring next year are the individual rates, right?

Mr. SCHWEIKERT. Mm-hmm.

Mr. WINFREE. And one of the reasons why the 2017 tax bill was popular at the time, and I think still continues to be popular with the middle class, is that it lowers rates and it also increases the standard deduction, right, which decreases the number of itemizers in the tax code. And that itself, again, brings more people to the table.

And I mean, I am not speaking just as a budget and tax policy guy here, I am speaking as an American. I think that if we allow those tax cuts to go away on the middle class next year, after we have seen again the hidden tax of inflation increase over the last few years, there will be political repercussions to that.

Mr. SCHWEIKERT. Okay. But—thank you, Doctor.

Mr. Chairman, one of these days we are going to have to do an economic roundtable and understand just the headwinds and the scale of it. I don't think it is completely understood by anyone. Thank you, Chairman.

Chairman SMITH. Mr. Schweikert, you would be great to lead that roundtable.

Mr. Larson.

Mr. LARSON. Thank you, Mr. Chairman, and I want to thank all the witnesses, as well, for your testimony. And just a couple of quick questions.

Senator Gramm, how effective is Social Security?

Mr. GRAMM. Yes. How—what is——

Mr. LARSON. How effective is Social Security as a governmental program?

Mr. GRAMM. Well, I would say, if you depend on it, it is pretty effective. And you would have to rate it as one of the most successful programs in American history.

Mr. LARSON. I totally agree.

Mr. GRAMM. And by the way, we have done a fairly good job on a bipartisan basis when we have had to make tough decisions on Social Security in doing it.

Mr. LARSON. Yes, that is a good point. But we haven't made any decision in terms of expanding Social Security in 51 years. And in fact, we are talking about tax cuts today, and 23 million Americans pay taxes on their Social Security. That is never mentioned.

What do you think about Social Security, Dr. Winfree?

Mr. GRAMM. Well—no, I am sorry. Go ahead.

Mr. WINFREE. I think Social Security is an important program.

Mr. LARSON. We talk about revenues all the time. This doesn't have anything to do with the debt or deficit. It pays for itself.

Mr. WINFREE. Well, right. So it doesn't pay for itself, right? Social Security is facing a massive shortfall within the next 10 years. It is——

Mr. LARSON. Why?

Mr. WINFREE [continuing]. On the order of about——

Mr. LARSON. Why is it facing that shortfall?

Mr. WINFREE. Because payroll taxes are not enough to keep pace with outlays.

Mr. LARSON. Because there is 10,000 Baby Boomers a day who have become eligible to collect Social Security, and Congress hasn't done anything to adjust it since 1971. Is that why there is a problem?

Mr. GRAMM. No——

Mr. LARSON. If it is a payroll tax, and it is deducted to provide a benefit, isn't it a simple solution just to increase the payroll tax?

Mr. WINFREE. If you increase the payroll tax, you also have to increase the benefits, which ultimately——

Mr. LARSON. Well, so let me ask you something about those benefits.

Mr. WINFREE. Sure.

Mr. LARSON. You know, we have five million Americans who work all their lives and pay into the system and get below poverty-level checks from Social Security, most of them women, women of color, et cetera. And if we are going to build a system based on what the two entrepreneurs have done, and we want to encourage that, and we want to encourage risk, et cetera, then we also have to make sure that in that process we have a safety net, and that we just can't ignore it and pretend that—we say, oh, it is the probably the greatest government—it is the number-one anti-poverty program for the elderly, it is the number-one anti-poverty program for children. And people pay into it. It doesn't contribute to the national debt. It is not part of our deficit.

It is Congress's inability to take action and do the right thing, including tax cuts for 23 million Americans who have paid into the system. And now, because it is not enough money for them to survive, so they still get Social Security, and work, and yet pay taxes on their Social Security. Should that continue, Mr. Ervin?

Mr. ERVIN. Thank you, Mr. Larson. When you brought up increasing payroll tax, that is directly affecting small business owners like myself, other Main Street employers.

Mr. LARSON. Do you get a write-off for that?

Mr. ERVIN. Well——

Mr. LARSON. Your portion of Social Security?

Mr. ERVIN. Do I get a write-off for my portion of Social Security? Let me ask my accountant real quick. I am just kidding.

But no, but seriously, like——

Mr. LARSON. That was pretty good.

Mr. ERVIN. I love Social Security, I need it. It is a future program that I hope to benefit from myself, and my employees, too, you know, and I know that there is a problem that is—but, you know, my hope would be that we would find another avenue to help fund it, rather than coming after the people that are going to be affected the most, which are small businesses like mine.

Mr. LARSON. Dr. Edwards, let me go to you.

Ms. EDWARDS. Is the question whether or not Social Security benefits should be taxed?

Mr. LARSON. Yes.

Ms. EDWARDS. I think it was a very sneaky addition to the 1983 reform that that was not inflation adjusted so as to hit more Social Security beneficiaries over time without forcing Congress to vote on it and have to look them in the eye and say we are taxing your benefits for revenue. So I think, on principle, it is not——

Mr. LARSON. Amen.

Ms. EDWARDS [continuing]. Part of our social—it is not worthy to be part of our social security system. That is a system built on compacts with taxpayers, with workers, and with retirees. So something like that just simply doesn't fit.

Mr. LARSON. Thank you.

Chairman SMITH. Thank you.

Dr. Wenstrup.

Mr. WENSTRUP. Thank you, Mr. Chairman. Thank you all for being here.

You know, I love America. I think America is the place where there is more opportunity than anywhere else in the world, and it is the opportunity for people to come from nowhere and lift themselves out of poverty. But we don't do that by paying people to not work. That has no return on investment there. And we don't do it by increasing taxes so much that your business moves out of the country and all those employees are without a job. There is no return on investment there.

When I see a family succeed in a business and hire people from your community, this is personal now, see? Washington doesn't see it. People that just look at numbers and hold up a piece of paper, that's different from actually talking to you, which is what we, as Members of Congress, try to do, is get out there and talk to you and what makes a difference.

So you do that. You get a better life for your next generation, for your family. But at the end of that, let's put them back in poverty, where you started. Why do we want to do that? That makes no sense. Let's keep the business going. Let's keep hiring the next generation of people. You know, a rising tide lifts all boats unless you shoot holes in the bottom of the boat. And that is what I see ourselves doing too many times.

Mr. Ervin, I love some of the work that you are doing. In Cincinnati we have Cincinnati Works. You have a record, you decide you are going to turn your life around, you go through the program at Cincinnati Works, you are a lifelong member of it, and we have companies that said, "When they have gone through that, we will hire them."

We have a business called Nehemiah Manufacturing. They make Procter and Gamble products. Everyone there has a record. They have turned their life around, and now they are going to try and make things better for their next generation.

You know, in the district we go around and we say, well, why were you able to hire more and to grow your business? What happened? Did Washington do anything? Well, we might also hear, well, why did you have to cut jobs? What happened? These are the things we listen to. We don't just look at things on a piece of paper.

But when I think about making America the best place in the world to do business and to work, that is what I want us to be. That is what I want us to be.

Since the Tax Cuts and Jobs Act, we have had zero corporate inversions. And instead we have seen American businesses bringing back their overseas earnings to fuel investment, to increase wage growth here in the United States. Maybe it is not perfect in some ways. Well, let's take a look at that. See what we can make better. That is okay. That is what we should do. Don't just look back and say, oh, it is terrible, it did this or that. No, it did a lot of good, and people know it. And I hear it from people in the district.

I believe, though, as we go forward, for the sake of our nation—I am going to ask Senator Gramm about this—I think one of the next reforms of the tax code needs to be explicitly about our supply chain, and take into account our national security risks, our national health security risks. I think it is important.

I have released the draft legislation that would secure our critical battlefield medicines. I am a soldier. Do this by providing powerful new incentives to locate manufacturing of these essential medical products here in the United States and in pharmacy, all the active ingredients. We rely on China for that, an adversary. Open up our eyes, folks. We have got to incentivize these things to be back in the United States, and increasing corporate taxes is not how we are going to get it done. No one can take that risk.

Senator Gramm, your testimony, you said how important the 2017 reforms were to the corporate tax code in making the country competitive again. This isn't 100 years ago. This isn't post-World War II. This is a different global economy today, and we need to think differently to be competitive. So besides protecting the 21 percent rate, what policies should Congress pursue as we approach 2025 that will build on that progress and make it more attractive to bring business back to the United States and make us a more secure nation?

Mr. GRAMM. Well, you raised the point that we don't help America by paying people not to work. Let me back that point up with some statistics. In 1967, when we started to ramp up funding for the war on poverty, we were providing $9,700 worth of benefits to the average household in the bottom 20 percent of earners, and 67 percent of their prime work-age persons worked.

That level of benefits has now grown from $9,700 to $45,400. And what did we get for it? The labor force participation rate among prime work-age persons in the bottom 20 percent of income earners in America has fallen from 67 percent to 36 percent. During the pandemic, when we provided benefits up to 400 percent of poverty, and we provided basically welfare to middle-income Americans, what happened? The labor force participation rate fell.

We can't put middle America on welfare. Somebody has got to work.

And I would have to say, going back to who benefited, the income of the bottom 20 percent of earners in this country rose by 9.4 percent in the year following this tax cut in 1997. That was the largest percentage benefit of any sector of the economy. And how did they benefit? This didn't count the Child Tax Credit you provided. They benefited by working.

And again, a job is the best program. There is no substitute for it. And many of those people will never go back on welfare.

Mr. WENSTRUP. Thank you, I yield back.

Chairman SMITH. Mr. Blumenauer.

Mr. BLUMENAUER. Thank you, Mr. Chairman.

Mr. Ervin, Mr. Ramirez, I am assuming your concern about tax increases does not extend to your responsibility to pay the taxes you owe. I am assuming that both of you are very careful to make sure that you meet your tax obligations.

Mr. ERVIN. Yes.

Mr. BLUMENAUER. Is that is safe assumption, Mr. Ramirez?

Mr. RAMIREZ. Yes, sir.

Mr. BLUMENAUER. Are you concerned about people that you compete against who are not paying their fair share of the taxes they owe? Does that concern you? Is that a competitive advantage for them if they don't pay their taxes?

Mr. RAMIREZ. You know, my biggest concern is state-subsidized companies in China.

Mr. BLUMENAUER. No, my question was, do you suffer a disadvantage if your competitors don't pay their taxes?

Mr. RAMIREZ. Yes, my competitors are largely in China, and they get a 200 percent deduction on their R&D expenses, while I get a 20 percent deduction. And that is a major disadvantage.

Mr. BLUMENAUER. I am talking about—you don't have any competitors in the United States?

Mr. RAMIREZ. Our primary competitors are in China and Europe.

Mr. BLUMENAUER. Do you have people you do business with in the United States?

Mr. RAMIREZ. I am sorry, Congressman. Do I have business people I do business with in the United States? Yes.

Mr. BLUMENAUER. No, never mind.

Mr. Ervin, do you compete with anybody in the United States?

Mr. ERVIN. Yes.

Mr. BLUMENAUER. And if they don't pay their taxes and you do, does that pose a competitive disadvantage?

Mr. ERVIN. Well, of course it would.

Mr. BLUMENAUER. Okay, I am just wondering because we have these fascinating conversations and debate, dancing on the head of a pin, competing economists about the ins and outs of tax policy and fairness. But as a practical matter, we have $163 billion a year that is not paid by the top 1 percent of American taxpayers. They forget to claim their income.

And it is just mystifying to me that we don't focus on this tax gap. This is money every single year. And the evidence is the richer people are, the more they forget to claim on their taxes. Maybe they have got so much they can't keep track of it. But the evidence is clear. This tax gap is an ongoing expense every single year. And as we are talking about tax policy going forward, it would seem to me that the easiest area that we should focus on are the taxes that are already due and owing that people forget to pay.

I don't want to engage you in that. I think it is interesting that people come in with their concerns about tax fairness, and what is going to happen, and how we are going to meet the deficit that is growing, and we are not focusing on collecting taxes that are already due and owing.

This tax gap is something that we attempted recently to address. Strengthening the IRS's potential to actually collect taxes that are due and owing, it is interesting. One of the first things that passed from my colleagues on this committee was to take away money for enforcement from wealthy Americans. It was going to end up increasing the deficit $113 billion.

I would hope that there would be some concern from the business community or academics or others to make sure that we have a level playing field, that people do what I assume you two do, which is pay the taxes that are due and owing. You can argue policy, but you comply with the tax law. And we have people who simply don't do that. And it adds remarkably to the deficit year after year after year. This seems to me to be the simplest adjustment we could make, that is make sure that we collect the taxes that are due and owing and have a level playing field for the remaining people in the business community.

Thank you, I yield back.

Chairman SMITH. Mr. Arrington.

Mr. ARRINGTON. Thank you, Mr. Chairman. Thank you, witnesses, for your time and insights. A special thanks to my friend from Texas.

Your exceptional service to the great State of Texas and, sir, Chairman Gramm, you represent the best of the character and common sense of Texas. So thank you for your years of contribution.

Mr. GRAMM. [Inaudible.]

Mr. ARRINGTON. Yes, yes. I read her memoirs, and that is where I am quoting your mother, actually.

Look, we try really hard to simplify the contrast between our philosophy on the role of government and the lives of the citizens of this great country, our fiscal, budgetary and economic policies versus our Democrat colleagues, and the consequences and the experiences, the results of those two sets of policies derived by these distinct philosophies. And it is not always easy to cut through the smoke and mirrors and sleight of hand. But I think, because we had unified Republican leadership and then on the heels of that had unified Democrat leadership, I don't think there is a better picture of the two different philosophies, policies, and results.

And TCJA is just one pro-growth policy on the economic agenda of my fellow Republicans. It is deregulation, it is America First trade. It is a number of things. But because of the agenda we advanced when I was a freshman in this institution in 2017, we got record investment, record growth, record jobs, millions of jobs, lowest poverty rates, highest increase in median income in 20-plus years. And the list of successes and achievements just goes on. And as my colleague said, all boats rose on the tide of prosperity that was unleashed because of economic freedom, quite frankly. Less government, more freedom, and America was doing much better.

Now, contrast that with $6 trillion in additional deficit spending, $6 trillion added to the national debt, record 40-year inflation, 20-year record interest rate hikes, people spending more—$14,000 more—to survive in some cases in this country as a result of inflation, people paying twice the amount for a mortgage, twice the amount for their car payment.

And Dr. Gramm, and I say Dr. Gramm because I know you are an economist and you were a professor and you taught economics. And let me see if I understand supply and demand with respect to the contrast between the unleashing of prosperity through economic freedom and more government spending, borrowing, taxing, et cetera, and regulation, and what we are living with in terms of this cost of living crisis, not the least of which, in terms of concerns, is the slide to a sovereign debt crisis or some related crisis.

You have got over-stimulated demand through trillions of dollars in Federal funds. You have got supply being squeezed by paying people not to work who are work-capable by regulating the lifeblood of our economy because if you tax and regulate energy you get less of it. Vis-a-vis demand, you are going to pay more for it. And we tax the competitiveness of American job creators.

Now, is—when you do those things you get an imbalance in supply and demand, and you get this inflation tax, which is the worst and most regressive tax. Now, Dr. Gramm, grade my paper on that, and tell me where I got it right and where I got it wrong, because we have got two different worldviews, two different sets of policies.

And by the way, we double down on economic freedom and our path to balancing the budget and beyond. And President Biden, got to respect him, put it all on the table, doubles down on $2.5 trillion more in mandatory spending, $5 trillion more in taxes, the highest level of sustained spending, taxing, and borrowing in the history of the United States of America.

Mr. GRAMM. Well, let me say that the proof is in what happened. For the last 50 years we have increased social spending. We have instituted numerous policies. And yet the 2017 tax cuts increased median income twice as much as any other action by any other government in the last 50 years.

Now, you can distort the figures by talking about Warren Buffett's tax cut and some person that doesn't pay taxes, but you can't distort that figure. And the biggest beneficiary in percentage terms was the bottom 20 percent of income earners. And they didn't benefit by going on welfare. They benefited by going to work. And it seems to me that that is the greatest benefit.

I wonder what the world of many people sitting up there would be if we had the welfare system when they were growing up that we have today. My guess is a lot of you wouldn't be there.

Mr. ARRINGTON. My time has expired. Thank you.

Chairman SMITH. Mr. Pascrell.

Mr. PASCRELL. Thank you, Mr. Chairman.

If I can respond to a gentleman I have a great respect for, Senator Gramm, as I do each of the witnesses, but you really blew my mind in what you just said.

It has been referred to by three of the panelists that what happened in 2017 was tax reform. We haven't had tax reform since the 1970s and 1980s. And you remember that, Senator Gramm. We haven't had it. We haven't had a change in how we look at the tax code itself. Not at all. Because you raise taxes or you decrease taxes does not mean it is reforming the system, because you can't deny that in the first quarter of this century, in 2024, it looks like in these 25 years we will have increased the gap between the rich and the poor, and that that income gap is something we have not addressed, Republicans or Democrats. And you can't do it until you have tax reform, and not just a five percent increase in wages. That does not help us reduce the gap. It does not.

So, gentlemen, I think that this is another tax scam. I will be honest. I am not trying to be a wise guy. The chairman knows I am going to say what I think. It is also one of the most destructive laws—and from the 116th Congress—in generations.

My colleagues on the other side said their tax scam would be the best thing since canned beer. That really got my interest, though.

Let us look at what actually happened. They promised they would raise wages. It did not really raise wages. Many things affect how wages go up and go down.

They vowed it would put America on stronger footing. Instead, it blew a Grand Canyon of debt, nearly $2 trillion, not a nickel of which was paid for. You folks always talk about paying for what you do. This was not paid for, and the people took it out on your hides in 2018 when we overcame a deficit in numbers of people sitting in the House of Representatives, a big deficit. They saw right through it.

They said it would let Americans file their taxes on a postcard. Oh, how quickly we forget. They swore it would help middle class Americans, but nearly all the money went to people who have a lot of money. The cake went to big business, and we know where the crumbs went.

They said out loud they did it to screw states like mine. They said it. I was there, I witnessed it. Republicans said that, particularly when you shafted us on the SALT plan and those poor 12 states. You know, Lincoln knew what he was doing, but I don't want to go back into history. Who cares about that?

George Orwell said, "To see what is in front of your nose requires constant struggle." I have a big nose. It is a constant struggle. That is true when you are told to ignore reality, like here today.

Last week Donald Trump spoke to some members at his golf club, and he told them, "We gave you the largest tax cuts in history." Here is a guy that just a month ago said he wanted to blow up the economy. Is that what the election is worth? In 10 seconds he summarized their entire platform.

The other side wants to give big business another giant tax cut. They do not want to pay for it, either. I don't see that. Oh, it will pay for itself because it will be so great. Then they want the IRS so the same people can cheat on their taxes. They want to cut billions of dollars from what was voted on by the Congress of the United States.

So that is what is in front of our noses. This scam of 2017 was a failure, and the citizens know more than we do, and they took it out on your hide in 2018, as they would have taken it out of our hide. The GOP tax scam of 2025 is worse.

Ms. Edwards, you are familiar with the tax scam of 2017, the tax cuts of 2017. Did the law raise wages, reduce inequity, and help the middle class, as was promised? Three things.

Ms. EDWARDS. The wage increases of 2018 were largely due to the economy hitting full employment after recovering from the

2007 to 2009 Great Recession. The law's greatest strength was that it happened at a good time, not that it contributed to those directly.

If you want to raise wages for people at the bottom, you can raise the minimum wage. If you rely on intermediary of their employer, you know, they are not going to get the full benefit.

Mr. PASCRELL. Ms. Edwards, can you describe how making the tax scam permanent would harm American society of the middle class? We want to double here. We want to do a voodoo.

Chairman SMITH. Mr. Pascrell.

Mr. PASCRELL. Capital letters.

Chairman SMITH. We are——

Mr. PASCRELL. I will have her answer the question.

Chairman SMITH. Okay, we are a minute and 25 seconds over, but let's do it.

Ms. EDWARDS. The most expensive part of the tax cut is the investments that it didn't make.

Mr. PASCRELL. Thank you, Mr. Chairman, and it is a wonderful day in the neighborhood again.

Chairman SMITH. I am so shocked you didn't talk about SALT. [Laughter.]

Chairman SMITH. But I will recognize myself for some questions right now.

When you look at the 2017 Tax Cut and Jobs Act, you can't argue that the tax cuts created the best economy in my lifetime. I am only 43, but I can tell you in the 43 years I have been alive, it is the best economy we ever had. And it was because of the 2017 tax cuts, but also having President Trump leading this country and created the most reduction in regulations any sitting president has ever done. And those two things led to the best economy.

In fact, it led to the best poverty rate, the lowest poverty rate dropped in history by recorded numbers. By what we measure poverty is, we had the lowest rate ever in history. Those are facts. I know facts sometimes hurts and gets people upset up here, but those are facts.

I also want to give another fact.

Mr. PASCRELL. I can't accept that as a fact.

Chairman SMITH. It is documented information.

Another fact is this billionaire tax that a lot of people—you know, let's go after the wealthiest of the wealthy. The wealthiest of the wealthy. And guess what? Guess what? If you took every dollar of every billionaire in America, where they don't even have $0.01 to their name, you could fund government for almost eight months. Fund government for eight months if you took every penny of every billionaire in this world.

Mr. PASCRELL. Mr. Chairman, I am not talking about——

Chairman SMITH. Mr. Pascrell——

Mr. PASCRELL [continuing]. The rich. I don't agree with——

Chairman SMITH [continuing]. It is my time.

Mr. PASCRELL. Unfair.

Chairman SMITH. Mr. Pascrell, it is my time, and it is okay for you to disagree.

Mr. PASCRELL. I will say that—who are you talking about?

Chairman SMITH. I am not talking about you. So I will reclaim my time.

Mr. Gramm, let's talk about this. In the years that followed enactment of the Trump tax cuts we saw lower-income earners have a huge reduction in their taxes. The bottom 20 percent of earners, those with incomes up to $26,000, saw their Federal tax rate fall to its lowest level in 40 years, the lowest level in 40 years. Workers in the lowest 10 percent of the income saw 50 percent higher wage growth than those in the highest 10 percent. The economy, it grew by one percent faster than CBO had projected, and we saw record lows in unemployment, including for those without a high school degree.

Why did the Trump tax cuts deliver so much for working families?

Mr. GRAMM. Because it created an environment in which people invested more money and created more jobs.

Now, it is true that rates were down. But what is far more important is the rise in the median income of the bottom two quintiles, who were very major beneficiaries of the tax cut and deregulation.

And I don't think we advance debate by simply making up numbers that this tax cut went to billionaires. The evidence is so overwhelming, the data——

Chairman SMITH. So in regards to that, when you talk about real wages, real wages increased by more than 5 percent after passage of this, which was the highest in 20 years. It was also more than the prior 8 years combined, which is pretty substantial because, since Joe Biden has taken the oath of office as President the last 3 years, real wages have declined 3.9 percent. And so that does affect real, working-class Americans.

Dr. Winfree, you were talking about the standard deduction. I want to ask you a question about the Child Tax Credit. Do you know how the Child Tax Credit affects families and their Federal tax rate?

Mr. WINFREE. It gives tax relief to families.

Chairman SMITH. So my calculation shows that a family of four, a family of four, if they make $64,000 or less, they will pay zero dollars in Federal taxes. That is tax relief.

I represent one of the poorest congressional districts in the nation. Our median household income is right around $40,000 a year, right around 40,000. A family of four who makes $40,000 benefited greatly from the doubling of the Child Tax Credit. It was from $1,000 to $2,000, and that was done with Republicans. Not one Democrat voted for that. Not one.

But we got to move ahead and look at all of the taxes for 2025, and the Child Tax Credit is something that we need to be looking at, but we need to make sure that work requirements are in it. The American Rescue Plan child tax credit did not have work requirements in it. And guess what? We saw the results of that in the economy.

And so we know that, to have a good, workable child tax credit, we need work requirements.

With that, Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman, and let me thank all of the witnesses.

You know, I am always amazed at how we can accomplish so much, and yet things remain essentially the same. Amazing.

Dr. Edwards, let me thank you for your testimony that clearly lays out the complete failure of the 2017 Republican tax law. It cost $2 trillion, but the only real deliverables were growing the bank accounts of the wealthy and well-connected. I really appreciated your focus on the failed opportunity of the Republican law. That two trillion could have increased the security of older Americans, dramatically reduced child poverty, eased hunger, help working parents with childcare, paid family and medical leave, or it could have made housing affordable for millions.

My Republican colleagues falsely claim that they want the Child Tax Credit to go only to working parents, when in reality it seems to me that they only want parents who make enough money to owe substantial taxes to benefit.

Dr. Edwards, as a labor economist focused on women and security, can you speak about how tax policies that support low-income individuals, parents, and workers strengthen families and boost our economy?

For example, if we were to help parents without tax liability get up to $8,000 of credit for their childcare, like we did in 2021, how could that credit help families and the economy?

Ms. EDWARDS. Thank you, sir.

The Senator from Texas misspoke earlier when he talked about the 1996 tax law. That was—the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 ended the cash entitlement for welfare in the United States. We don't have welfare as welfare. We have food stamps, but there is no, you know, no strings-attached-cash that go to the lowest-income households. And it has not been the case since I was 10.

You know, I—what labor economics has taught us over that period in which there has been no cash benefits for low-income Americans, including without-strings-attached, especially for single mothers, you know, what we have learned is that the biggest boost to labor force participation comes from, one, a strong economy with low unemployment rate; and two, reducing the barriers to work that most workers face, barriers like not being able to afford child care, barriers like you have a felony on your record and so no one will hire you, barriers like you have a disability and you need to get to your job but you are one of the quarter of Americans that doesn't have paid sick days and so the first time you go to rehabilitation you get fired.

I mean, there are basic structures that we do not have for labor force participation, and it is the number one barrier to having more workers in the United States. Childcare for women is right at the top. Families who currently purchase childcare, those that choose to do so, pay a quarter of their take-home income to child care benefits. That is more than mortgages in almost every state.

Mr. DAVIS. And let me quickly ask you, you have done serious work on racial wealth disparities. Would you say that extension of the 2017 Republican tax law would help address racial wealth disparities?

Ms. EDWARDS. No, there is—the racial divide gets larger the higher up the wealth distribution you get. So I—you know, I could see something like the pass-through deduction talking about small businesses and being directed towards businesses of color. But it is very important to remember all small businesses are pass-throughs; not all pass-throughs are small businesses.

You know, nearly 70 percent of people who benefit from pass-throughs are in the top 1 percent of the income distribution. That is not to say small businesses don't benefit, but they are the minority beneficiary, relative to the other people who claim it.

So when I say, what do you intend to do and what do you actually do, helping small business is great. You don't need to hit the top one percent on the way. If you have effectively designed tax relief, it doesn't have to kind of like miss on that margin.

Mr. DAVIS. Thank you very much.

Thank you, Mr. Chairman, I yield back.

Chairman SMITH. Thank you.

Dr. Ferguson.

Mr. FERGUSON. Thank you, Mr. Chairman, and thanks to the witnesses for being here.

I first just want to thank my dear friend from New Jersey, and mayor down there, who—we have a wonderful relationship. I believe you have gone from drinking that canned beer that you were so excited about to partaking of the Devil's lettuce with your rant. That was quite epic, and you were really far out there on a lot of these topics. So that was one of the better ones that we have experienced.

So with that being said, again, let me thank each of you for being here. A couple of questions.

Senator Gramm, I believe you said that, following the Tax Cuts and Jobs Act, families received—I think it was you that said this—received about a $5,200 increase in salary. Is that——

Mr. GRAMM. $5,220 on average.

Mr. FERGUSON. Okay. If you look at what inflation has done to American families, they have lost every single bit of that, haven't they?

Mr. GRAMM. Well, they have lost part of it since President Biden took office.

Again, you know, we can talk all you want to, and you certainly have the right to your own opinions, but you don't have the right to your own facts. The hard-core facts are that lower-income families were huge beneficiaries of this tax cut. Black Americans saw their income on a household level grow faster than any other year in over 50 years. Now, that is a fact. The Census data, and I have got it right here, shows it.

So you can say it didn't happen all you want to say, but what we are doing is just simply talking past each other.

Mr. FERGUSON. So if I could reclaim—and thank you for that——

Mr. GRAMM. Yes, sir, I am sorry.

Mr. FERGUSON [continuing]. Because it is important. When we look at what is the most important thing that should come from the tax code, it is really economic growth and economic development and creating jobs.

Mr. Ramirez, how many new people have you hired since 2017?

Mr. RAMIREZ. Oh, gosh, Congressman, thank you for the question. I don't know the exact number, probably 200 to 250 people.

Mr. FERGUSON. So this is a 250 people, 250 families that have benefited from your investment, your risk, your hard work, and also the fact that you have more in your pocket to expand and grow your business.

Mr. RAMIREZ. Yes, sir.

Mr. FERGUSON. Okay, Mr. Ervin, when you started your coffee company, okay, you said you started it as a hobby in your backyard, and now—or in your garage, I should say.

Mr. ERVIN. In the garage.

Mr. FERGUSON. In the garage. You now have, say it again, 12 employees?

Mr. ERVIN. I have 12 employees that we currently have. We have hired more than that over the years.

Mr. FERGUSON. Again, families and individuals that have a job with you that otherwise would not have those jobs.

Mr. ERVIN. Exactly.

Mr. FERGUSON. Correct.

Looking further down the line, Dr. Winfree, talk about how important it is with the Tax Cuts and Jobs Act when we created the environment for research and development not only to invent new products, improve on existing products, but then for businesses to be able to make the strategic capital investments, to turn those ideas into products, sell them, and make a profit. How important is that to the American economy?

Mr. WINFREE. Thanks for that question. All of our progress over the last 250 years is a derivative of three things: one is culture, we have an extremely innovative culture and we should not be doing things to penalize that; two, our institutions, things like property rights. I can't believe I have to say this in 2024, but it seems like at the local level all the way up—and you can talk about Chinese stealing IP and things like this, or you can talk about how property rights have to be defended in cities and towns in America——property rights are absolutely critical. And then the third piece of that pie is technology, right? We should be promoting investments in technology.

And when you get all of those three things together, you get prosperity.

Mr. FERGUSON. Okay, a final question. This will be a final couple of questions here.

How many of you on the panel have borrowed money and put yourself at risk to either expand or start a business? Show of hands.

Okay. How many of you have signed paychecks?

Okay. I tend to trust that. You know how to run a business, you know what it takes. You have had to lay awake at night worrying about how to actually get from point A to point B in this process, and you have found a way through it. And for you to say that it makes a difference in the success of your business and your ability to make other families better, I am going to trust you all's judgment on this. So thank you so much for being here.

Chairman SMITH. Mr. LaHood is recognized.

Mr. LAHOOD. Thank you, Mr. Chairman. I want to thank all of our witnesses for your valuable testimony here today.

Make no mistake about it, the Tax Cuts and Jobs Act jump-started an economic boom in this country pre-COVID, across so many sectors that have been alluded to today and many of you have talked about, providing businesses with the means to invest more, raising wages, expanding their workforce. We moved almost six million people out of poverty during this period of time, directly related to the Tax Cuts and Jobs Act.

And providing thoughtful tax incentives aimed at keeping more money in the hands of our workers and businesses can go a long way for our communities and our economy, and I saw that in my district in Illinois. And TCJA obviously serves as a great model and a starting point to do just that as we head into the rest of this year and going into next year. And in order to achieve those goals we are going to have to both protect much of what we did seven years ago, and also consider new policy proposals based on the world we live in today and our competition.

And I look forward to working with my colleagues in this room to further promote U.S. business investment, address the affordable housing crisis and economic development needs through tools like the Low-Income Housing Tax Credit and support for our farms and ranches, and continuing to allow citizens at the lower level of our economy to live the American dream, which we expanded that American dream with the Tax Cuts and Jobs Act.

One area, Dr. Winfree, that I wanted to talk to you about, as we built up to TCJA in 2017 we talked a lot about how do we, on the international level, allow our companies and businesses to be more competitive. And so we worked on what was the appropriate corporate tax level, but also how do we repatriate money back to the United States. And for too long, many of our companies and corporations were parking money overseas because of the tax code we had here and the restrictive measures we had in place that disincentivized having that money in the United States. And so we did that.

And I am wondering if you can talk about post-Tax Cuts and Jobs Act, that repatriation that has come back, and where that money has gone.

Mr. WINFREE. That is right. I mean, that money has come back, and it has gone back to Treasury.

I think that one of the things that, you know, you highlighted here is that there was a lot of conversation around what that corporate tax rate needed to be in order to be competitive. And it is important to note that the corporate tax rate is not expiring at the end of next year. At the same time, we should still be thinking about what that tax rate should be in order to make it competitive.

And to that point, when you add the 21 percent corporate tax rate alongside the state corporate tax rate in most states, you have got a combined tax rate at the Federal and the state level that is higher than the corporate tax rate that is applied to companies in China. And if China is a national security threat and an economic threat, then we need to be thinking about how all of that relates back to how we are making businesses like these guys—and in particular, Mr. Ramirez—more competitive. And—yes.

Mr. LAHOOD. Thank you for that.

Mr. WINFREE. Yes.

Mr. LAHOOD. Senator Gramm, it is estimated we repatriated about $3 trillion back to the United States because of what we did there. I am wondering if you could comment on that, that reinvestment in the United States by companies here.

And then, number two, as we think about how do we win the strategic competition against the CCP, the Communist Chinese Party, what we need to be doing from an economic standpoint to make sure we win that strategic competition.

Mr. GRAMM. Well, first of all, don't imitate China, don't implement industrial policy here, where you assume government knows more about investment than people who are investing their own money. I have been stunned at the bipartisan support for trying to compete with China by doing what China does. You want to compete with China? Reduce regulatory burden. You want to compete with China? Reduce the tax rate. You want to compete with China? Deal with the explosion of programs that disincentivize people to work.

Look, I am for tax credits. I want to make it possible for low-income people to benefit from working. But when you are giving tax credits to people that don't work, you are extending this whole welfare system into the middle class, and it is devastating to America's competitiveness, and we need to be worried about it.

So I wouldn't give any tax credit to anybody who is not paying taxes. It is a simple principle. Taxes are about taxpayers. You don't pay taxes, you don't get tax credits. You want to give people welfare? Fund it. The biggest dispenser of welfare in America today is the Internal Revenue Service. Now, how did we possibly allow that to happen? That ought to be reversed wholesale, in my opinion. You want to start reforming? That is a very important reform.

Mr. LAHOOD. Thank you——

Mr. GRAMM. There are not many people in China that are getting paid not to work, I can assure you of that.

Mr. LAHOOD. Well said. Thank you.

Chairman SMITH. Ms. Sánchez.

Ms. SÁNCHEZ. Thank you, Mr. Chairman. It is astonishing that today Republicans are attempting to resurrect Trump's signature tax bill that rewarded our nation's wealthiest families at the expense of our nation's working families.

For decades now, Republican tax policy has reinforced a tax system that is very imbalanced, that favors the richest Americans and the largest corporations. In the six years since Trump signed the bill into law, its tax cuts have proven to be costly and ineffective. Republicans claim that the TCJA's windfall tax cuts to high earning households and large corporations pay for themselves through economic growth, yet they have never paid for their tax giveaways to the wealthy.

Doubling down on the Tax Cuts and Jobs Act would allow megacorporations to continue paying less in taxes than ever before, and they claim that those tax cuts are going to trickle down to everyone else. We know that they don't, but slashing the corporate income rate only lined the pockets of executives and shareholders. It didn't trickle down to workers and families because Republicans seem to be allergic to tax benefits for those who really are deserving of a break.

I believe it is time to chart a new and fairer path in tax policy, because we know that investments in infrastructure, childcare in particular—men on the panel, child care for working parents, child care—and investments in education are what create great conditions for economic growth. My Democratic colleagues and I recognize that investments that directly benefit American families yield much stronger results than using intermediaries, as Dr. Edwards said earlier.

Now, TCJA promised us rainbows and unicorns. It promised things were going to be so great, and that the tax code was going to be so simple that we could file our tax returns on a postcard. I want to ask the panelists, by show of hands, how many of you file your income tax returns on a postcard?

How many of you earn $50,000 a year or under?

A hundred thousand dollars a year or under?

Two hundred thousand dollars a year or under?

All right. My question is, why don't we have low-income taxpayers on the panel today to talk about how the TCJA affected them, and whether or not it provided all these glorious benefits that my colleagues continue to insist happen when the facts show that they didn't happen if you look at the Joint Tax Committee's analysis of whether or not the lowest-income earners got any benefit at all?

Now, Professor Edwards, fans of the Tax Cuts and Jobs Act claim—again, these great claims—that the law's pass-through deductions strengthen Main Street and small businesses. Can you tell us what kind of taxpayers are taking advantage of that huge deduction?

Ms. EDWARDS. The benefits are concentrated amongst the top one percent of filers by income.

Ms. SÁNCHEZ. So taxpayers across the income spectrum have not benefited equally. Isn't that true?

Ms. EDWARDS. Not equally, no.

Ms. SÁNCHEZ. No. Okay. And if not, does the pass-through deduction drive enough economic growth to outweigh the cost?

Ms. EDWARDS. No.

Ms. SÁNCHEZ. No. Thank you. Professor Edwards, your testimony outlined the 2017 tax law's failure to increase wages for the bottom 90 percent of workers, none of whom are on the dais today. So what benefits, if any, have low-to-middle-income taxpayers seen in the six years since Trump signed the signature tax cuts into law?

Ms. EDWARDS. You know, Mr. Gramm has said several times about people who don't work not paying their fair share. You know, you can't pass a $2 trillion tax cut that is concentrated at the bottom because they don't pay that much in taxes. If you are paying $2 trillion to lower your tax revenue, it is not going to the poorest Americans because they don't pay that much.

So it is, I think, kind of just a basic logical argument of, if you are going to spend that much in revenue, it is not going to go to the bottom because they don't have that much of a tax burden. It is going to go to the top. It doesn't cost that much to cut people's taxes if they only make $35,000 a year. It costs a lot to cut someone's taxes if they make $35 million a year. That is what drives up the cost of the legislation.

Ms. SÁNCHEZ. Thank you. And as the IRS has shown, the people who are most likely to not pay their fair share of taxes are wealthy individuals and large corporations.

Dr. Edwards, can you expand on what you call the opportunity cost of extending the 2017 tax cuts for large corporations and highest-income earners, instead of making investments in working families?

Ms. EDWARDS. Working families who were paying a quarter of their income for child care would, you know, probably be upset to learn that the cost of the 2017 tax cut was enough to create a universal child care and preschool system in the U.S., at least four, if not five times over.

Ms. SÁNCHEZ. Thank you.

And I just want to add finally, before I yield back my time, that, Senator Gramm, I take personal issue with your assertion that if a welfare state had been in effect when we were growing up, that many of us on the dais would not be here. I would submit to you, number one, we are not a welfare state; but number two, I wonder if we didn't allow family wealth to be passed down tax free to the tune of $13 million per individual or $27 million for a married couple, how many Members of Congress would be sitting on this dais or would not be here.

And with that, I yield back.

Chairman SMITH. Thank you.

Mr. Estes.

Mr. ESTES. Thank you, Mr. Chairman, and thank you to our witnesses today.

You know, it is really unfortunate, the amount of misinformation that is out there that is trying to mislead the American family and American families and the people across America about the effects of the TCJA. If we look at the facts and the data, the TCJA allowed more Americans to keep more of their hard-earned dollars, while Treasury ended up collecting more in revenues.

[Chart]

Mr. ESTES. A year before TCJA, in January of 2017, CBO projected Fiscal Year 2023 revenues would be $4.346 trillion. After passage of TCJA, CBO revised their estimate and estimated that the revenues would only be about $4.182 trillion, or a reduction in revenues by about $174 billion. In reality, the Fiscal Year 2023 revenues totaled $4.439 trillion, as we can see in this chart, exceeding even CBO's initial estimates before they factored in TCJA. And this is only the most recent year. If you go back to Fiscal Year 2022, the numbers were bigger. In Fiscal Year 2021 they also had bigger numbers.

And while these tremendous results are still working to correct the record—we are trying to correct the record regarding CBO's wildly inaccurate projections, and correcting the lingering misinformation about the impact of TCJA, which is more important than ever as we prepare to renew, extend, and strengthen the best aspects of the TCJA in 2025.

The Tax Cuts and Jobs Act was massively successful due to the focus on promoting economic growth and U.S. global competitiveness. Prior to TCJA, the U.S. had the highest statutory corporate rate among developed countries. We also had a worldwide tax system that incentivized companies to hold large cash reserves overseas. By lowering the corporate rate to 21 percent and reforming our international tax system, specifically using the GILTI and FDII provisions, we were able to bring jobs back, bring intellectual property back to the United States, and tax revenue.

After more than five years, we can confidently say the system worked. Corporate tax revenues have increased, even at a lower rate, and there has not been a single U.S. corporate inversion in that same timeframe. As we look towards 2025, it is essential that we find ways to build upon these and other successes.

One key pro-growth provision that must be addressed in 2025 is immediate R&D expensing. Since amortization took effect, the growth rate of R&D spending has slowed dramatically, from a 6.6 percent on average increase per year over the previous 5 years to less than one half of 1 percent over the last 12 months.

Mr. Ramirez, lagging R&D growth is detrimental to our global competitiveness. As someone who has led an international engineering and manufacturing firm, how does R&D amortization impact our ability to compete in the world?

Mr. RAMIREZ. Congressman, thank you for the question. I think this is the single-most important issue in the tax reform right now.

I mentioned earlier China has a 200 percent super-deduction for R&D. My biggest competitor is in China. And now, since 2022, I get a 20 percent deduction for R&D. I have got to amortize it over five years. Since 2022 that one policy has created a $20 million hole in my balance sheet. I have $20 million less liquidity because I have to amortize R&D. And if I could just expense 100 percent of it in the year incurred—that is a massive drag on our ability to invest and create new products and deploy new capital and grow our business.

Mr. ESTES. Yes. And as I mentioned, we are seeing a reduction in R&D expenditures. We are also seeing a reduction in jobs in research and development because of that.

Senator Gramm, I appreciate you being here today, there is so much that you have covered. You talked earlier a little bit about international tax, and particularly the Pillar Two provision. I have been a staunch opponent of the approach that was taken to look through that. I want to give you some more time to just talk about some of the concerns that you have about that. I think it is just detrimental, and I think whatever you can add to the conversation would be great to help with clarifying that.

Mr. GRAMM. Well, again, I think you don't have to give Americans an advantage. You just need to give us a playing field that is flat as compared to our competitors.

I think that the 2017 tax reduction was very effective because it moved us from the highest corporate tax rate in the world into a competitive range. The American economy works better because we have greater ability of people to make decisions. The system is more flexible, more adjustable. That is changing now with the regulatory burden.

I can honestly say, as someone who engages in business in the United States and in Europe, there is no socialist government in power in Europe that has a regulatory burden that is growing at anything like the regulatory burden in the United States.

Mr. ESTES. And as we see, that——

Mr. GRAMM. It is very, very harmful, and the point being, is that it costs jobs, growth, and opportunity. And in the process, it is not going to make me poor, but many of the people that are having great concerns expressed on their behalf are going to be poorer as a result of it.

Mr. ESTES. Yes, thank you, and I appreciate your time.

I yield back.

Chairman SMITH. Mr. Smucker.

[Pause.]

Mr. SMUCKER. Thank you, Mr. Chairman. You caught me by surprise there.

First of all, thanks for holding today's official kickoff for our discussions surrounding the tax reform that we will be needing to do in 2025.

And I just want to expand on what Mr. Estes just said. That chart, I thought, really said the story well. But TCJA, it broke records on raising millions of families out of poverty; it boosted median income across all demographics; it created millions of jobs; it unleashed economic growth; but it also made the tax code fairer, not less fair. Thanks to the reforms made on the individual side of the taxes, our tax code is now among the most progressive in the world.

According to CBO, higher-income earners started paying more in income taxes post-TCJA. In fact, individual income tax collection increased by 27.5 percent, overall income tax collection, with 80 percent of that being paid by the top 10 percent of earners. A 5,027 percent increase in total revenues coming in; 80 percent of that came from the top 10 percent.

Corporate tax revenues also went up, even during the pandemic. In fact, receipts had double-digit annual increases, which had only happened 11 times since 1977. And Mr. Chairman, I do have an article from Politico that I would like to submit into the record.

Chairman SMITH. Without objection.

[The information follows:]

POLITICO



TAX

# U.S. sees biggest revenue surge in 44 years despite pandemic

Revenues jumped 18 percent in the fiscal year that just ended, analysts say — the biggest one-year increase since 1977.

The Treasury Department is set to release this week its final budget numbers for the fiscal year that ended Sept. 30. | Chip Somodevilla/Getty Images

By **BRIAN FALER**
10/12/2021 12:14 PM EDT

Despite a pandemic, a recession and a slew of tax cuts, federal tax receipts are booming.

Revenues jumped 18 percent in the fiscal year that just ended, analysts say — the biggest one-year increase since 1977.



That translates into $627 billion more than in 2020, according to the nonpartisan Congressional Budget Office, which estimates that, for the first time, total government revenues topped $4 trillion.

"They are just booming," said Mark Booth, a former top revenue forecaster at the agency. "It is very unusual."

Though Democrats are hammering the rich for not paying their fair share in taxes, the increase is being driven by levies primarily paid by the well-to-do. For example, corporate tax receipts leapt 75 percent, CBO says. At $370 billion, they easily top where they were immediately before Republicans slashed the corporate rate as part of the Tax Cuts and Jobs Act.

The surge has gotten relatively little notice, obscured perhaps by the government's towering budget deficits and congressional battles over taxes and spending.

It is highly unusual, though, for the government to see a big wave of revenue in the wake of an economic downturn. Typically, receipts crash following recessions because, as people's incomes fall, they owe less to the Treasury.

The coronavirus downturn was much more bifurcated, however, with higher-income people, who pay most federal taxes, doing far better than low earners.

"Usually revenues get hit hard in the year after a recession," said Booth. "This time it is the opposite."

The Treasury Department is set to release this week its final budget numbers for the fiscal year that ended Sept. 30. Those are expected to closely track estimates CBO published Friday.

The increases came across all major categories of taxes, according to CBO, with corporate receipts seeing the biggest jump, thanks to better-than-expected profits.

Payments by big companies had plunged in the wake of Republicans' 2017 tax cuts, falling by almost a third to $205 billion the following year. They didn't really begin to bounce back until this past fiscal year and then recovered to an extent that surprised analysts.

CBO repeatedly revised upward its estimates, and still came in too low. At $370 billion, the corporate tax haul would be the biggest, at least in nominal terms, Another big increase — 33 percent — came with "non-withheld" receipts, which include a variety of taxes that are not subject to withholding by employers.

CBO did not provide a breakdown of those levies. But big changes there are usually driven by capital gains realizations and payments by unincorporated businesses. And the agency previously upped its estimates of capital gains taxes over the past year.

Individual income taxes were up 27.5 percent, CBO estimates. Those too are disproportionately paid by the well-to-do, with 80 percent coming from the top 10 percent of earners.

The increases came despite lawmakers approving a series of tax cuts in the wake of the pandemic. At the time, they were projected to cost nearly $500 billion in 2021 — which would make them bigger than the first year's worth of tax cuts included in Republicans' 2017 legislation.

But some of the pandemic-related tax cuts, such as an employee retention credit meant to help keep workers on the payroll, were less popular than lawmakers anticipated — just because Congress cuts takes doesn't mean everyone necessarily takes advantage of them.

The overall revenue increase wasn't only an anomaly compared to 2020, when receipts fell by just 1.2 percent to $3.420 trillion. Revenues in 2021 still rose 17 percent even when compared to 2019 levels, before the pandemic hit.

Receipts are volatile, but double-digit annual increases are uncommon — there have only been 11 such instances since 1977.

In July, CBO predicted receipts in 2022 would amount to 18.1 percent of GDP, the most in 20 years. Now it seems like the agency will have to revise that too

**FILED UNDER:** CONGRESSIONAL BUDGET OFFICE, TREASURY DEPARTMENT, Mr. SMUCKER. Thank you. That was all achieved because the TCJA, flat-out, it was good tax policy. By targeting reforms to the code we closed loopholes, we helped low and middle-income Americans keep more of their hard-earned money, and we spurred record business investment to grow our GDP. And I just want to contrast that with some of the tax policies, what I think are bad tax policies that we have seen coming from this Administration. It is important we talk about this going into 2025.

Last year, my Democrat colleagues passed the so-called Inflation Reduction Act, which President Biden repeatedly claimed would raise taxes on the wealthy and corporations and make them pay their fair share. Now, I still haven't ever had anyone define to me what a "fair share" is. We keep hearing that brought up, and I don't know what the fair share is of someone who has earned and worked hard for that money. What is the fair share they should be paying? I don't know the answer to that.

But what we have seen is, even though President Biden claims that he increased taxes on the wealthy and on corporations, the data actually shows—and I will have another article, Mr. Chairman, I would like to submit for the record from the New York Times.

Chairman SMITH. Without objection.

[The information follows:]

# *Biden, Promising Corporate Tax Increases, Has Cut Taxes Overall*

President Biden has called for $5 trillion in new taxes on corporations and high earners. But his record so far is as a net tax cutter.

**By Jim Tankersley**
Jim Tankersley has covered tax and economic debates in Washington going back to the George W. Bush administration.

March 25, 2024



President Biden, amping up a populist pitch in his re-election campaign, has repeatedly said he would raise taxes on the wealthy and corporations to make them pay their "fair share."

Republicans say Mr. Biden has "an unquenchable thirst for taxing the American people." His Republican opponent in the election, former President Donald J. Trump, said recently that Mr. Biden was "going to give you the greatest, biggest, ugliest tax hike in the history of our country."

So it might come as a surprise that, in just over three years in office, Mr. Biden has cut taxes overall.

The math is straightforward. An analysis prepared for The New York Times by the Urban-Brookings Tax Policy Center, a Washington think tank that studies fiscal issues, shows that the tax cuts Mr. Biden has signed for individuals and corporations are larger than the tax increases he has imposed on big corporations and their shareholders.

The analysis estimates that the tax changes Mr. Biden has ushered into law will amount to a net cut of about $600 billion over four years and slightly more than that over a full decade.

"It's reasonable to conclude from those numbers that the Biden tax policy hasn't been some kind of radical tax-raising program," said Benjamin R. Page, a senior fellow at the center and author of the analysis.

The analysis strictly looks at changes to taxes over the course of Mr. Biden's presidency, including some direct benefits to people and businesses that flow through the tax code. It does not measure the effects of inflation or certain regulations, which Republicans sometimes label "tax hikes" since they can raise costs for companies and individuals.

It also does not measure the social or economic benefits of Mr. Biden's spending policies, or of his regulatory efforts meant to help consumers, like cracking down on so-called junk fees and limiting the cost of insulin and other medication.

Instead, the analysis provides a comprehensive look at what Mr. Biden has done to the tax code, and how those policies add up.

It is clear by that measure that his record has not matched his own ambitions for taxing the rich and big companies — or Republicans' attempts to caricature him as a tax-and-spend liberal.

That's largely because Mr. Biden has struggled to pass his most ambitious tax-raising plans. "It's what can be got through Congress and signed," Mr. Page said. "They were subject to compromise."

A White House spokesman, Michael Kikukawa, said in an email that Mr. Biden was "proud to have cut taxes for the middle class and working families while cracking down on wealthy tax cheats and making big corporations pay more of their fair share."

The president's enacted tax cuts include incentives for companies to manufacture and install solar panels, wind turbines and other technologies meant to reduce fossil fuel emissions, which are a centerpiece of the climate law he signed in 2022. That law also contained tax cuts for people who buy certain low-emission technologies, like electric vehicles and heat pumps.

Mr. Biden gave tax breaks to semiconductor factories as well, as part of a bipartisan advanced manufacturing bill he signed earlier that year.

The president also included temporary tax breaks for individuals and certain businesses in his 2021 economic stimulus bill, the American Rescue Plan. The legislation expanded a tax credit for parents. It provided $1,400 direct checks for low- and middle-income Americans, which were technically advance payments on tax credits.

Mr. Biden has partly offset all of his tax cuts with a pair of major new levies. Corporations are now required to pay a tax when they buy back their own stock. Another tax requires large corporations to pay a minimum 15 percent federal income tax, even if they qualify for deductions that would have made them owe less.

The president has also directed tens of billions of dollars to the Internal Revenue Service to help crack down on high earners and corporations that evade paying the taxes they owe — an effort that will increase federal tax revenues but does not increase tax rates.

But the president has struggled to persuade Congress — including a sufficient number of Democrats, in the two years his party controlled the House and the Senate on his watch — to sign on to a fleet of other proposed tax increases.

Mr. Biden's budget requests have been filled with ideas for taxing high earners and corporations. Those have failed to gain traction on Capitol Hill. His most recent budget includes about $5 trillion of tax increases spread over a decade, including longstanding Democratic plans like raising the corporate income tax rate to 28 percent from 21 percent.

Republicans assailed Mr. Biden for tax plans they say will cripple the economy. Representative Jodey C. Arrington, Republican of Texas and chairman of the Budget Committee, said in a hearing on Thursday that Mr. Biden believed "in more government and more spending and more taxing as the answers to the problems that our country faces."

Mr. Biden has emphasized his tax proposals in recent weeks, including during his State of the Union address. The president has repeatedly said he would not raise taxes on people earning less than $400,000 a year, while calling on millionaires and billionaires to pay more.

He has also vaunted his tax record, as he did this week in Las Vegas. "In 2020, 55 of the largest Fortune 500 companies made $40 billion in profits," Mr. Biden said. "They paid zero in federal taxes. Not anymore."

Mr. Biden was referring to the corporate minimum tax created by the Inflation Reduction Act, the 2022 law that also included the climate-related tax incentives. The Treasury Department has struggled to implement that tax, which companies faced for the first time last year.

The department does not yet have data on how many corporations will pay the tax for 2023, officials said this week.

**Jim Tankersley** writes about economic policy at the White House and how it affects the country and the world. He has covered the topic for more than a dozen years in Washington, with a focus on the middle class. More about Jim Tankersley

A version of this article appears in print on , Section B, Page 3 of the New York edition with the headline: Promising Higher Taxes on Rich, Biden Has Cut Overall

Mr. SMUCKER. And this goes to Senator Gramm's conversation about industrial policy. The data shows that he has actually cut taxes for corporations and high-income earners through corporate tax breaks for his favored industries. He talks about raising taxes, but he has actually benefited and cut taxes for his favorite industries.

And by the way, he also hasn't kept true to his claim that the IRS won't audit households making less than 400,000. IRS data shows that, as of last summer, 63 percent of new audits are targeting taxpayers with income of less than 200,000. That is according to a report just out from the IRS.

So now what we are left with is small businesses in my district, who can't take advantage of those cherry-picked corporate taxes, now face an audit-heavy environment. And really, one of the best benefits that they have received from the Tax Cuts and Jobs Act is the 199A deduction for small businesses.

And Mr. Ervin, I very much appreciate you bringing that up. I am pleased to be the lead sponsor of extending that provision, making that provision important because Main Street businesses that employ 60 percent of all private-sector employees, they will face a dramatic increase in taxes if we do away with 199A. A 43.4 percent Federal tax rate will be the top tax rate for them.

Raising their tax could result in reduced wages, reduced benefits for workers, certainly reduced investment in the business, and other impacts to our growth. So again, Mr. Ervin, I know you mentioned this, but could you expand on how a 43.4 percent tax rate would potentially impact your business if we do not make 199A permanent?

Mr. ERVIN. Simply put, ultimately, a closed sign would go up in my window. And not only in my window, but on the windows of most of the other businesses on my street if we had to pay that. So hopefully, that simplifies it.

Mr. SMUCKER. Thank you. I have other questions, but I see I am already out of time. But the chairman is not paying attention, so we will keep going.

Mr. ERVIN. Go ahead.

Chairman SMITH. Ms. Sewell.

Ms. SEWELL. Thank you, Mr. Chairman.

You know, there are distinct populations within this nation that did not benefit from the enactment of the TCJA in 2017. I can tell you right now that the hard-working Americans in my district, Alabama's 7th congressional district, were not beneficiaries of this legislation.

If we are going to spend the afternoon discussing the work of this committee and the work that we have done to aid hard-working Americans, let's look back to 2020 instead of 2017. It was only the action of Democrats in the height of the COVID–19 that provided common-sense solutions like making the Child Tax Credit fully refundable that addressed the needs of hard-working Americans who, through no fault of their own, were being hit in the hardest pandemic—once-in-a-generation pandemic.

But here we are. We are talking about 2017. And if we are to talk about 2017, let's be honest about the cost of the TCJA: $2 trillion, $2 trillion. I was in the room in 2017 when the TCJA repealed the advance refunding on tax exempt municipal bonds. Now, I was a bond lawyer. Ms. Edwards, you talked about the opportunity cost, what we could have done with the $2 trillion. And I can tell you that a lot of the underserved, vulnerable communities that I represent, a lot of the towns and villages and small communities really did use tax exempt bonds to try to revitalize their downtown area. It [sic] actually, you know, did hire people and the like. But the reality is that we chose to repeal advance refunding of tax bonds, and at a time when we saw economic growth.

My question to you is this. The benefits that the TCJA had are not necessarily attributable to the TCJA. Can you talk a little bit more about that, and also about the opportunity costs?

I mean, you talked about how we could have paid for childcare. I also know that $2 trillion could have gone a long way to helping us with the Child Tax Credit, and—which did lift millions of Americans out—especially children, out of poverty.

Ms. EDWARDS. Sure. So yes, there is a lot of numbers going around. Was TCJA a benefit to the top? Was it a benefit to the bottom?

You know, where I based my assessment is based on the Congressional Budget Office projections. So here is how this works. You have got a bunch of marginal tax rates and tax laws. You change them, and then they go into effect. Why we think it benefited the top is because if you didn't look at anything that had happened but who got the difference of the tax rates, where the tax laws were changed, that was at the top.

Now, a lot happened in the economy since 2017 that would make the actual tax receipts of the government vary based on economic activity. So, you know, yes, the top is paying more because they are earning more. You know, that is the—kind of attributing causal, you know—or attributing the cause to the tax cut happens basically when it is enacted of what the difference is and the rates are, as opposed to how the economy evolves.

So here is——

Ms. SEWELL. But Ms. Edwards, I mean, people are saying that Black households increased the highest it has ever increased because of the TCJA. And I can tell you that the Black households that I represent in Alabama, it didn't trickle down to them. So can you talk to us a little bit about why it is that there were benefits—no one is saying there wasn't benefits; it is who benefited.

Ms. EDWARDS. Yes, exactly. The—you know, the pass-through deduction is a great example of—you know, it did benefit some small businesses, but 67 percent of the beneficiaries are in the top 1 percent. And it is not just did you create some beneficiaries that you like, but did you create some beneficiaries that you didn't intend to?

You know, I kept hearing about—I mean, I keep hearing about how much wages have gone up, how much income has gone up. Child labor has gone up in this country 250 percent since 2017. And no one would say that is because of the tax law. But if I said, look, they had lower tax rates, they had lower regulation, you know, did that lead to child labor, it took off at the same time, you would say, no, that is the economy, that is immigration, that is other things happening.

So when I say you are claiming wage increases, you know, you would have to take child labor along with it. So they happen at the same time, they don't happen for the causal reason.

Ms. SEWELL. It sounds like we use these facts and figures to serve our own purposes.

But what is a fact to me——

Ms. EDWARDS. Certainly.

Ms. SEWELL [continuing]. Mr. Chairman, is that my district in Alabama did not benefit from the TCJA, and I will not be seeking to extend those cuts. Thank you, and I yield back the balance of my time.

Chairman SMITH. Mr. Hern.

Mr. HERN. Thank you, Mr. Chairman. It always amazes me that people who never created a single job know more about business than those who have spent their entire life doing so.

In 2017 Congress lowered the corporate tax rate from 35 percent, which at the time was the highest tax rate in the OECD, and that lowered tax rate went down to 21 percent. Adding state corporate tax taxes, now the average combined U.S. corporate tax rate is now 25 percent, which is just above the global mean of 23 percent. Lowering the corporate rate almost to the global mean made American businesses and millions of American workers more competitive in the global marketplace.

It was apparent back in 2017, as much as it is today, that the U.S. needs a corporate rate that is competitive with the rest of the world. U.S. multi-nationals were fleeing the United States, and headlines of corporate inversions were commonplace, taking their jobs and capital investment with them as they left. Nobody has disputed that fact.

Lowering the corporate rate, combined with international tax provisions, stopped inversions, encouraged domestic investment, and made the U.S. an attractive place to do business, and created jobs for American workers. Total U.S. domestic investment grew by over 20 percent after GOP tax reform, and year over year we continue to see record corporate tax receipts. Tax reform is working. Jobs and innovation are coming back home.

We should look to build on these gains as we approach the massive tax cliff coming at the end of 2025. Unfortunately, the Biden Administration has proposed massive corporate tax hikes that are out of sync with the rest of the world, has proposed a repeal of the vital TCJA international tax provision, Foreign Derived Intangible Income, or otherwise known as FDII, which play a critical role in bringing intellectual property back to the United States and keeping it here to begin with.

The Biden Administration has also unilaterally committed the United States to a global tax policy that could diminish the United States' competitiveness on a global scale, and have grave consequences for our domestic economy.

I have said this time and time again, progress on the new global tax agreements is important, but Congress must approve any commitments that might erode the U.S. revenue base or significantly impact bilateral trade and investment flows. Congressional action to carry out international tax agreements is clear from the text and structure of the Constitution.

Mr. Chairman, I would like to enter into the record the Wall Street Journal op-ed, “How Congress Can Stop Biden’s Regulatory Onslaught.”

Chairman SMITH. Did you say a Wall Street Journal op-ed?

Mr. HERN. I did. [Laughter.]

Chairman SMITH. Okay.

[The information follows:]

https://www.wsj.com/articles/congress-halt-biden-regulatory-oecd-tax-debt-ceiling-mccarthy-esg-climate-spending-defense-department-ftc-sec-b374c6e4

OPINION COMMENTARY Follow

# *How Congress Can Stop Biden's Regulatory Onslaught*

If they stay united, House Republicans can use the power of the purse to restrain unilateral executive action.

By Phil Gramm and Mike Solon

July 13, 2023 5:38 pm ET

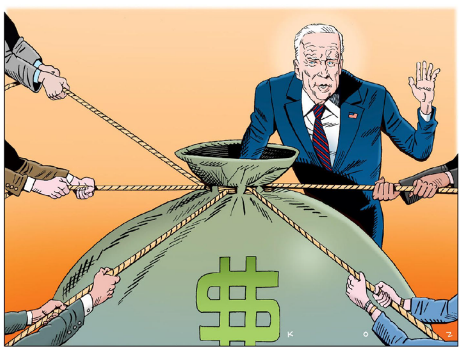

ILLUSTRATION: MARTIN KOZLOWSKI

Before the rise of the regulatory state, America's economic exceptionalism flowed from clear constitutional boundaries between the spheres of individual freedom and government power. All major federal initiatives were circumscribed by the Constitution and required legislation by both houses of Congress followed by the president's signature. With rare exceptions, major policy changes required broad bipartisan support to gain a majority in the House and overcome a potential filibuster in the Senate. The result was economic and political stability enforced by checks and balances. While political inertia frustrated elected officials, the benefits of unparalleled economic certainty and unmatched freedom to work, save and invest delivered unequaled prosperity.

With the rise of the regulatory state, every sector of the economy can now be significantly altered by presidential action through executive initiatives with little basis in law. Checked only by the delayed restraints imposed by the courts, presidents now assert unilateral powers so that presidential elections alone produce dramatic shifts in public policy.

Based on almost every conceivable measure of federal power, America's historic economic certainty and the constitutional system of checks and balances that provides it are under siege by President Joe Biden's "whole government" regulatory onslaught. In a closely divided Congress, timely defense of our constitutional system and limited government now depends on the ability of a five-vote House Republican majority to restore the power of the purse.

With the national debt issue postponed until after the 2024 elections and aggregate spending capped for the next two fiscal years, the Republican House must now decide not only what to fund but also what not to fund. Since the power of the purse is the power to ban, limit and restrict the use of federal funds, it embodies the power to restrain executive action.

Whereas the risk of default on the public debt was overhyped, the economic risk of Mr. Biden's aggressive assertion of regulatory power seldom is mentioned in any analysis of productivity growth falling to a 75-year low, real wage declines and the lurking recession. Barack Obama's regulatory excesses produced stagnation and a failed recovery, but the crippling cost of Mr. Biden's regulatory burden could trigger our first regulatory recession.

Two famous examples of the power of the purse to limit executive action are the 1976 Hyde amendment prohibiting federal funding for abortion and the 1976 Byrd amendment banning federal funding for forced busing. On taxpayer funding for abortion, agencies were using executive authority to implement policy Congress had never legislated. The American people strongly opposed taxpayer funding for abortion as did then Sen. Biden. Congress used the power of the purse to prohibit the use of federal funding for abortion.

Forced busing evolved from a policy to promote the desegregation of public schools. As the monetary and time cost of cross-county busing grew, public opposition swelled even in the black community, and in 1976 Sen. Robert Byrd of West Virginia used the power of the purse to defund forced busing. Sen. Biden voted for the prohibition and later joined Sen. Tom Eagleton to author the 1977 amendment that strengthened the original Byrd amendment.

Given their five-vote majority, House Republicans must pick their targets wisely. The limits on spending must unite Republicans and be overwhelmingly popular among the American people. Any area where Democrats have shown support for limiting the president's executive authority should be fertile ground for amendments.

An obvious target is Mr. Biden's actions circumventing Congress and agreeing with the Organization for Economic Cooperation and Development to impose an international minimum tax on large international companies, most of which are owned by American investors. Remarkably, the Biden administration agreed to let foreign governments tax U.S. companies on their U.S. earnings if Congress refuses to adopt the minimum tax. In this extraordinary circumvention of the Constitution, the Biden administration has attempted to use an international agreement that Congress never approved to force Congress to raise taxes.

This follows similar administrative practices of using European regulations and antitrust actions to impose policies on U.S. companies that our courts have rejected. Fortunately, the State, Foreign Operations, and Related Programs Appropriations Bill as reported by the House subcommittee terminates all U.S. funding for the OECD. Congress should further disavow the tax agreement and, using the power of the House to legislate on appropriations bills, mandate retaliation against any nation attempting to tax U.S. companies on U.S. earnings.

Lawmakers can wield the power of the purse to make regulatory agencies follow the law, such as requiring that Federal Trade Commission funds are used solely to promote consumer welfare. Securities and Exchange Commission funding must hinge on the agency promoting the stated goals of U.S. securities laws, not the administration's environmental goals. The power of the purse can be used to ensure that the Labor Department requires pension funds to invest "solely" and "exclusively"—as the law stipulates—in the financial interest of retirees, not to promote ESG goals.

Congress must use the power of the purse to strengthen national defense. Today, the Defense Department spends billions of dollars on social spending that has little or nothing to do with national defense, such as zero-emissions vehicles, offshore wind energy R&D, EV charging stations, sensitivity training, transgender treatments, and general education funding. Given the budget limitations we face and the dangerous world we confront, Congress's plundering of national defense should end.

The nation needs a replay of the debt-limit unity among House Republicans to bring the Biden imperial presidency back under constitutional control. As James Madison, the father of the Constitution, envisioned it, the power of the purse was "the most complete and effectual weapon with which any constitution can arm the immediate representatives of the people, for obtaining a redress of every grievance."

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Mr. HERN. Okay. I know it is controversial.

Senator Gramm, thanks for all your work that you did in the Senate, and so many op-eds you have written. I have followed them all. Your Wall Street Journal op-ed is quoted saying, remarkably, the Biden Administration agreed to let foreign governments tax U.S. companies on their U.S. earnings if Congress refuses to adopt the minimum tax. This is an extraordinary circumvention of the Constitution, that the Biden Administration has attempted to use an international agreement that Congress never approved to force Congress to raise taxes.

How harmful would it be for not only our economy, but our democracy, if Congress's hands were ever forced to rubber stamp Biden's poorly negotiated global minimum tax?

Mr. GRAMM. Well, first of all, there was no advice and consent given to Congress in any of the negotiations with OECD countries concerning the international minimum corporate rate.

Number two, no treaty was ever passed. No law has ever implemented the minimum tax. But what President Biden has agreed to is to stand by and allow European countries to tax American subsidiaries in their country on income the subsidiary made in the United States if we don't impose the corporate minimum tax in the United States.

And if I could urge this committee to do one thing, it would be to pass a bill that mandates retaliation against any country that implements a tax against American companies to, in essence, tax their American earnings. With all of this talk about assaults on the Constitution, this is the greatest assault on the Constitution in my lifetime.

And if Biden were a Republican and I were in the Senate, there would be no peace until we would stop this thing. This has nothing to do with partisanship.

Mr. HERN. Thank you so much for your testimony.

Mr. GRAMM. I am sorry, I——

Mr. HERN. No, no, thank you for being here.

Mr. GRAMM [continuing]. I have a tendency, as a Senator, to just go on.

Mr. HERN. Well, you guys have no time limit over there.

I just want to put for the record that I am a proud cosponsor of Congressman Smucker's Main Street Tax Certainty Act. I think that if we don't make sure that our small businesses in America are taxed favorably so that they can create jobs, grow, and keep this economy going into the future, I always say for the record, there is not a single business in America that didn't start as a small business, and we need to recognize that.

I yield back.

Chairman SMITH. Mrs. Miller is recognized.

Mrs. MILLER. Thank you, Mr. Chairman, and a special thank you to you, Senator Gramm, for spending the afternoon with us, your precious time. And to all of you witnesses for being here, but I especially want to welcome a fellow West Virginian, Michael Ervin of Coal River Coffee Company in Saint Albans, which is in my district, for making the trip to Washington and getting an earful of how we do business here. It is entirely different.

It is just so good to hear voices of business owners from my home state to discuss the benefits of the Tax Cuts and Jobs Act and our committee's work to extend the key benefits for hard-working Americans like Mr. Ervin and his employees. You all are what make the country great.

The Tax Cuts and Jobs Act is one of the most important policies passed into law in generations, and thanks to the work of President Trump and the United Republican governance in the House and Senate. To this day, the positive impacts of a simpler tax code are still being felt, and it is telling that Biden and his liberal colleagues in the House and Senate did not repeal any key provision of President Trump's landmark legislation, and failed to gain the requisite support within their own party to raise our tax rate or strip small businesses of their fairer treatment that the TCJA did provide.

Lowering our corporate tax rate to a globally competitive 21 percent has been a key driver in drawing investment to our country and allowing our businesses to reinvest in their employees and communities, and I strongly support maintaining this rate. Any increase to pay for industry-specific handouts undermines the core tenet of the TCJA of broadening our tax base and simplifying the tax code.

The Tax Cut and Jobs Act was extremely successful at simplifying the code on the individual side, as well. In West Virginia over 97 percent of filers utilize the increased standard deduction included in the TCJA. This means that more families spend less time worrying about their taxes and have more in their pockets at the end of the day. Families, large employers, and small businesses all benefited from the passage of the TCJA.

And in West Virginia only 98 percent of our businesses are actually small businesses. The 199A, a small business deduction, allows for pass-through entities to receive a comparable tax rate to larger corporations, allowing small businesses to stay competitive and reinvest in their employees.

And I look forward to working with a reelected President Trump, Chairman Smith, and all my colleagues to extend the essential components of the TCJA and spend the next year hearing from our constituents on how to improve on this essential legislation.

Mr. Ervin, can you describe what the impact on Coal River Coffee would be if the 199A deduction was not extended?

Mr. ERVIN. Absolutely. Let me just start off by saying we have only existed since this has existed. When I started my company, I probably was considered low-income, to answer Ms. Sanchez's question earlier. So, yes, I am qualified to answer and speak to these aspects. And it created an environment for entrepreneurship in a very economically depressed state. And if we lose that deduction, in particular, it will squelch, it will kill that environment.

Not only that, there won't be as much of an incentive to actually start something and take a risk, maybe take a loan and do the things that are necessary to create economy. And that is what we are doing, is creating economy and creating jobs, doing what the American dream is.

And just like my friend over here, you know, his father started their journey in this dream. And that is what I am doing, hopefully, for my children who are sitting in the back of this right now, watching this. They can inherit my business someday. And if this deduction is not extended or made permanent, which is what I hope, then me and the other entrepreneurs, business owners, and 98 percent of the businesses in my state might have to close.

Mrs. MILLER. Tell me——

Mr. ERVIN. And that is why I am here today.

Mrs. MILLER [continuing]. Tell me quickly how you have reinvested in your community.

Mr. ERVIN. Yes. Very quickly, we help start organizations. We give money toward our Little League programs, in particular. And are these bigger corporations doing that? No, they are not. We give to almost every sporting team that comes to us. And we, obviously, have our program with the Recovery Network. We help with organizations that integrate folks with disabilities.

We employ folks with disabilities, too, and they love being a part of something that is bigger because for—go ahead.

Mrs. MILLER. I was just going to say that is how small-town America works.

Mr. ERVIN. Exactly.

Mrs. MILLER. And I have to yield back my time. I am so sorry.

Mr. ERVIN. Sure, thank you.

Mrs. MILLER. And Mr. Ramirez, I had questions for you, too, but we talked too long.

Thank you for being here, all of you.

Mr. FEENSTRA [presiding]. Thank you. Now I recognize the gentleman from North Carolina, Dr. Murphy.

Mr. MURPHY. Did I scare the Democratic witness away? I must have.

Anyway, thank you all for coming today. You know, it opines to me that our Democratic colleagues love to attack the big, nasty, big corporations, when 98 percent of our corporations in this country have 100 employees or less. And what Representative Hern said, that every company starts as a small company, is absolutely true.

You know, a couple of statistics here, the TCJA for minority groups had an all-time income, hit all-time highs. Compared to the second term of Obama and Biden, wages grew 24 percent faster for Hispanics, 79 percent for African Americans, 95 percent for Asian Americans. This is what happens when you unleash the power of the American economy.

Thank you for coming back. Sorry about that. I didn't I didn't say anything bad, I promise. [Laughter.]

Mr. MURPHY. I just want to reiterate that most of the corporations in this country are small employees. They are not the big, bad things that do things. And so when we cut the corporate tax rate, we are hurting our small things.

Dr. Edwards, let me ask you just a couple of quick questions. We are talking about the not-fair-share when the rich are not paying their fair share. So they pay 47 percent, the top one percent. What percent would you think is appropriate for them to pay?

Ms. EDWARDS. You all, I don't decide fair.

Mr. MURPHY. I know. I mean, that is what we hear all the time. Pay their fair share. Pay their fair share. And when the top one percent pay 47 percent of the tax burden, I want to know what would a Democrat witness say is the fair share.

Ms. EDWARDS. Well, speaking as an economist and not as a Democrat, what I would say, sir, is that the top one percent have also seen the accumulations of income over the past 20 years. Part of their outsized burden of how much they are paying in taxes is also a fact of how much faster their income has grown over the past 40 years, and the top one percent income share is now at a 70-year high. It is not just the rate that sets the share, but also the total amount of income they earn relative to the economy.

Mr. MURPHY. Yes, and I would—you know, I am not going to disagree. Their facts are always your facts and my facts, and that is just the way life happens.

To what Senator Gramm said earlier about we want a Child Tax Credit, we want to lift up the poor, we absolutely do. The problem is, in the State of North Carolina now, 52 percent of the births in the State of North Carolina are born to mothers on Medicaid. Over half. So think about that geometry. Think about those proportions as we move forward. What does that look like?

I still see patients. I still see them to this day whose mother I saw as a young patient. And it is grandmothers now raising children. And it is generational Medicaid because there is no expectation when you have a child that you have to pay for it. There is none. And this is the destruction of the American dream right there.

Senator Gramm, I want to follow up. You know, the pandemic was horrible for the world. It started in China. We all know that. But we did find some few silver linings. We saw our absolute and utter dependency upon China. I would love for you to comment on how—you were talking about how much regulation is killing American businesses. I would love for you to comment on what you thought is happening to United States competitiveness on the national scale due to over-regulation now is doing to our national security. We saw how national security is threatened now because if we were at war with China, we would have two months' worth of medicines. How is this a threat to national security?

Mr. GRAMM. Well, the security of the United States, when you get down to the bottom line, comes from the productivity of the American worker. It gives us the ability to not only provide the resources for defense, but it gives us the technology to always be out front.

Technology for defense is now coming from the private sector. That wasn't true when I came to Congress. It was coming from the industrial military complex when I came here. But now it is out in the general domain. So the only way we can stay ahead is by developing the technology ourselves.

Mr. MURPHY. Right.

Mr. GRAMM. We have got to be first.

Mr. MURPHY. I want to make sure I get in——

Mr. GRAMM. But regulatory burden strangles our ability to do that.

Now, a perfect example is artificial intelligence. President Clinton set out a policy when the Internet came on the American scene of first do no harm. You have heard that phrase——

Mr. MURPHY [continuing]. Absolutely.

Mr. GRAMM [continuing]. In your profession. And we stayed out of regulating the Internet, and we dominated it. We absolutely dominate the tech industry.

So what has the Biden Administration done in response to artificial intelligence? They are demanding all kinds of actions by artificial intelligence to deal with everything in the world except artificial intelligence. And my concern is, if we don't develop the technology, somebody else will. And will the world come to an end? Maybe not, but we will be poorer, we will be less dominant in terms of our ability to defend ourselves. And even if the lion and the lamb in the world lie down together, we had better be the lion. And so, I am concerned about it.

Also, an important point was made that Biden has cut corporate taxes more than that corporate taxes have been cut under the Biden Administration. And they have, but they have been cut for industries government picked. So a perfect example is we are providing all these tax credits——

Mr. MURPHY. Senator Gramm, I need to yield back my time.

Mr. GRAMM. Let me finish this one point, if I may, please.

We provided all these tax credits to make computer chips. And so the largest manufacturer of computer chips in the world in Taiwan says, with all of these subsidies, we will be able to make these computer chips in America and they will only be 50 percent more expensive than the computer chips——

Mr. MURPHY. Right.

Mr. GRAMM [continuing]. You can buy from Taiwan. Well, what kind of great deal is that?

Mr. MURPHY. Thank you, Senator. I guess my time has expired. Thank you.

Mr. FEENSTRA. Thank you. Now I yield myself five minutes.

I know a little bit about economics. I might have taught a class or two in it. I do know this about economics, that you can always argue a picture that you want to portray, right? If you want to portray something, you argue it. You spin the numbers, right? It happens in economics. That is the great thing about the field. You can always argue something.

But sometimes facts get in the way, get in the way. And I just want to talk about a few facts. So under the Tax Cuts and Jobs Act, we had a tax code before Tax Cuts and Jobs Act, before, you know, our corporate rate was at 35 percent. So between 1983 and 2015, we had 60 companies that inverted and moved their headquarters to another country. And this trend was continuing on until the Tax Cuts and Jobs Act. After that, we have had zero—zero—inversions. Think about that, zero.

So, we have actually had companies that were offshore move to onshore, all right, with their intellectual property, their cash, their jobs. Oh shocker, jobs. Yes. These corporations actually create jobs, right? And they moved onshore, right? That is the difference here when you talk about the Tax Cuts and Jobs Act.

Now, one other thing that I want to talk about—and we talked about the Congressional Budget Office—projections. Great, let's talk about them. So before we had the Tax Cuts and Jobs Act, the CBO said—in 2024, they projected that we would generate about

$405 billion in corporate tax revenue. Now this might shock you, but now they project, after the 21 percent, after we cut corporate tax, now the CBO projects that we will collect $569 billion because of the cut.

So it begs the question, Mr. Winfree, this begs the question: how do you think our role—when we have to reduce the deficit, how does this play into economic growth when we have this 21 percent cut, and seeing what it is doing for inversions, and seeing what it is doing for our revenue coming into the Department of Revenue? What are your thoughts?

Mr. WINFREE. Two comments.

The first comment is that if you look at the very long run, right, if you study revenues over the very long run, we have had lots of different tax systems. And at no point in our history have we ever been able to grow revenue faster than GDP for more than four years, four consecutive years. At the same time, Federal health care spending has been growing faster than GDP since the 1960s. That is the problem.

The other problem is that before the pandemic, government spending as a percentage of the economy was at about 20 percent. At its peak—I mean, we had a crisis—it was about 31 percent. Not faulting that. Now it is at about 22 percent. Every time we have a crisis we reset that benchmark.

Mr. FEENSTRA. Right.

Mr. WINFREE. That is the problem.

Mr. FEENSTRA. So, if we have a Democrat-controlled Congress or President next year, what is going to happen if it goes from 21 to 35 percent, and all these other things increase?

I mean, what do you see? What is going to happen then?

Mr. WINFREE. It will increase. I mean, this is one of the reasons why in President Biden's own budget you see the deficit increasing.

Mr. FEENSTRA. Absolutely. I want to talk about something else.

So, I am probably the number one or two ag district in the country, right? So you can well imagine what taxes do. You know, we can talk about qualified business income. We have talked about that already. But I want to talk about the pilfer tax. I mean it is, it is a pilfer tax.

Think about this. You got the IRS and the Department of Revenue actually reaching in the grave with their arm, taking the dead person out of the grave and saying, hey, you owe 41 percent of your property, the property that you paid tax on all your life. Now you want to give it to your kid? Oh, you owe 41 percent. This gets cut in half—and I should say it ends in 2025, it gets cut in half.

So I want to ask you, Mr. Ramirez, how would this affect you and challenge you if you had to pass your business on to the next generation? How does this apply?

Mr. RAMIREZ. Yes, look, the death tax makes it extraordinarily difficult to pass on family-owned businesses. You know, the reality is the time I have spent with lawyers and accountants doing estate planning to put Husco in a position where it could possibly pass on to a third generation would have been much better invested creating jobs and investing in the business rather than in tax planning.

Mr. FEENSTRA. Yes, absolutely. And you know what is happening in Iowa? And this is a true story. What is happening in Iowa—so these families, these farmers, they can't pass it on to the next generation, all right? Who are they selling it to? Our foreign adversaries like China, foreign countries, and stuff like that because the children can't afford the 41 percent. This is absolutely ridiculous.

Anyway, that is end of my time and I yield back. And I will now recognize Congresswoman Steel from California.

[Pause.]

Mrs. STEEL [presiding]. Thank you, all the witnesses, and this is a really long meeting, and thank you.

And Senator Phil Gramm, you know what? I saw you so many times in California in the late 1980s, and it is so nice seeing you and your wife. So you know, I was really happy to sit here.

Mr. GRAMM. You look good in that chair, by the way.

Mrs. STEEL. Someday, hopefully. But you know what? A long time from now. But thank you.

So Tax Cuts and Jobs Act provided tax relief to families.

You know what? By the way, I recognize myself for five minutes.

The Tax Cut and Jobs Act provided the tax relief of families across my congressional district, and provided economic growth to businesses of all sizes in California.

One provision of TCJA that has had huge success for companies in California is the Foreign Derived Intangible Income deduction. FDII enhances the competitiveness of the U.S. and, combined with the competitive corporate tax rate, can result in more U.S. jobs and U.S.-based R&D. In fact, a number of companies have brought their offshore IP to the U.S. or maintained in the U.S. and developed their new valuable IP here at home, especially because of FDII. With the current effort at the OECD, FDII will be pivotal to protecting the U.S. against taxation by other nations.

I wanted to ask Dr. Winfree, but since he is gone I know, Senator Phil Gramm, you are the expert for economy, especially for U.S. economy. So do you agree that FDII is a critical part of U.S. tax policy, and maintaining and enhancing it should be a top priority for Congress?

Mr. GRAMM. I think it is very important that America has a competitive tax system, and I think we ought to do everything we can to keep it competitive.

Again, Americans don't need an advantage. We just need to have a level playing field.

And I see he is back, so you can ask him your question.

Mrs. STEEL. Dr. Winfree.

Mr. WINFREE. I apologize, my son has got a baseball game in about an hour, and I had to figure out who was going to take him there.

The question was about competitiveness, international competitiveness?

Mrs. STEEL. It is—FDII is a critical part of U.S. tax policy. It is a Foreign Derived Intangible Income deduction. So maintaining and enhancing it should be a top priority for Congress.

Mr. WINFREE. I think, to follow up on what the Senator and Dr. Gramm just said, I think that one of the things that we want to do is that we want to make sure that the American tax system is competitive, right, both for domestic investors, and then also for folks who want to invest in America. Ultimately, that is what drives growth. And so I would say yes, I would agree with you.

Mrs. STEEL. So Senator Gramm, you said that competitiveness—so when this Tax Cuts and Jobs Act, that it reduced corporate tax for 21 percent, that is a competitive rate because it is average in the world. So we keep that number, it is better for our economy.

Mr. GRAMM. Only an economy that is intent on suicide would have the highest corporate tax rate in the world.

And again, I just want to emphasize that everybody pays corporate taxes. A corporation is a piece of paper in a filing cabinet in Delaware. Corporations are investors, and 74 percent of all investments in American equities are owned by retirement funds, 401(k)s, IRAs, and pension funds. So this idea that there is some rich corporation out there is a fiction. And now it is a political fiction.

Corporate America is really your pension fund. And so, when you are socking it to corporate America, you are taxing your pension fund. So the worker gets hit two ways. One, his wage is affected by the corporate tax because about 70 percent is passed on to him that can't be passed to the consumer. And secondly, her retirement fund is hit by the corporate tax. So the corporate tax is really a broad-based tax on poor people in America, and the tragedy is people don't know it.

Mrs. STEEL. Thank you very much. My time is up.

So Ms. Chu, you are recognized for five minutes.

Ms. CHU. Dr. Edwards, I also serve on the House Small Business Committee, which held a hearing just yesterday on the impact of the Tax Cuts and Jobs Act. One of the witnesses at this hearing, himself a small business owner, pointed out that the TCJA did not adequately address the needs of small businesses and does not invest in their success.

In fact, he shared a survey of small business owners that found that 80 percent said that TCJA did not help them hire new employees, and 72 percent believe that the tax code favors large corporations over small businesses. In fact, this is shown in the results of the 20 percent 199A pass-through deduction. It is touted as a tremendous help to small businesses, but the opposite is true. It gives the largest tax breaks to the wealthiest individuals.

And in fact, as a result, in 2019, the latest non-pandemic year for which data was available, the average pass-through deduction across all taxpayers who claimed the deduction was roughly $7,000. But it was nearly $1 million for the 15,000 taxpayers with incomes above $10 million who claimed the deduction. So it failed to invest in the smallest and youngest businesses that really needed the most support.

So Dr. Edwards, do you believe that extending the expiring Trump tax law provisions is an effective way to help the truly small businesses?

Are there better ways to structure the business tax code that will help these small firms and boost productivity and wages across the board?

Ms. EDWARDS. The pass-through deduction has the exact flaws that you, that you enumerate.

And, you know, what I have heard from small businesses that—over the past few years—what they would like is workers, that, you know, hiring is difficult, that they need more workers in the labor market.

And, you know, we have had so many members talk about global competitiveness, the U.S. falling behind, wanting to level the playing field. Well, we are certainly behind in labor force participation, a area where we used to be a leader. We used to have one of the highest female labor force participation rates in the world, and we are frozen because every other industrialized country has paid family leave and subsidized child care.

I understand that small businesses benefit from taxes in many ways. I know Mr. Hern says I don't have qualifications to speak because I never created a single job. But I created my job, and I am a small business, and I know I don't have any employees yet, but that doesn't mean I don't have aspirations. But I can do nothing without child care, and I can do nothing if I don't have a place for my kids to go. And that is truly an era where it is not just the U.S. has fallen behind. We are in a different century than our peers in how we treat working parents.

Ms. CHU. Well, let me follow up with this, Dr. Edwards. One of the most lopsided handouts to the wealthy included in the TCJA was this doubling of the estate tax exemption which allows joint filers to inherit more than $27 million completely tax free.

But Republicans are not satisfied with merely extending this tax break for the ultra-rich. They want to eliminate this tax altogether. Now, in 2025 this will cost us as much as $40 billion a year. But that is the same amount of dollars that it would take to extend childcare and universal preschool. So there is a cost to our society of this.

Can you talk about the trade-offs of Republican plans to further weaken the estate tax? What are some of the services that the government might be able to provide if we let the Trump tax law's estate tax provisions expire?

Ms. EDWARDS. Yes, I have proposed previously that the revenue from the estate tax could be dedicated to a trust fund intended for children because we have talked so much about the estate tax in terms of men like Mr. Ramirez, but he doesn't pay it, his kids do. It is paid by inheritors of dynastic wealth. And the point of the proposal is that there are a lot of kids out there that don't inherit dynastic wealth, and they don't inherit businesses, and this would be a way to redirect investment to them.

You know, the government is not limitless, as large as you are, and your dollars are competing for priorities. And as much as the tax cuts can produce, you know, people who can speak to its strengths, childcare, paid family leave, and more investments in children would create more workers and higher labor force participation, something that would benefit all businesses in the United States.

Ms. CHU. Thank you, I yield back.

Chairman SMITH [presiding]. Ms. Tenney.

Ms. TENNEY. Thank you, Mr. Chairman, and thank you to the witnesses.

It is certainly a tremendous honor to have Senator Gramm here. One of my very first mentors in Congress was the former congressman, Jeb Hensarling, who is a huge fan of yours and talked about you all the time. So we appreciate all your contributions.

Mr. GRAMM. He was my student at Texas A&M.

Ms. TENNEY. There you go. He talked about you a lot. He was the chairman of the committee when I was on Financial Services.

So look, this issue may mean so much to me because I am a small business owner. My family business was started in 1946. We are still in existence, but barely, because we live in the State of New York. And the Tax Cuts and Jobs Act was the best thing that has happened to our community in upstate New York in probably 30 years.

And every business I went to, every business I communicated with in 2017, regardless of their party affiliation, what industry they were in, said this is the best thing that has happened to our business. And you want to know why? Because most of the businesses in my community are small businesses taking advantage of the pass-through deduction. The 199 deduction is so critically important. They are able to reinvest, find employees that they could give more money to, and be more competitive against—our biggest competitor in the marketplace in upstate New York is the government. The government gives out more benefits than we could ever compete with.

And so our small business was the very first one to have a 401(k), the very first one to have a private health care plan. Since the advent of the Obamacare and the Affordable Care Act in New York, as well, we now have almost unaffordable insurance. Our insurance is terrible.

We did have childcare, and I raised my son as a single parent. I am part of the sandwich generation. I took care of my parents, ran our family business, which was always in very rough shape in terms of the balance sheet because I was running a newspaper when the business cycle was dying on newspapers. So imagine. This was very challenging times for us.

And thank goodness that we have benefits like, for example, the estate tax. And boy, did we not have dynastic wealth. And there is no such thing as dynastic wealth in upstate New York. When you talk about my district in New York 24, the largest agricultural district in the entire northeast, the largest dairy district, people who work every day to try to run dairy farms, to try to have crops under the impressive New York State Government. With taxes, and fees, and costs, and all the things that are coming to them, they are lucky if they have any value left in their land so that they can actually—and then guess what? Some of them have to sell their farms and equipment just to be able to pay an estate tax. So the estate tax is a godsend to businesses like ours in upstate New York. And I would just—it aggravates me when I hear people talk about dynastic wealth, and how these benefits are only for the wealthiest.

And one thing that we don't talk about. In my district, upstate New York, is what I call the Rust Belt of New York. All the big companies were founded in my area: IBM, Corning, major companies, Kodak, Bausch and Lomb, you name all these major companies all along the Erie Canal corridor, where my great district is. Most of them are gone. But you know what is left? Small businesses, people who are working every day to try to make a living. And so that is why these Tax Cuts and Jobs Act were so important. Ninety-five percent of the people who work in my area, ninety-five percent, work for a small business. They don't work for an IBM, 20,000 jobs lost, all—Corning, all these other jobs.

But one thing that was really important that never gets mentioned in the Tax Cuts and Jobs Act is the repatriation money, and that one-time reduction in the corporate tax rate that was given to a lot of businesses—and these are the big guys—they took advantage of it, paid a ton of money. It is at $1.6 trillion, I believe, that so far. I think it is ended now. But they brought hundreds of thousands of jobs from overseas to our communities. And every single day in every single year those jobs are bringing in payroll tax, sales tax, they are helping the economic output in their communities, and they are doing exactly what Mr. Erwin, Mr. Ramirez, all of you are doing. That is why the Tax Cuts and Jobs Act are so important.

And it is so important that we consider what this bill was aimed at and what it helped, and it really provided relief. And I just want one quick question, and I would love to talk to Senator Gramm, but I want to talk to Mr. Erwin, because you are someone who is actually running a business.

And tell me about the tax pressures you face, and what would happen if the 199A deduction, the pass-through deduction, were to end for you if the Tax Cuts and Jobs Act weren't extended?

Mr. ERVIN. That is a great question. So, you know, we would obviously have to let go of some employees, unfortunately. We would streamline—we would have to pass off some of that cost to the customer. And so it would be determined on the community if we were going to stay in business in the long run.

Now, my forecast would be, if it didn't exist anymore, it is unfortunate, we probably would have to close our doors at some point.

Ms. TENNEY. Thank you. I appreciate that. And that is actually the truth of what is going on. This is why the Tax Cuts and Jobs Act are so important to the middle class, to middle-tax taxpayers, people who are running businesses with one or two employees.

I know some of my colleagues across the aisle like to focus on, you know, the city blocks and the companies with huge numbers. But our business is driven by small business, and this has been a godsend for us. And I couldn't go into a single business in my community that hasn't said to me, "I hope we are going to extend the Tax Cuts and Jobs Act," and this is New York. This is not Texas. It is not, you know, Florida. This is upstate New York, where, you know, we rely on our small business community. And the Tax Cuts and Jobs Act has really have saved us from some of the harm that has been inflicted by one-party rule in Albany.

And with that, Mr. Chairman, I am over time, but thank you so much. I appreciate it.

Chairman SMITH. Mr. Kustoff is recognized.

Mr. KUSTOFF. Thank you, Mr. Chairman. Thank you to the witnesses for appearing today.

Senator Gramm, thank you also for appearing today. If I could, with you, you have talked quite a bit about the reduction in the corporate rate with the Tax Cuts and Jobs Act. And I remember just historically, when we passed it out of the House and ultimately out of the Senate, we went to the White House for signing, the signing ceremony of this bill, which was historic and, as somebody in our position, that is a neat thing to be able to do. It is really special.

I remember being on the south lawn of the White House and hearing anecdotally about companies that were announcing bonuses and pay raises as a result of the Tax Cuts and Jobs Act. If I could, just a few, right after the signing, and as the bill was getting ready to be signed into law by President Trump, AT&T announced a $1,000 signing bonus for 200,000 of its employees. They wouldn't have done that without the tax cut they got from the Tax Cuts and Jobs Act. They said that. American Airlines announced a $1,000 bonus. FedEx, which is based in my district in Memphis, invested $200 million in pay raises and $1.5 billion in pension benefits because of the Tax Cuts and Jobs Act. Bank of America at that time announced a $1,000 bonus for 145,000 of its employees. And if I could, one more, First Horizon Bank, which is also based in Memphis, announced a $1,000 bonus for its employees. Brian Jordan, the CEO, a well-respected CEO of First Horizon, issued a press release December 22 of 2017, the day the Tax Cuts and Jobs Act was passed. And he said, for a number of reasons and "because of recent tax reform efforts that we believe will benefit First Horizon, we are happy to offer bonuses to our people who work hard every day to maintain First Horizon's reputation as one of the best companies to work for and one of the most trusted banks in the country."

So I have given a few examples. But Senator Gramm, could you talk about how the Tax Cuts and Jobs Act allowed businesses to increase wages, to raise wages, to issue bonuses, and invest for their workers?

Mr. GRAMM. Well, at the risk of sounding like a recording, I want to start by saying corporations do not pay taxes. A corporation is a piece of paper in a filing cabinet in Delaware.

When taxes go up—let me just go through the example with it going up—a corporation tries to pass the cost onto its consumer. But generally it can't pass all the costs on to its consumer. And then economists have studied this in great detail for 150 years, and the findings are pretty straightforward. Between 70 percent and 50 percent of corporate taxes are paid by employees, and the other 30 to 50 percent are paid by the investors in the company.

Now, there is this image that corporate America is owned by these mega-rich people. But 74 percent of American stock investments are made by 401(k)s, IRAs, retirement programs, life insurance companies to back up death benefits, and annuities. Just look at your thrift savings plan, if you have one, as a Member of Congress. What happened to your thrift savings plan from the 2017 tax cut? It exploded, and all that went to your retirement.

Now, unless you are a billionaire, you benefited. So there is a complete misconception about how all this works. And the tragedy is that when you cut individual income taxes, you have already got half the people that don't pay income taxes. So unless you are going to just give them money, which is welfare, they don't get any benefit. When you cut corporate taxes, you affect prices, and they do benefit. And that is one of the reasons that the bottom 20 percent of income earners benefited so much from this tax cut. They got jobs, and costs were lower than they would have been. And these are the same people that have been pillaged today by the fact that inflation over the last three years has outrun wages. So it is working in reverse.

So again, corporate tax cuts affect real people.

Mr. KUSTOFF. Thank you, Senator Gramm.

Thank you, Mr. Chairman.

Chairman SMITH. Thank you.

Ms. Moore.

Ms. MOORE of Wisconsin. Thank you so much, Mr. Chairman, and let me thank the witnesses.

Let me start out by acknowledging you, Mr. Ramirez, a little suburb outside of Milwaukee. I would love to come and visit sometimes. You certainly contribute to the notion that our region has a reputation for being the machine makers of the world, and we are going to reclaim that glorious position.

And I would say to you, Dr. Edwards, a labor economist, you know, educated at the University of Wisconsin, you are well educated. And so we are really happy to have you all here.

Senator Gramm, you know, people do come back to the scene of the crime, don't they? Welcome back. You know, I guess my questions are going to start out looking at your comments and the—sort of the dialogue that has gone on here where, for example, you repeatedly said that the Tax Cuts and Jobs Act benefited the lowest quintile of workers, and you have even attributed something like $5,200 to——

Mr. GRAMM. That was the average for the whole country, the—I had the—$5,220 was the average mean income went up.

Ms. MOORE of Wisconsin. Okay, because I swear to God——

Mr. GRAMM. No, that is right, no——

Ms. MOORE of Wisconsin [continuing]. I couldn't figure that out.

Mr. GRAMM. It didn't go to everybody, but——

Ms. MOORE of Wisconsin. Because, you know, when you are making $21,000 a year——

Mr. GRAMM. Yes.

Ms. MOORE of Wisconsin [continuing]. You ain't going to get no $5,200 out of the tax—they got nothing.

Mr. GRAMM. And you ain't going to forget it if you do.

Ms. MOORE of Wisconsin. That is right. You know, I am scratching my head and on my little calculator, and it just wasn't working.

Mr. GRAMM. No.

Ms. MOORE of Wisconsin. But I would ask you, Dr. Edwards, isn't that increase in wages that Mr. Gramm talked about, isn't that attributable to the fact that we—at least 22 states that raised the minimum wage, cities like Seattle, the Obama recovery—there was no direct benefit, other than that 70 bucks from the Tax Cut and Jobs Act. Can you help clarify this for me?

Ms. EDWARDS. Yes. The—you know, where—hold on let me start again.

That was the assessment of the Congressional Research Service. That is you all's researchers who made the assessment in 2019 this had no effect on wages. They looked at expected growth rates, unemployment, and expected economic growth and made the assessments—you know, I pulled it up—ordinary workers had very little growth in wage rates outsized from what would have been predicted by the economy and the unemployment rate at the time.

Ms. MOORE of Wisconsin. Okay, listen. Another thing that Senator Gramm said is that workforce participation dropped from 67 percent to 30 percent in the lower quintile. Do you think that that is because of things like not having childcare, wages were too low, no health care associated with it, no transportation?

What would we attribute to a low—and, you know, if you are at the lower quintile, of course, these jobs that are available to you are those fringe jobs. What do you—what is your thought on that?

Ms. EDWARDS. Well, the hero and villain of every story is Baby Boomers. So the top—the bottom 20 percent now has a much higher share of retirees——

Ms. MOORE of Wisconsin. Okay.

Ms. EDWARDS [continuing]. Whose income is, you know, fixed and adjusted with inflation for Social Security over time. And so that share falls.

You know, I also think I would be remiss if I didn't say when we are talking about labor force participation you have to talk about men and women differently. Male labor force participation, people who typically get nothing from the Federal Government, has been declining for 70 years. Women's labor force participation, who are the receptors of almost every public benefit that you provide because they are the caretakers of children, their labor force participation has been rising for 70. We cannot confuse the forest for the trees here.

Ms. MOORE of Wisconsin. Thank you. That is excellent.

So a lot of my colleagues were concerned about workers who—you know, about having workforce—you know, the CTC saying that you need to work to get a benefit. You know, the Earned Income Tax Credit was not changed in the JCT. As a matter of fact, they moved to a chained CPI. And workers under 25 didn't get any benefit, over 65 didn't get any benefit. So even people who were working—I mean, we worked people into poverty with no changes to the Earned Income Tax Credit. True or false?

Ms. EDWARDS. You know, best of my knowledge, yes, but I am actually not sure——

Ms. MOORE of Wisconsin. Okay, well, good, because I got more.

GDP—these things, productivity, prosperity—the GDP would have been 6.7 percent had these tax cuts paid for themselves. Instead, it was only a 0.2 percent increase in our GDP. So not only did these tax cuts not pay for themselves, but our GDP only increased by two-tenths of a percent. Is that true?

Ms. EDWARDS. So mostly it is how much larger—so GDP grows pretty much every year, and—as do revenues, right, pretty much every year because our economy is getting better. Also, spending increased pretty much every year as our economy gets bigger.

The question is, what is the difference between where the economy was going and then what the effects—the economic effects of the corporate—or of the 2017 tax law, added. The Congressional Research Service concluded that the economy grew about—by 3 percent, and that 0.2 percent larger than would have been otherwise an absence of the tax cuts. So 0.2 percent larger. Yes, it is a lot of percentages and rates all at the same time.

Ms. MOORE of Wisconsin. And it went to the top one percent. Mr. Chairman, I would yield back and thank you for your indulgence.

Chairman SMITH. Thank you.

Mrs. Fischbach.

Mrs. FISCHBACH. Thank you very much, and I do want to thank all of the folks that came to testify today, because you have had to sit through a lot. And I think there was a couple of folks with a little too much caffeine and all kinds of stuff, so I appreciate you being here and sticking it out with us.

But I wanted to ask Mr. Ervin. I know that Congresswoman Miller was asking you a question, and you ran out of time. And I am from a rural area. And so, you know, what it does, how it helps rural areas and those less populated areas, I would love to have you finish that answer.

Mr. ERVIN. So, essentially, your question is, how does the current tax situation help the rural areas?

Mrs. FISCHBACH. And help the communities.

Mr. ERVIN. Help the community, yes. So just since I have been in business, my main street specifically, it is a main street in a small town, businesses have opened up.

And in particular, I will throw out a couple of names. One of my first customers on my first day of opening was Brian. And, you know, he was a good guy. He was the high school basketball coach. And he had a dream of opening a business. And a couple years after—it was right before COVID—he shared the dream with me and my wife, and we encouraged him. And not only did he, but his assistant coaches started an ice cream truck in our town. And it was amazing. And then they ended up starting a taphouse on my street, which kind of helped instill a nuance that we needed on our street.

And so anyway, that is one primary example that if this deduction wasn't around, I highly doubt that they would have taken the risk to do what we have been able to do together. And he has joined in that entrepreneurial experience or call because of the environment that the deduction has created and continues to create. And so, you know, that is one thing.

But there are businesses—I have got a guy texting me right now. They are trying to open a coffee shop in Pinch, West Virginia. And he has, you know, got a million questions about it. And I am going to be his trainer and his consultant in all of this, and try to help them do what we have done. In Poca, West Virginia, another example, they are trying to revitalize that little small town, that main street. They have opened a month ago. In Elkview, another place;

in Clendenin, another place; and my list can go on, and I can bore you with all of this.

If that deduction goes away, this wouldn't have happened. It wouldn't. We wouldn't be able to do it. There wouldn't be a point because, if we are being taxed at 43 percent, that is almost half of our business income. How can I—let alone pay my bills? I would have to go back to being a low-income person, as my own self-employed person, you know, and it would be ludicrous to do that.

And so, essentially, what, you know, I am doing here is I am not just fighting for my family and my street, but for all of Main Street America and for American economy, because that is what the basis is of our economy, our small businesses. And if we are going to put a nail in the coffin of our small businesses and entrepreneurs, and as all of you have said, big corporations started in garages, they started in kitchens, they started in the mind of women and men and boys and girls who took a chance and took a risk. And some are successful, some are not. That is the American dream.

But this deduction gives us the opportunity to pursue that dream, and to realize that dream, and to help others to do the same thing. And so that is what would happen if it doesn't exist. If this isn't extended or if it is not considered as a permanent tax or a threshold for us, then we wouldn't be here. We won't be here.

Mrs. FISCHBACH. Well, and I appreciate your passion and your willingness to help others achieve that American dream. And I think what you are saying is every dollar counts, because——

Mr. ERVIN. It does.

Mrs. FISCHBACH [continuing]. Your margins are so tight, particularly when you are starting out or you are a small business. And so I appreciate you being here and taking the time.

And you know, I have a couple seconds left, but I am going to yield it back because you have said it all.

Mr. ERVIN. Thank you for your questions.

Mrs. FISCHBACH. So I yield back, Mr. Chair.

Chairman SMITH. Thank you.

Mr. Carey.

Mr. CAREY. I want to thank the chairman, I want to thank the ranking member for, really, having this hearing today.

But I want to touch upon an important issue, and Mr. Erwin, I know Saint Alban's well, I spent a lot of time in West Virginia over the years, and one of the things that I know is important to West Virginia but it is very important to my home state of Ohio, which is the Historic Tax Credit. So before I get started on my questions, I do want to highlight this one issue, and I hope in the future we can have a hearing to have an opportunity to discuss where perhaps provisions in the TCJA need to be revisited.

Senator Gramm, great to be with you. The last time I saw you speak in any one of these bodies I was a staffer out there, and so it is an honor to actually be asking you a question later today.

As part of this legislation, the Historic Tax Credit was modified such that the credit actually must be spread over a five-year period of time. I cannot find any policy justification for this modification, other than the revenue constraints that were required in the reconciliation process. The impact of the change to five years at the project level results in either a lower overall equity investment or a higher cost of capital. As projects must be financed, the equity investment over five years receiving the entire equity investment in just one year. Increased interest rates, as we highlighted earlier, have only compounded this problem, while other challenges include competing credits such as the green energy incentives and also the single year credits.

Developers, investors, communities that work to revitalize these blighted buildings—and for those of you who don't know, I represent about 65 percent of the City of Columbus, so we have had some of these projects that took credit for, or got some credit from this: the Atlas Building, the original skyscraper in the skyline of Columbus, Ohio, the Leveque tower, which sits in the district, and nearly three dozen other projects across Ohio. Hundreds more across the nation are facing project delays. In fact, they are facing cancellations. And I think, quite frankly, our communities deserve a lot better.

I, along with my dear friend on the other side of the aisle, Congressman Schneider, have introduced a bipartisan piece of legislation to return the Historic Tax Credit back to the single-year credit. And I ask all my colleagues to support this proven tax credit that has been vital for rejuvenating historic structures to help address the ongoing housing shortage and, of course, just the overall development.

So my question—and Senator, it is an honor for me to actually ask you a question, I have watched your career as a young staffer and, again, I am really excited to ask you this question—Columbus, Ohio, where I live, is rapidly expanding. In fact, the Bank of America Institute recently released a study suggesting that Columbus, in fact, was one of the fastest-growing cities in the United States. Many of the corporations have been able to expand, hire new employees because of the policies that were included in TCJA. Do you believe that it is right that corporations simply received huge tax—while it is true corporate rate was reduced from 35 percent to 21 percent, but didn't we also broaden the base so that, yes, these jobs created with the companies are now paying a lower rate, but on a much higher slice of that income? You have got a minute and 30 seconds, Senator.

Mr. GRAMM. I have a bad habit of running over, but since my wife——

Mr. CAREY. We won't let you——

Mr. GRAMM [continuing]. Is waiting for me outside, I am going to be quick.

Mr. CAREY. Good deal.

Mr. GRAMM. Look, any time you have the highest corporate tax rate in the world, you are disadvantaging every company that operates in your country. And so the movement from 35 to 21 was a no-brainer. It is something we should have never gotten in the position that we had the highest corporate tax rate in the world.

Secondly, we had this system where, when companies earn money abroad, they kept it abroad because why would you bring it back here to be taxed? And by simply passing the 2017 tax bill and letting people bring the money back, we brought as much as $3 trillion back to America to invest in Columbus, Ohio. So I think, clearly—I don't understand how you can debate the point that it made sense to cut the corporate tax rate from the highest level in the world to a level that is in the middle, right in the middle of developed nations.

And then finally, you got all these people that don't think they are paying the corporate tax rate who are.

Mr. CAREY. Senator, thank you.

And Mr. Chairman, I appreciate your indulgence and I yield back.

Chairman SMITH. Thank you.

Mr. Beyer.

Mr. BEYER. Mr. Chairman, thank you.

And thank you all for staying so late. My college statistics textbook was called, "Lies, Damn Lies, and Statistics," or as my father would usually say, "Figures lie and liars figure." We have heard an awful lot of interesting statistics this afternoon, a lot of which make sense.

By the way, Mr. Ervin, you know, I have been in a small business for 46 years. I started more than a dozen companies, all of them still thriving. And I heartily agree with you, getting rid of the pass-through would be devastating for the small businesses.

I do think, as we look towards whatever we are going to do in this year and next, that we have to be aware that much of the pass-through is not for small businesses. They are for, you know, big accounting companies and big lawyer law firms and the like. And so I am very sympathetic about what it would do to your business and to my business 20 years ago, but we need to take a good—an account of that.

And with the 35 percent tax rate, certainly the highest in the world, but let's also remember that most of the economists said that the actual tax rate was about 13 percent because of all the different things that people were paying. There were some naive corporations paying 35 percent, but most were not.

We also have to realize that most corporations were looking for 26 or 27 percent and were thrilled when it somehow went to 21.

You know, it is also reasonable to think that when you put more money in people's hands, some good things are going to happen to some people. However, what is really important to us is who got that benefit. In 1967 our Gini index was .397—Gini index, of course, being the measure of inequality, income inequality, within our country. It rose to 43 percent in 1990, 47 percent in 2022. And it is looking at 52 percent right now. We have the highest of every industrialized country in the world.

To restate, we have the most unequal incomes, the most wealth inequality in the industrialized world right now. And sadly, the TCJA did nothing but contribute to that. It is not that there weren't good things. There were good things in the Jason Smith-Ron Wyden bill that we passed 40 to 3 out of this committee, stuck in the Senate right now. Not everything was bad, but we need to be honest about the downsides that came from that.

And Dr. Edwards, specifically, when we talk about the impact of TCJA on growth, can you talk about timing effects and the difference between cause and correlation?

Ms. EDWARDS. Thank you. Yes, I mean, I am a broken record on the other side, where I—while I say the, you know, happening at the same time and being caused are not the same thing, you know, most of the assessment I take for the TCJA I take from the Congressional Research Service. I—you know, I didn't—and their assessment was it did not contribute to taxes, it did not contribute significantly to economic growth. And the economic growth it did contribute was well below the average production projection of what it would contribute. But it did happen at a time when the economy was growing and when wages were rising.

But, you know, the point that I made earlier was, you know, you don't want to claim everything that has happened in corporate behavior since 2017. You don't want all that. We have had a 250 percent increase in child labor. You don't want to claim that. That happened—I mean, that took off right as the corporate tax cut went into effect. That—you would never claim that, and I would never assert that because, you know, we want to look back to, like—we want to look back to the actual causes and the actual consequences.

Yes, companies paid out bonuses. According to the Congressional Research Service, they accounted for two to three percent of the total decrease in taxes that they paid. They also got over $1 trillion in corporate buyouts; 2018 was the largest year on record for corporate stock buybacks.

Mr. BEYER. Dr. Edwards, let me interrupt you for a minute so I can give you one more chance to answer the question.

You know, there was a one-time, one-year surge in corporate revenues after TCJA, but we are back down to 16 percent. And in fact, if you look from 2001, when it was 19.2 percent, to today, where it has averaged 17—16 to 17 percent since TCJA—you know, my friend, Jodey Arrington, who chairs the Budget Committee, is passionate about the debt, as am I. How are we ever going to address the debt when we are spending 22 percent and corporate tax rates are 16 and 17 percent—or overall tax rates? How can we do this without new revenue?

Ms. EDWARDS. You can't. I brought up earlier in my original remarks if we had not had 4 tax cuts since 2000 and maintained the revenue as a share of GDP, as it was in the last years of the 20th century, you know, we would have $850 billion more in revenue each year. That is paying off Social Security in under four. All right? That is a child care program and a half in a year.

Now, that is—it is about opportunities and trade-offs for where you want to spend the money and how you want to pay off your bills.

Mr. BEYER. Great, thank you very much.

Mr. Chairman, I yield back.

Chairman SMITH. Thank you.

Mr. Steube.

Mr. STEUBE. Thank you, Mr. Chairman, and thank you all for being here. I know that the hour grows late, but each member, obviously, has important questions and statements we want to make. But thank you for your time today.

As this year's tax filing deadline rapidly approaches, Americans should know that the growth and benefits that they have enjoyed since the passage of the Tax Cuts and Jobs Act are in peril of going away if President Biden gets his way.

The difference between President Trump's tax cuts and President Biden's promised tax increases could not be clearer. President Trump's tax bill dramatically reduced tax rates for Americans at every income level. The TCJA sparked economic growth that dramatically increased the net worth of Americans, especially low-income and middle-income families. In 2018 and 2019 low-income families increased their net worth by 37 percent, and the net worth of middle-income families skyrocketed by 40 percent. These low-income families experienced the lowest tax rates they have seen in 40 years.

As a result of this, President Trump's historic legislation, more than six million people were lifted out of poverty. The TCJA also helped drive a jobs boom that still benefits the economy by slashing the corporate interest rate from 35 percent to 21. A study from economists from the National Bureau of Economic Research in the Treasury Department found that the corporate tax reform in the TCJA helped increase domestic investment by about 20 percent in the 2 years following the law's enactment. These are not just numbers on a page. They have real meaning to real American families. This increased investment leads to jobs, which puts money in Americans' pockets and food on their dinner tables.

Despite all the economic growth and prosperity unleashed by President Trump's tax cuts, it seems President Biden seeks to increase taxes on American families, which is especially concerning considering the crushing inflation that we have experienced under his Administration. President Biden made no secret of his intentions during the 2020 campaign, when he promised tax increases, not cuts. He flat out said, and I quote, "I am going to get rid of the bulk of Trump's $2 trillion tax cut."

The expiration of TCJA is coming soon, and President Biden's promises may come to fruition unless we act. Congress must act to make sure that the TCJA's reforms for both individual and corporate filers are, at the very least, maintained. In particular, we need to protect the 199A small business deduction because small businesses around the country will face a 43.4 percent Federal tax rate unless we act. If we do nothing, it will have a devastating impact on small businesses and the millions of Americans who are employed by these companies.

Mr. Ervin, I will start with you. As an owner of a small business that has benefited from 199A, can you please tell us how these tax provisions have real-world impact for employees and customers?

Mr. ERVIN. Thank you for the question. So to make it easy, so employees, you know, we are going to have to look at that in particular because, you know, obviously, we won't be able to keep everyone if we are going to have that deduction gone.

And then we will have to figure out not only when this deduction, if it is gone, I imagine, we would still have the continued rising costs of the rest of doing business because of inflation. You know, the cost of milk, the cost of green coffee, the cost of utilities, which we haven't even brought up. And so we are going to have to analyze, you know, very soon—because that is only about 18, 20 months away—what we are going to do. What is the plan, who are we going to keep. And then it is how are we going to raise prices.

And in my particular part of the world, in my particular part of the country, in West Virginia, you know, our median income isn't extremely high. And most of the businesses that are in my state are small businesses, and they are bringing in incomes that are similar to mine, and they are employing people the best that they can.

So essentially, we will have to pass off some of the costs. We have to raise our prices. And then, if that doesn't work, we would have to close our doors. And that is what we are facing—not only me, but every small business in America.

Mr. STEUBE. You would have to raise costs, probably, and possibly get rid of employees because of the costs incurred by the raise in the taxes.

Senator Gramm, I noticed in your testimony that you discuss how all Americans pay corporate taxes. Can you discuss how these hidden taxes affect everyday Americans and their investments, employment opportunities, and consumer choices?

Mr. GRAMM. Taxes affect all of them. There is no such thing as a corporation, except on a piece of paper. All corporate taxes are paid by consumers, workers, and investors, and 74 percent of the common stock in America is owned by pension funds, 401(k)s, IRAs. This conception that there is this mega-rich corporation out there that is not paying its fair share is bunk because corporations do not pay taxes. And if people could understand that, and if you could remove the politics from it, you could dramatically improve the economic environment in the country.

Mr. STEUBE. Thank you all for being here today. And thank you for your time.

I yield back.

Chairman SMITH. Mr. Moore.

Mr. MOORE of Utah. Thank you, Chairman, for holding this important hearing. I love that we are doing, you know, what I have been excited about to get on this committee, talking about how we can expand on the successes of the 2017 Tax Cuts and Jobs Act leading into 2025. It is going to be a very important year. I wish every American was just focused on this one issue in all the politics that get presented in an election year.

Also, to the ranking member, he offered some criticism on his opening statement. And while I will deny ever saying this, and only doing it when there is, you know, less people here, it is fair.

Mr. NEAL. Could the gentleman yield? You are on camera. [Laughter.]

Mr. MOORE of Utah. It is fair. When each party gets the opportunity for budget reconciliation—you have the White House, House, and Senate—I believe we sometimes take the path of the least resistance, right? And for Republicans, we have proven that we wanted to get a stronger, more simplified tax code, tax reform. And in 2021 there was an enormous—you know, it was ARPA, with a significant amount of spending.

And so I go back home and I explain, like, hey, you know, when you got two philosophies—we are growing our debt, right? And I am saying this internally, we need to make sure, as Republicans, that we are looking at the spending of our nation, and we can't just rely on just doing tax reform, which I support completely, because

I do believe it is a strong economic factor for two reasons, which I will go into.

And the minority party, when they had the budget reconciliation, it was an enormous amount of spending. And we have got to get out of that cycle. That is why I loved what this committee did this year with the tax relief bill that is currently stuck in the Senate. But it was one of those really productive aspects of this job that gives me every reason to get up in the morning and keep fighting for this, because I believe that was a strong—we found waste and we were going to replace it with productive, pro-growth policies, both at the family level and the worker level.

Two things that I have key on from Tax Cut and Jobs Act is real wage growth and competitiveness. Those two things are so important to me. Before I got elected I went to a manufacturing facility in my district. And, I mean, they showed me direct effects after TCJA and what they did to their front-line workers, what they did to grow wage growth across their entire community, and buy ambulances for their community, too. I mean, those are the type of anecdotes that I know are getting spread across when we do significant reform like this.

But the one thing I would like to quickly talk about, Mr. Ervin, I would love to hear from both you and Mr. Ramirez real quick. I have the Small Business Growth Act, and that is going to lift the deduction cap up to $1.29 million if we can pass this current bill that is stalled in the Senate right now. Just tell me how being able to immediately expense certain business equipment purchases, computer software, machinery helps you invest in expanding your operations and workforce.

Mr. Ramirez, I will go to you real quick.

Mr. RAMIREZ. You know, we are too big, Congressman, for that provision to apply to us. But I will tell you we have a lot of small manufacturers in our supply chain, and they are really struggling these days. So the health of our supply chain, particularly the health of our domestic supply chain, obviously——

Mr. MOORE of Utah. And that is actually what I love about this type of reform, is that it will benefit them. They will also have strength, growth, and contribute more revenue. Like, and we see that, and we just need to continue to invest in this.

Mr. Ervin.

Mr. ERVIN. Yes. So I am a coffee business owner. And so equipment is vital to us. And so, you know, upgrading our espresso machines, upgrading our grinders, you know, so to be able to write those off—that is the question, right? How does that benefit, how does it benefit writing off the equipment costs, right?

So, you know, that enables us not only to purchase the equipment, but also to train more people, or take that equipment and open another location, or expand and help other people sell the equipment to somebody else to help them open another location of their coffee business, and train them on how to do it. So it helps us create more jobs, simply put. It helps us create more jobs, helps us, you know, raise wages, as well, whether it is just 600 bucks or $20,000, which is what the average cost is of an espresso machine.

Mr. MOORE of Utah. And from the hard-fought battle from this committee and from the leadership of Mr. Chairman, that provision is permanent, and small businesses can have that expectation going for as long as we can see to be able to have that type of write-off.

To quickly wrap up, Senator Gramm, we want to make sure you get to your spouse because we know we don't want to disrupt that. Competitive corporate tax rate worldwide. What does that mean specifically for workers and families?

Mr. GRAMM. Well, I think the data makes your case. No matter how you want to cut this, if you look at the facts, the 2017 tax cut, along with deregulation—it is hard to separate the impact of the two—had a bigger impact on working people than any other action taken by this government in the last 50 years.

Mr. MOORE of Utah. Thank you, sir. Thank you all, gentlemen.

Chairman SMITH. Mr. Evans.

Mr. EVANS. Thank you, Mr. Chairman.

Dr. Edwards, I am concerned about the Trump tax bill negative impact on small business and the workers who are employed by them. Studies have shown that the majority of benefits from small business tax cut in the 2017 bill have not actually benefited rural small businesses, mom and pops. Instead, these tax breaks have mostly benefited large businesses and revenue lines in the tens, hundreds of millions.

Dr. Edwards, can you please explain to the committee the importance of a tax code that supports small businesses, especially for working women and workers in low-income—employed by these businesses?

Ms. EDWARDS. Well, this is exciting because they have actually gotten all these questions so far.

So it is—I think Mr. Beyer said it best, that there are a lot of good things in this tax bill that were poorly targeted so that there are lots of bad components. You know, we—Ms. Tenney spoke relatively passionately about farms and wanting to, you know, protect the family-run businesses. But, you know, the way that we chose to do that was by increasing the estate tax to $27 million, right?

It is the same with the pass-through deduction. If you want to help small business, you don't need to design a deduction, you know, that two-thirds of which are going to go to the top one percent.

The concern about the top one percent is that they are just very good at gaming the tax—not really them, probably their tax attorneys and their tax firm—are very good at getting a complicated tax code to work in their favor. So the more that you can put bright lines so that it affects the people you want to affect, the less that it goes to the top.

So I think, you know, small businesses have all kinds of struggles. They struggle to hire, they struggle to pay, they struggle with their taxes. But they do not benefit from a $27 million estate tax exemption. And they do not benefit of two-thirds of their tax cut going to the top one percent.

Mr. EVANS. Dr. Edwards, I am strongly supportive of Child Tax Credit, one of the most powerful tools in decades for alleviating poverty. I do not want to—I want to thank my colleagues on the committee who helped work to get a childcare tax credit on the House floor.

Dr. Edwards, can you please explain for us the effect regarding the reorganization of tax credit for the American economy at large?

Ms. EDWARDS. The year that the expanded and fully refundable Child Tax Credit was in effect, the Census Bureau said that income reduced child poverty by 50 percent, it about halved child poverty in the United States.

You know, I think so much about the bill that we have been— and the law that we have debated so far today, you know, loses sight of the fact that the best way to get hard-working Americans money is to just give them the money, and not to have it go through their corporation or their employer. If you want to help hard-working Americans who are having a hard time, you know, affording food, affording basic necessities, you can give parents with children additional money through the tax code. It doesn't have to go through bonuses as determined by their employer.

Mr. EVANS. I want to thank you, Mr. Chairman. I yield back.

Chairman SMITH. Ms. Van Duyne.

Ms. VAN DUYNE. Thank you very much, Mr. Chairman.

Yesterday the Small Business Committee, of which I am also a member, held a hearing highlighting the success of the TCJA. And the rhetoric from my colleagues across the room is completely different than what we heard from these witnesses. None of the witnesses were one-percenters or wealthy corporations, but they did share a very clear message that, because of the policies that were enacted under this Administration, they are all paying more in taxes.

My Republican colleagues and the American people knew the President was lying when he said no American making under $400,000 would not feel a tax hike. We knew it was a lie, and the hearings yesterday proved this point. And one witness added regulatory costs have gone up a whopping 460 percent.

It has been made clear over the last three years that President Biden, with two years of a Democrat-controlled Congress, that Democrats are exceptionally out of touch with economic policies that benefit Americans. What we hear today is an old and repetitive story, which once again they retreat under their warm blanket of safe space, of tired talking points, and are scared of the reality that cutting taxes and eliminating regulations would set loose job creators and benefit family budgets.

Now, look, I went to college. I paid for my own way to college. It took me 10 years to pay off that debt. But because I am the one who took it out, I am the one who benefited. I paid it off. Do you know what got me to be able to pay it off? Having a job, having a business that was successful that could actually hire people and invest in its employees.

I also was a single mom, a mom of two. Guess what? My kids had to have childcare. I paid for it. Guess how I paid for it? I did not ask people who didn't have kids to pay for it. I didn't ask the government to pay for it. I actually was a small business owner, and I was able to get clients because these clients were able to make money, invest in their employees, and hire people like me. That is how it gets paid for.

But, I mean, the TCJA actually grew the economy. And yet, in the President's budget, he has proposed $2 trillion in new taxes.

The only creative idea they have is to tax money that you have not yet received.

In 2025 Congress will be facing an important choice: continue the success of the TCJA, looking at new ways to be competitive, such as continuing the work that we have done by finding new ways for small businesses to access capital; or go back to taxing job creators at record levels.

Lastly, we have an opportunity to get things right the first time, with new opportunities when it comes to digital assets in cryptocurrencies, and we need to take advantage of that.

Senator Gramm, it is great to see you again. I love your work, and you have had some great comments this afternoon. We often hear only the other side of the aisle, that the policies that we have, that the only thing that we care about are our fiscal states when looking at tax cuts. During your time here you were a fiscal hawk. Do you believe that the TCJA contributed to the fiscal situation that we are in now?

Mr. GRAMM. Well, on the—first of all, I can see why you won in [inaudible] district.

Look, I can say things about this bill and how it did in terms of generating revenues until 2020, when the pandemic started. And what I feel comfortable saying is that it paid for about five-eighths of itself, according to the Congressional Budget Office and the 10-year projections they made prior to the pandemic. After the pandemic, you got to understand, government spent more in two years than it ever spent in three years. And so anything that happened after that, it is almost impossible to try to attribute it to something that was set into place before it.

So I know this. I know that the 2017 tax cuts had a tremendous impact on ordinary people in the American economy. I know that, per capita, that median income grew 50 percent faster than in any other year in the last 50 years. I know that the bottom quintile, the 20 percent lowest earners in the country, were the biggest beneficiaries in percentage terms.

And let me say before my time runs out, my numbers on the labor force participation rate falling from 67 percent in 1967 to 36 percent today applies only to prime work-age persons. Nobody can deny that these massive welfare expenditures have induced millions of people to leave the labor market.

Ms. VAN DUYNE. I appreciate your comments very much.

And I yield back.

Chairman SMITH. Thank you.

Ms. Malliotakis.

Ms. MALLIOTAKIS. Thank you very much. I appreciate all the input that you have provided with us today.

Look, I think the success of the Tax Cut and Jobs Act is clear. I mean, this was a pro-growth, pro-jobs, pro-family policy. America gained 7 million new jobs, and middle-class families' income increased nearly $6,000, more than five times the gains during the entire Obama Administration. And businesses were able to buy new equipment. They were able to invest, to expand, as our witnesses testified to today.

But also, we saw unemployment rates, right, reach the lowest points, particularly for African Americans, Hispanic Americans, for veterans, for women. Unemployment for women hit its lowest rate in nearly 70 years, and poverty rates decreased. Nearly seven million people were lifted off of food stamps. We saw the middle class, like I said, the family income increase, but we also doubled the Child Tax Credit from 1,000 to 2,000. Well, I wasn't here, so I didn't do it, but the Congress did, with President Trump, double the Child Tax Credit from $1,000 to $2,000, benefiting 40 million families.

My first question is—because I have legislation that would increase the standard deduction, so my first question is to Dr. Winfree.

I believe that, obviously, increasing the standard deduction allows people to keep more of their hard-earned money. What are your thoughts on whether we should be looking at further increasing that standard deduction, which was doubled during the TCJA?

Mr. WINFREE. Thanks. That is a great question. I think that—a couple things. I think that there are costs and benefits to increasing the standard deduction.

I think that the cost to increasing the standard deduction is that you are potentially removing people from paying taxes. And now it is tax relief, and that is a good thing, typically, in that it provides people, you know, more income in their pockets, increases aggregate demand, and so on and so forth. But I would be careful about the level at which you increase the standard deduction.

Now, that said, one of the positive aspects of increasing the standard deduction in 2017 when we did the TCJA was that you are—we talked about base-broadening measures before. By increasing the standard deduction, you are not picking winners and losers, right? And so, ultimately, what you are doing is you are reducing the number of itemizers, and that is a——

Ms. MALLIOTAKIS. One point seven million Americans have benefited from that, and I appreciate your comments.

Senator Gramm, in 1983, that was the last time that the Social Security taxable income threshold—it was set at $25,000 for an individual, $32,000 for married couples. It has not increased in four decades. I think that is really a hardship on our senior citizens who are relying on their Social Security checks. Should we be looking at increasing that threshold that has not been increased in 40 years?

Mr. GRAMM. Well, you got to remember that Social Security increases as real earnings increase because, as you pay in more, you get more.

Social Security is a tough issue because it is so difficult to deal with it. I dealt with it twice in my career, once in the Reagan budget and once in the bipartisan reform of Social Security. I think our primary focus today on Social Security has got to be on the fact that it has now, on a cash basis, been running a deficit for seven years. The problem is going to get much greater. And so I would be very loathe, in good conscience, to recommend that we raise benefits. I think we have got to come to grips with what do we want people to have, and what are we willing and able to pay for.

Ms. MALLIOTAKIS. Yes, and I think, at a minimum, we need to eliminate the marriage penalty for——

Mr. GRAMM. Well, and also, I got to come back to the point that was raised earlier about taxing Social Security benefits. And I didn't come here to be partisan, but being here and hearing this debate makes me feel more partisan I am ashamed to say.

But Bill Clinton imposed a tax on Social Security benefits.

Ms. MALLIOTAKIS. Yes.

Mr. GRAMM. I am proud to say I voted against it.

Ms. MALLIOTAKIS. Well that is great. Well, hopefully we can—I am a Republican, and I heard it from a Democrat, hopefully, we could work together to make sure seniors can keep more of their Social Security benefit, not—that has to—it is so outdated, 40 years. We really need to increase that threshold.

One last question for Mr. Ramirez. For manufacturing to bring Active Pharmaceutical Ingredients, pharmaceutical manufacturing, back to the United States, what tax incentives would you recommend, if any?

Mr. RAMIREZ. Thank you for the question. In zero seconds, you know, I think it got hit before. What we need is a level playing field. We need competitive tax policy, competitive trade policy. And American manufacturers will win in that scenario and do it here in the United States.

Chairman SMITH. Mr. Schneider.

Mr. SCHNEIDER. Thank you, Mr. Chairman, and I want to thank the witnesses, A, for staying long for all of us as we get to the end of this hearing.

And so, you know, next year—I think the reason we are having this conversation, one of the things we are talking about is that next year we will be having very significant conversations about expiring aspects of the 2017 tax bill. We don't agree, Republicans and Democrats, on the impact of that bill or the wisdom of that bill. We will agree to disagree. But I think what we can agree is that that bill has not—is not standing the test of time, which is why we are here, eight years later, having to have these conversations.

And I think, Mr. Ramirez, you talked about a level playing field in trade and tax, and this is something where I think we most certainly all can agree. And I definitely, as a Democrat, agree with you 100 percent.

My hope next year—we won't know who will be in the chairman's seat. I, as a Democrat, hope it will be Chairman Neal. But either way, if we are going to address what needs to be done in a way that will stand the test of time, we have to do it in a way that I think was very different than it was done in 2017, where we rushed it through this committee and to the House, where we didn't have hearings to evaluate the ideas being considered, where we didn't work in a bipartisan way.

I remember saying to then-Chairman Brady, "I want to sit down and work with you." I wasn't on the committee at that time, but I wanted to try to find a path forward that would help small businesses and make sure that they can stay competitive, that would protect the innovation that drives our economy and that has helped the United States—made the 20th century the American century. We have to have a tax policy that makes sure the 21st century remains a century where American enterprise, American ingenuity, American workers can continue to lead.

You know, so if I think about how we are going to be successful, I think we should—and Senator Gramm, you were here in 1986—how do we do it in a way that stands the test of time, has the consideration and deliberation that is necessary, and reaches across the aisle. As we think about that, I will lay out some of my key priorities as we look forward.

I mentioned one: we have to ensure that the U.S. remains innovative and competitive in this global economy. I was talking to some people earlier today. The advantages we enjoyed 75 years ago, 40 years ago, 48 years ago when we talked about tax, those have been compressed today. It is a global economy where other economies are bigger than they were, their workers are better trained, their industries are more competitive. We have to make sure ours stay at the end. That is why I wish we could get the Senate to move on the bipartisan bill that would restore the R&D credit. And I will come back to the Child Tax Credit on that as a piece.

But we also have to be at the table as we look at the OECD tax work going. We can't let it go without us.

We have to invest in our kids. We can't be innovative if we don't invest in our children. When we in the American Rescue Plan raised the Child Tax Credit, we found a way to cut child poverty by 50 percent in this country. That success can't be understated, and yet we let it slip away. We need to invest in our young kids in early education through their primary grades onto university and Ph.D.s in science or manufacturing, or whatever the case may be, because if we don't do that we are going to fall further behind.

And third, we need to make sure that we are addressing the challenges of climate change. The threats are real. We see it in the storms, the bigger tornadoes, the more powerful hurricanes. We need to make sure that we are leading. And I think in this committee we can have a real impact on that.

So I want to be sensitive to the time. So I—we have had good conversations. We will agree to disagree on some things. I know that there are many things we agree on. We have to work together, Republicans and Democrats, if we are going to create a tax system for our country that moves our country forward, that tackles the fiscal challenges. We can't sustain a $34 trillion debt, and we have to work on bringing that down. But we can't do it if we go to our corners, if we let the show horses replace the workhorses on this committee.

So Mr. Chairman, I look forward to working together for the remainder of this term. And whoever is chairman next term, I look forward to making sure that this committee earns its reputation, as it always has, as a committee that gets things done. I yield back.

Chairman SMITH. Thank you.

Mr. Gomez.

Mr. GOMEZ. Thank you, Mr. Chairman. First, I am glad once again to be back on the committee. I was off for about 13 months, but I am very happy to be here, although I wasn't here in 2017, when the Trump tax cuts were passed.

But when I heard that we were going to have a hearing on—and the Republican majority wanted to have a hearing on the tax cuts, I thought, really, you really want to do this? Because I believe that the Trump tax cuts are really one of the most egregious giveaways to the most wealthy individuals in this country, and it didn't really work out very well for the Republicans in 2018. So I said, all right, let's do it, and let's go with the top five greatest hits that resulted from the Trump tax cuts.

One, it gave 83 percent of the tax cut to the richest 1 percent. And if you want to really look at it even finer, it gave 60 percent of the tax cuts to the top one-tenth of 1 percent. So think about that. Let that sink in, that those tax cuts were not for the working class or the majority of Americans, but really the folks at the top of the income ladder.

And it made the corporate tax cut permanent, while leaving all the provisions for families and individuals temporary. Seriously? So we are going to give the corporations a permanent tax cut—and I understand some of the reasoning—but when it comes to individuals, you guys are going to just make it temporary? I find that insulting, as somebody who grew up with parents that never made more than $38,000 a year, you know. Giving temporary tax cuts to working people, but permanent? I think that says a lot.

It ballooned the deficit by $1.5 trillion, and the bill never paid for itself. I was brand new, so I was meeting with a lot of folks regarding the—this tax plan after I got elected and how it was going to impact. And I was always told by every expert these tax cuts never, ever pay for themselves. Supply-side never worked. I mean, how many of you have heard about the Kansas experiment, where they tried to cut taxes and taxes and taxes. It blew up the deficit; it reduced revenue so much that their own Republican legislature had to repeal those tax cuts, and then had to override the Republican Governor Brownback's veto, right? Supply side doesn't work. Tax cuts never pay for themselves.

But that is a story, it seems like, as old as time that people want to keep telling people. That is how—that is what you people sell. And then we have some people of this committee itself that are for the Trump tax cuts but are talking about the deficit as we speak on the floor. I find that just egregious.

Five, it reduced the top tax rate for millionaires.

And then six, it disallowed deductions for union dues, for union dues. This is peanuts, right? But who does that impact? It impacts construction workers, ironworkers, plumbers, teachers, nurses. Go on and on. The people that are building this country, the people that take care of our children, the people that are right now building the bridges, right, and our infrastructure, the people that are going to help make sure that the Francis Scott Key Bridge is rebuilt in record time. These are the people who we just—we took that away. Why? It was not a big pay-for. It was to be petty and political.

So a lot of what I have seen really just tells me where we see our country and what we value. The tax code is about values, in my belief, and you can do it in a way that supports working people or not. And I think that is what the Trump tax cuts did. At the same time, what Democrats want to do, we want to focus on policies and tax policy that helps working families, the middle class, gets us up and people who are struggling to get in the middle class make it a little bit easier. We want affordable childcare, affordable housing, and housing that is affordable. We want to cut the child poverty rate like we did under the American Rescue Plan.

One last thing. We have a very different idea of what the role of government should be in people's lives. But I was listening—and with all due respect to one of the speakers—said the greatest abuse of the Constitution of the United States in my lifetime was President Biden going to Europe and negotiating a minimum corporate income tax and giving them the power to cut—to tax corporate income in America, but if you don't raise the rate.

Here is the thing. The greatest—that is exactly what I—we had it transcribed. The greatest abuse of the Constitution in my lifetime is when a former President incited a riot that tried to stop the peaceful transfer of power. That is the greatest abuse of our Constitution in my lifetime, attacking the idea of America itself, that it is a country that is governed, self-governed, by the consent of the people. That is the greatest abuse.

And that is what really is—this is about, I believe our values. Democrats believe in our Constitution, the working class, and the middle class, and some don't.

With that, I yield back.

Chairman SMITH. Thank you. I want to thank each and every one of you for the 4 hours and 15 minutes that you have been part of this hearing. This is the beginning of what we are going to see over the next 20 months with the expiration of $4.3 trillion worth of tax cuts on all Americans. So we have a lot of work before us.

Please be advised that members have two 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.

With that, the committee is adjourned.

[Whereupon, at 6:17 p.m., the committee was adjourned.]

# MEMBER QUESTIONS FOR THE RECORD

**House Committee on Ways and Means**
**Hearing on Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans**
**April 11, 2024**
**Questions for the Record for Austin Ramirez**

**Rep. Arrington Question 1:** In your testimony, you say that virtually all manufacturers benefited from full expensing, given the importance of capital investments in your industry.

Can you describe for the Committee an example of how this provision impacted Husco, or others in your industry? Would you have made the business decisions you did if this provision had not been in place?

**Austin Ramirez Response**: Following the passage of the Tax Cuts and Jobs Act, Husco was able to complete the most significant renovation of our facilities in over 70 years. Thanks to the 100% accelerated depreciation provision, we invested nearly $50 million to modernize our office, renovate our shop floor and install new capital equipment. It allowed us to more fiercely compete and also contribute back to our community thanks to the increased growth.

Without a doubt this would not have been possible without the TCJA. Tax reform was a shot in the arm for the manufacturing sector. Virtually all manufacturers benefited from 100% accelerated depreciation given the importance of capital equipment purchases in our industry. The phasing out of the provision over the last several years has been devastating for our capital-equipment purchases. Manufacturers are unable to invest, ultimately slowing our growth.

**Rep. Arrington Question 2:** What do you think would have happened in your industry during the COVID-19 pandemic if TCJA had not been enacted? Would we have seen significantly more damage to the economy?

**Austin Ramirez Response:** According to the National Association of Manufacturers, following TCJA passage, the manufacturing sector experienced the best year for manufacturing job creation in the previous 21 years and the best year for manufacturing wage growth in the previous 15 years. Manufacturing capital spending grew 4.5% and 5.7% in 2018 and 2019, respectively. Before the pandemic struck, the fact that the manufacturing sector was surging is undeniable. While Husco survived the pandemic, many in my supply chain and our industry were not so lucky.

Manufacturers remain the backbone of American. If our sector falters, or we lose opportunities to foreign competitors, both our economy and our national security are at risk. The pandemic taught us many lessons, and I hope that Congress considers creating additional incentives and pro-growth tax policies which strengthen domestic manufacturing.

**Rep. Arrington Question 3:** You mentioned that "adding more economic damage [to the existing phasedowns and expirations] in 2026 would be exponentially worse and the loss of deductions would tilt the playing field against Husco and other manufacturers." If you and your company are not competitive, who wins? Are there competitors abroad you are concerned about?

**Austin Ramirez Response:** Even if Congress passes the Tax Relief for American Families and Workers Act, immediate R&D expensing, pro-growth interest deductibility and accelerated depreciation will still be on the chopping block at the end of 2025. As I've made clear, these three policies are critical for manufacturing growth in America, so retaining them permanently should continue to be a congressional priority. Further, the 20% pass-through deduction is also set to expire, the estate tax exemption limit will sunset and the individual tax rates will revert back to their pre-TCJA levels.

It is no exaggeration to say that 2025 will be a tax reckoning for Congress. If Congress allows taxes on manufacturers to increase, it will reverse our progress from the past seven years and undermine America's economic leadership on the world stage. We are already starting to see the effects with R&D – both the EU and China gained a significant advantage after the expiration of the TCJA R&D tax policies. Manufacturers can compete and win against anyone in the world, as long as our tax code is not working against us.

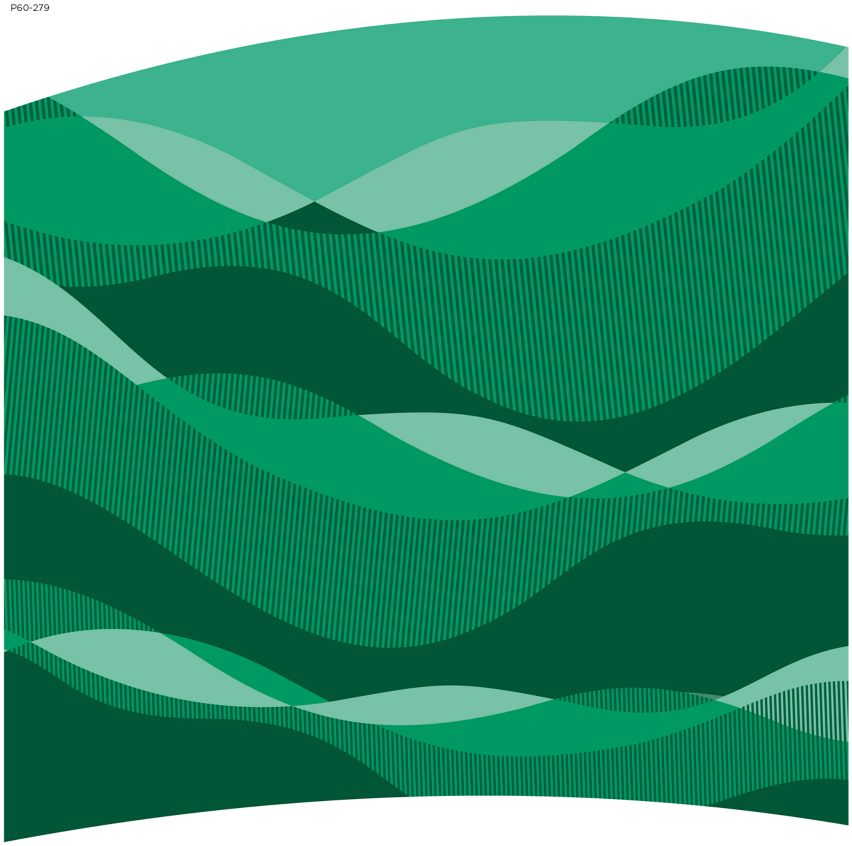
# PUBLIC SUBMISSIONS FOR THE RECORD

# Income in the United States: 2022

**Current Population Reports**

By Gloria Guzman and Melissa Kollar

Issued September 2023
P60-279



United States Census Bureau
U.S. Department of Commerce
U.S. CENSUS BUREAU
census.gov

Table A-2.

## Households by Total Money Income, Race, and Hispanic Origin of Householder: 1967 to 2022

(Income in 2022 dollars, adjusted using the C-CPI-U (2000–2022) and R-CPI-U-RS (pre-2000). Households as of March of the following year. Information on confidentiality protection, sampling error, nonsampling error, and definitions is available at <https://www2.census.gov/programs-surveys/cps/techdocs/cpsmar23.pdf>)

| Race and Hispanic origin of householder and year | Number (thousands) | Percent distribution | | | | | | | | | | Median income (dollars) | | Mean income (dollars) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Total | Under $15,000 | $15,000 to $24,999 | $25,000 to $34,999 | $35,000 to $49,999 | $50,000 to $74,999 | $75,000 to $99,999 | $100,000 to $149,999 | $150,000 to $199,999 | $200,000 and over | Estimate | Margin of error[1] (±) | Estimate | Margin of error[1] (±) |
| **ALL RACES** | | | | | | | | | | | | | | | |
| 2022 | 131,400 | 100 | 8.3 | 7.4 | 7.6 | 10.6 | 16.2 | 12.3 | 16.4 | 9.2 | 11.9 | 74,580 | 968 | 106,400 | 1,034 |
| 2021 | 131,200 | 100 | 8.4 | 7.7 | 7.5 | 10.4 | 15.3 | 12.2 | 16.1 | 9.1 | 13.3 | 76,330 | 653 | 110,300 | 1,110 |
| 2020[2] | 129,200 | 100 | 8.1 | 7.7 | 7.5 | 10.3 | 15.6 | 12.1 | 16.5 | 9.0 | 13.2 | 76,660 | 992 | 109,900 | 1,183 |
| 2019 | 128,500 | 100 | 7.7 | 7.1 | 7.4 | 10.4 | 16.0 | 12.0 | 16.9 | 9.3 | 13.4 | 78,250 | 1,030 | 111,700 | 1,187 |
| 2018 | 128,600 | 100 | 8.5 | 7.8 | 8.0 | 10.8 | 15.9 | 12.7 | 16.2 | 8.6 | 11.4 | 73,030 | 799 | 104,100 | 1,038 |
| 2017[3] | 127,700 | 100 | 8.7 | 8.2 | 7.6 | 11.8 | 15.5 | 12.3 | 16.1 | 8.2 | 11.6 | 72,090 | 624 | 103,300 | 1,107 |
| 2017 | 127,600 | 100 | 8.7 | 8.2 | 7.7 | 11.8 | 15.0 | 12.5 | 16.1 | 8.6 | 11.2 | 72,370 | 650 | 101,700 | 1,009 |
| 2016 | 126,200 | 100 | 9.0 | 8.0 | 8.0 | 11.5 | 16.2 | 12.3 | 16.1 | 8.3 | 10.6 | 70,840 | 861 | 99,760 | 926 |
| 2015 | 125,800 | 100 | 9.1 | 8.8 | 8.3 | 12.1 | 15.5 | 12.1 | 16.0 | 8.4 | 9.6 | 68,410 | 639 | 95,950 | 802 |
| 2014 | 124,600 | 100 | 10.1 | 9.2 | 8.5 | 12.3 | 16.0 | 12.2 | 15.0 | 7.9 | 8.9 | 64,900 | 780 | 91,610 | 887 |
| 2013[4] | 123,900 | 100 | 10.0 | 9.3 | 8.7 | 11.7 | 16.3 | 12.4 | 15.1 | 7.6 | 9.0 | 65,740 | 1,320 | 92,250 | 1,340 |
| 2013[5] | 123,000 | 100 | 9.9 | 9.6 | 8.5 | 12.5 | 16.7 | 12.5 | 15.0 | 7.5 | 7.9 | 63,720 | 557 | 89,120 | 1,007 |
| 2012 | 122,500 | 100 | 9.9 | 9.6 | 9.1 | 12.4 | 16.5 | 12.4 | 15.0 | 7.4 | 7.6 | 63,350 | 427 | 88,500 | 860 |
| 2011 | 121,100 | 100 | 9.7 | 9.3 | 9.3 | 12.4 | 16.6 | 12.7 | 15.0 | 7.3 | 7.7 | 63,350 | 523 | 88,190 | 766 |
| 2010[6] | 119,900 | 100 | 9.6 | 9.5 | 9.1 | 12.1 | 16.5 | 12.6 | 15.3 | 7.6 | 7.7 | 64,300 | 698 | 87,940 | 773 |
| 2009[7] | 117,500 | 100 | 8.9 | 8.9 | 9.4 | 11.9 | 17.0 | 12.9 | 15.6 | 7.5 | 7.9 | 65,850 | 464 | 89,920 | 529 |
| 2008 | 117,200 | 100 | 8.9 | 8.8 | 9.3 | 12.0 | 16.7 | 12.8 | 16.1 | 7.6 | 7.9 | 66,280 | 297 | 90,150 | 524 |
| 2007 | 116,800 | 100 | 8.5 | 9.1 | 8.5 | 11.6 | 16.5 | 13.0 | 16.4 | 8.0 | 8.4 | 68,610 | 315 | 92,340 | 530 |
| 2006 | 116,000 | 100 | 8.5 | 8.4 | 8.4 | 12.7 | 17.0 | 12.7 | 16.1 | 7.7 | 8.4 | 67,520 | 477 | 93,260 | 592 |
| 2005 | 114,400 | 100 | 8.9 | 8.8 | 8.6 | 11.8 | 17.5 | 12.6 | 16.3 | 7.4 | 8.0 | 66,780 | 368 | 91,310 | 567 |
| 2004[8] | 113,300 | 100 | 9.0 | 8.9 | 8.7 | 12.5 | 17.1 | 12.7 | 16.1 | 7.3 | 7.7 | 65,760 | 478 | 89,690 | 556 |
| 2003 | 112,000 | 100 | 8.9 | 9.3 | 8.6 | 12.0 | 16.7 | 13.0 | 16.0 | 7.9 | 7.6 | 65,860 | 470 | 89,810 | 540 |
| 2002 | 111,300 | 100 | 8.8 | 9.2 | 8.4 | 12.4 | 16.7 | 13.0 | 16.4 | 7.7 | 7.4 | 65,820 | 355 | 89,790 | 554 |
| 2001 | 109,300 | 100 | 8.4 | 9.0 | 8.6 | 12.1 | 16.9 | 13.2 | 16.5 | 7.6 | 7.7 | 66,360 | 333 | 91,470 | 600 |
| 2000[9] | 108,200 | 100 | 8.2 | 8.8 | 8.2 | 12.6 | 17.0 | 13.3 | 16.6 | 7.6 | 7.7 | 67,470 | 349 | 91,810 | 595 |
| 1999[10] | 106,400 | 100 | 8.1 | 8.9 | 8.7 | 12.2 | 17.0 | 13.2 | 16.7 | 7.5 | 7.7 | 67,650 | 520 | 90,990 | 777 |
| 1998 | 103,900 | 100 | 8.7 | 9.0 | 8.7 | 12.0 | 17.4 | 13.5 | 16.7 | 7.3 | 6.8 | 65,980 | 642 | 87,980 | 781 |
| 1997 | 102,500 | 100 | 9.2 | 9.3 | 9.2 | 12.1 | 17.7 | 13.4 | 16.1 | 6.7 | 6.3 | 63,640 | 484 | 85,460 | 786 |
| 1996 | 101,000 | 100 | 9.4 | 9.8 | 8.9 | 12.9 | 17.6 | 13.5 | 16.0 | 6.2 | 5.7 | 62,350 | 517 | 82,780 | 763 |
| 1995[11] | 99,630 | 100 | 9.4 | 9.7 | 9.4 | 12.6 | 18.4 | 13.6 | 15.5 | 6.2 | 5.3 | 61,440 | 584 | 81,030 | 730 |
| 1994[12] | 98,990 | 100 | 10.2 | 10.1 | 9.3 | 13.2 | 18.0 | 13.0 | 15.2 | 5.8 | 5.2 | 59,550 | 446 | 79,610 | 704 |
| 1993[13] | 97,110 | 100 | 10.5 | 10.2 | 9.3 | 13.2 | 17.9 | 13.4 | 14.8 | 5.9 | 4.8 | 58,920 | 453 | 78,140 | 695 |
| 1992[14] | 96,430 | 100 | 10.6 | 10.0 | 9.5 | 12.8 | 18.3 | 13.7 | 15.1 | 5.7 | 4.3 | 59,210 | 461 | 75,070 | 518 |
| 1991 | 95,670 | 100 | 10.3 | 9.8 | 9.0 | 13.4 | 18.4 | 14.0 | 15.1 | 5.8 | 4.3 | 59,710 | 473 | 75,160 | 509 |
| 1990 | 94,310 | 100 | 10.0 | 9.4 | 8.9 | 12.9 | 19.2 | 13.9 | 15.3 | 5.8 | 4.6 | 61,500 | 517 | 76,820 | 534 |

Footnotes provided at end of table.

Table A-2.

## Households by Total Money Income, Race, and Hispanic Origin of Householder: 1967 to 2022—Con.

(Income in 2022 dollars, adjusted using the C-CPI-U (2000–2022) and R-CPI-U-RS (pre-2000). Households as of March of the following year. Information on confidentiality protection, sampling error, nonsampling error, and definitions is available at <https://www2.census.gov/programs-surveys/cps/techdocs/cpsmar23.pdf>)

| Race and Hispanic origin of householder and year | Number (thousands) | Percent distribution | | | | | | | | | | Median income (dollars) | | Mean income (dollars) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Total | Under $15,000 | $15,000 to $24,999 | $25,000 to $34,999 | $35,000 to $49,999 | $50,000 to $74,999 | $75,000 to $99,999 | $100,000 to $149,999 | $150,000 to $199,999 | $200,000 and over | Estimate | Margin of error[1] (±) | Estimate | Margin of error[1] (±) |
| 1989 | 93,350 | 100 | 9.4 | 9.4 | 9.3 | 12.5 | 18.4 | 14.3 | 15.8 | 6.1 | 4.8 | 62,260 | 563 | 78,660 | 563 |
| 1988 | 92,830 | 100 | 10.2 | 9.3 | 9.0 | 12.8 | 18.5 | 14.4 | 15.7 | 5.6 | 4.5 | 61,210 | 492 | 76,480 | 562 |
| 1987[15] | 91,120 | 100 | 10.4 | 9.4 | 9.2 | 12.8 | 18.6 | 14.2 | 15.6 | 5.6 | 4.2 | 60,760 | 472 | 75,560 | 510 |
| 1986 | 89,480 | 100 | 10.8 | 9.4 | 9.1 | 13.1 | 18.8 | 14.3 | 15.3 | 5.3 | 3.9 | 60,010 | 511 | 74,140 | 496 |
| 1985[16] | 88,460 | 100 | 10.8 | 10.0 | 9.4 | 13.6 | 19.2 | 14.0 | 14.7 | 4.8 | 3.4 | 57,860 | 516 | 71,210 | 463 |
| 1984[17] | 86,790 | 100 | 10.6 | 10.3 | 9.8 | 13.7 | 19.5 | 13.9 | 14.4 | 4.7 | 3.2 | 56,780 | 425 | 69,570 | 421 |
| 1983 | 85,410 | 100 | 11.2 | 10.2 | 10.4 | 13.7 | 19.8 | 13.9 | 13.7 | 4.3 | 2.8 | 55,120 | 412 | 67,040 | 412 |
| 1982 | 83,920 | 100 | 11.3 | 10.5 | 10.0 | 13.8 | 20.4 | 14.0 | 13.3 | 4.0 | 2.7 | 55,470 | 412 | 66,850 | 407 |
| 1981 | 83,530 | 100 | 11.2 | 10.2 | 10.4 | 13.9 | 19.7 | 14.6 | 13.6 | 4.1 | 2.3 | 55,630 | 480 | 66,460 | 398 |
| 1980 | 82,370 | 100 | 10.7 | 10.3 | 9.8 | 13.9 | 20.0 | 15.1 | 13.8 | 4.2 | 2.3 | 56,580 | 478 | 67,300 | 405 |
| 1979[18] | 80,780 | 100 | 10.5 | 9.8 | 9.1 | 13.9 | 20.0 | 15.3 | 14.4 | 4.3 | 2.7 | 58,400 | 455 | 69,370 | 432 |
| 1978 | 77,330 | 100 | 10.2 | 10.2 | 9.6 | 13.3 | 20.2 | 15.5 | 14.4 | 4.0 | 2.6 | 58,510 | 390 | 68,860 | 434 |
| 1977 | 76,030 | 100 | 10.6 | 10.7 | 9.6 | 13.7 | 20.6 | 15.0 | 13.9 | 3.5 | 2.3 | 56,320 | 348 | 66,810 | 334 |
| 1976[19] | 74,140 | 100 | 10.7 | 10.4 | 9.7 | 14.0 | 20.6 | 15.7 | 13.3 | 3.4 | 2.1 | 56,040 | 342 | 65,920 | 334 |
| 1975[20] | 72,870 | 100 | 10.9 | 10.8 | 9.8 | 14.3 | 21.4 | 15.0 | 12.8 | 3.1 | 1.9 | 55,100 | 369 | 64,340 | 330 |
| 1974[20,21] | 71,160 | 100 | 10.3 | 10.0 | 9.7 | 13.7 | 21.9 | 15.4 | 13.4 | 3.6 | 2.1 | 56,640 | 358 | 66,240 | 341 |
| 1973 | 69,860 | 100 | 10.4 | 10.2 | 9.1 | 12.8 | 21.6 | 15.6 | 14.2 | 3.7 | 2.4 | 58,400 | 366 | 67,540 | 338 |
| 1972[22] | 68,250 | 100 | 11.2 | 9.9 | 9.1 | 13.7 | 21.9 | 15.4 | 13.2 | 3.5 | 2.2 | 57,170 | 359 | 66,540 | 339 |
| 1971[23] | 66,680 | 100 | 12.0 | 9.7 | 9.6 | 14.6 | 22.9 | 14.9 | 11.7 | 3.0 | 1.7 | 55,010 | 351 | 63,260 | 331 |
| 1970 | 64,780 | 100 | 12.1 | 9.3 | 9.4 | 13.9 | 23.4 | 15.4 | 11.8 | 2.9 | 1.8 | 55,490 | 334 | 63,530 | 334 |
| 1969 | 63,400 | 100 | 12.0 | 9.1 | 9.1 | 14.3 | 23.7 | 15.5 | 11.7 | 2.8 | 1.7 | 55,890 | 340 | 63,590 | 329 |
| 1968 | 62,210 | 100 | 12.3 | 9.4 | 9.7 | 15.0 | 24.4 | 15.1 | 10.5 | 2.3 | 1.4 | 53,770 | 320 | 60,840 | 320 |
| 1967[24] | 60,810 | 100 | 13.5 | 9.6 | 9.2 | 15.9 | 25.3 | 13.4 | 9.3 | 2.3 | 1.5 | 51,570 | 309 | 57,680 | 309 |
| **WHITE ALONE[25]** | | | | | | | | | | | | | | | |
| 2022 | 101,400 | 100 | 7.4 | 7.2 | 7.4 | 10.4 | 16.2 | 12.6 | 17.1 | 9.5 | 12.3 | 77,250 | 871 | 109,300 | 1,215 |
| 2021 | 102,100 | 100 | 7.4 | 7.2 | 7.2 | 10.2 | 15.3 | 12.4 | 16.9 | 9.5 | 13.9 | 80,080 | 983 | 114,100 | 1,276 |
| 2020[2] | 100,900 | 100 | 6.9 | 7.2 | 7.3 | 10.1 | 15.6 | 12.4 | 17.2 | 9.6 | 13.7 | 80,750 | 831 | 113,300 | 1,346 |
| 2019 | 100,600 | 100 | 6.5 | 6.7 | 6.8 | 10.2 | 16.1 | 12.3 | 17.5 | 9.7 | 14.1 | 82,240 | 911 | 115,900 | 1,358 |
| 2018 | 100,500 | 100 | 7.1 | 7.3 | 7.6 | 10.6 | 16.0 | 13.2 | 17.1 | 9.1 | 12.1 | 77,380 | 746 | 108,600 | 1,194 |
| 2017[3] | 100,100 | 100 | 7.3 | 7.6 | 7.4 | 11.4 | 15.7 | 12.6 | 16.9 | 8.7 | 12.4 | 76,450 | 993 | 107,900 | 1,245 |
| 2017 | 100,100 | 100 | 7.3 | 7.8 | 7.5 | 11.4 | 15.1 | 12.9 | 17.0 | 9.1 | 11.9 | 76,970 | 807 | 105,700 | 1,168 |
| 2016 | 99,400 | 100 | 7.6 | 7.5 | 7.8 | 11.3 | 16.4 | 12.6 | 16.9 | 8.8 | 11.2 | 74,220 | 659 | 103,600 | 1,054 |
| 2015 | 99,310 | 100 | 7.5 | 8.3 | 8.2 | 12.0 | 15.5 | 12.5 | 16.8 | 8.9 | 10.1 | 72,760 | 759 | 99,530 | 936 |
| 2014 | 98,680 | 100 | 8.6 | 8.7 | 8.2 | 12.1 | 16.1 | 12.7 | 15.7 | 8.3 | 9.5 | 68,790 | 706 | 95,430 | 1,041 |
| 2013[4] | 98,810 | 100 | 8.5 | 8.9 | 8.5 | 11.5 | 16.3 | 13.0 | 15.8 | 7.9 | 9.6 | 69,620 | 1,043 | 95,480 | 1,530 |
| 2013[5] | 97,770 | 100 | 8.3 | 9.1 | 8.2 | 12.2 | 16.9 | 13.1 | 15.8 | 7.9 | 8.4 | 67,790 | 858 | 93,040 | 1,098 |
| 2012 | 97,710 | 100 | 8.2 | 9.2 | 8.9 | 12.3 | 16.7 | 12.9 | 15.8 | 7.9 | 8.2 | 66,690 | 784 | 92,400 | 948 |
| 2011 | 96,960 | 100 | 8.0 | 8.8 | 9.0 | 12.4 | 16.9 | 13.1 | 15.7 | 7.7 | 8.3 | 66,080 | 468 | 92,150 | 879 |
| 2010[6] | 96,310 | 100 | 8.0 | 9.2 | 8.8 | 12.0 | 16.6 | 13.0 | 16.2 | 8.0 | 8.3 | 67,480 | 543 | 91,880 | 869 |

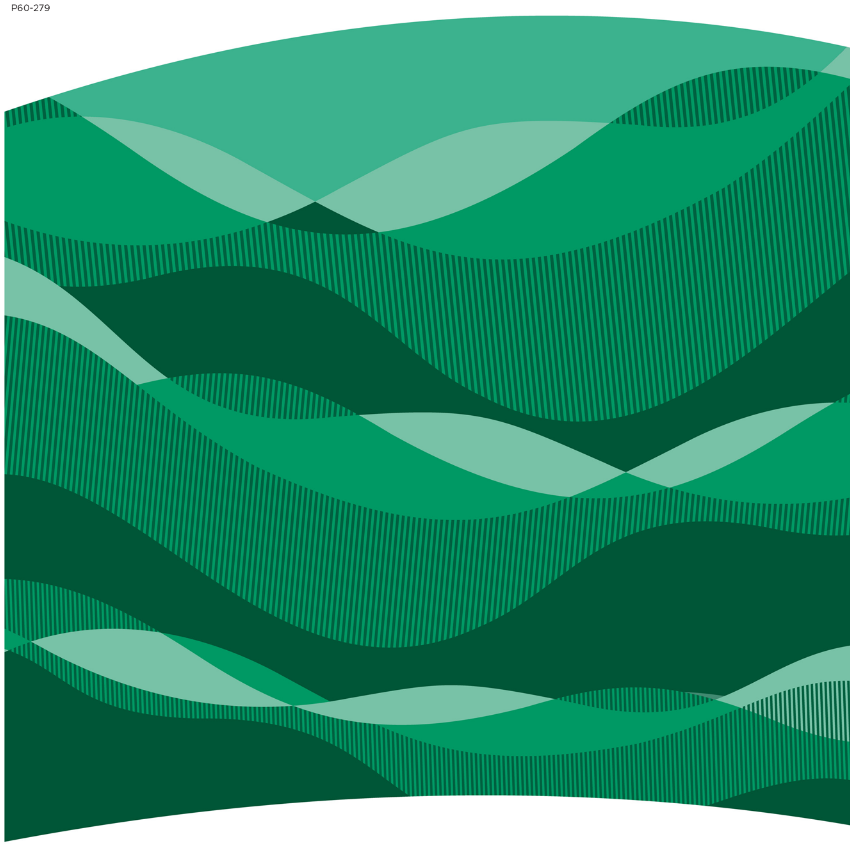
Footnotes provided at end of table.

# Income in the United States: 2022

**Current Population Reports**

By Gloria Guzman and Melissa Kollar

Issued September 2023
P60-279



United States Census Bureau
U.S. Department of Commerce
U.S. CENSUS BUREAU
*census.gov*

Table A-4b.

## Selected Measures of Household Income Dispersion: 1967 to 2022

(Income in 2022 dollars, adjusted using the C-CPI-U (2000 to 2022) and R-CPI-U-RS (pre-2000). Further explanation of income inequality measures is available in "The Changing Shape of the Nation's Income Distribution: 1947-1998," *Current Population Reports*, Series P60-204. Information on confidentiality protection, sampling error, nonsampling error, and definitions is available at <https://www2.census.gov/programs-surveys/cps/techdocs/cpsmar23.pdf>)

| Year | Measures of income dispersion | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mean household income of quintiles | | | | | | Shares of household income quintiles | | | | | | Summary measures | | | | | |
| | | | | | | | | | | | | | | | | Atkinson | | |
| | Lowest quintile | Second quintile | Third quintile | Fourth quintile | Highest quintile | Top 5 percent | Lowest quintile | Second quintile | Third quintile | Fourth quintile | Highest quintile | Top 5 percent | Gini index of income inequality | Mean loga-rithmic deviation of income | Theil | e=0.25 | e=0.50 | e=0.75 |
| 2022 | 16,120 | 43,850 | 74,730 | 119,900 | 277,300 | 499,900 | 3.0 | 8.2 | 14.0 | 22.5 | 52.1 | 23.5 | 0.488 | 0.637 | 0.440 | 0.106 | 0.207 | 0.315 |
| 2021 | 16,020 | 44,240 | 76,430 | 124,500 | 290,400 | 517,800 | 2.9 | 8.0 | 13.9 | 22.6 | 52.7 | 23.5 | 0.494 | 0.634 | 0.448 | 0.108 | 0.211 | 0.320 |
| 2020[1] | 16,530 | 44,800 | 76,920 | 124,300 | 286,800 | 504,500 | 3.0 | 8.2 | 14.0 | 22.6 | 52.2 | 23.0 | 0.488 | 0.617 | 0.437 | 0.105 | 0.206 | 0.313 |
| 2019 | 17,410 | 46,300 | 78,520 | 126,600 | 289,800 | 513,800 | 3.1 | 8.3 | 14.1 | 22.7 | 51.9 | 23.0 | 0.484 | 0.590 | 0.432 | 0.104 | 0.203 | 0.306 |
| 2018 | 15,920 | 43,110 | 73,480 | 117,400 | 270,300 | 481,400 | 3.1 | 8.3 | 14.1 | 22.6 | 52.0 | 23.1 | 0.486 | 0.616 | 0.436 | 0.105 | 0.205 | 0.311 |
| 2017[2] | 15,710 | 41,860 | 72,340 | 116,800 | 270,000 | 479,200 | 3.0 | 8.1 | 14.0 | 22.6 | 52.3 | 23.2 | 0.489 | 0.617 | 0.441 | 0.106 | 0.207 | 0.313 |
| 2017 | 15,630 | 41,740 | 72,590 | 116,800 | 261,600 | 454,300 | 3.1 | 8.2 | 14.3 | 23.0 | 51.5 | 22.3 | 0.482 | 0.609 | 0.424 | 0.103 | 0.202 | 0.307 |
| 2016 | 15,530 | 41,400 | 70,970 | 114,200 | 256,700 | 450,100 | 3.1 | 8.3 | 14.2 | 22.9 | 51.5 | 22.6 | 0.481 | 0.601 | 0.426 | 0.103 | 0.201 | 0.305 |
| 2015 | 15,080 | 39,500 | 68,790 | 111,400 | 245,000 | 424,700 | 3.1 | 8.2 | 14.3 | 23.2 | 51.1 | 22.1 | 0.479 | 0.596 | 0.420 | 0.101 | 0.199 | 0.303 |
| 2014 | 14,120 | 37,600 | 65,370 | 106,200 | 234,700 | 402,000 | 3.1 | 8.2 | 14.3 | 23.2 | 51.2 | 21.9 | 0.480 | 0.611 | 0.419 | 0.102 | 0.200 | 0.307 |
| 2013[3] | 14,220 | 37,800 | 65,930 | 106,100 | 237,200 | 410,300 | 3.1 | 8.2 | 14.3 | 23.0 | 51.4 | 22.2 | 0.482 | 0.606 | 0.428 | 0.103 | 0.202 | 0.307 |
| 2013[4] | 14,290 | 37,430 | 64,190 | 102,500 | 227,200 | 395,400 | 3.2 | 8.4 | 14.4 | 23.0 | 51.0 | 22.2 | 0.476 | 0.578 | 0.415 | 0.100 | 0.196 | 0.298 |
| 2012 | 14,270 | 36,870 | 63,550 | 101,900 | 225,900 | 394,900 | 3.2 | 8.3 | 14.4 | 23.0 | 51.0 | 22.3 | 0.477 | 0.586 | 0.423 | 0.101 | 0.198 | 0.300 |
| 2011 | 14,220 | 36,960 | 63,080 | 101,400 | 225,300 | 394,200 | 3.2 | 8.4 | 14.3 | 23.0 | 51.1 | 22.3 | 0.477 | 0.585 | 0.422 | 0.101 | 0.198 | 0.300 |
| 2010[5] | 14,350 | 37,230 | 64,160 | 102,900 | 221,000 | 374,800 | 3.3 | 8.5 | 14.6 | 23.4 | 50.3 | 21.3 | 0.470 | 0.574 | 0.400 | 0.097 | 0.191 | 0.293 |
| 2009[6] | 15,280 | 38,700 | 65,530 | 104,100 | 226,000 | 390,800 | 3.4 | 8.6 | 14.6 | 23.2 | 50.3 | 21.7 | 0.468 | 0.550 | 0.403 | 0.097 | 0.190 | 0.288 |
| 2008 | 15,360 | 38,890 | 66,050 | 105,100 | 225,400 | 388,300 | 3.4 | 8.6 | 14.7 | 23.3 | 50.0 | 21.5 | 0.466 | 0.541 | 0.398 | 0.096 | 0.188 | 0.285 |
| 2007 | 15,780 | 40,210 | 68,250 | 108,100 | 229,400 | 392,300 | 3.4 | 8.7 | 14.8 | 23.4 | 49.7 | 21.2 | 0.463 | 0.532 | 0.391 | 0.095 | 0.185 | 0.281 |
| 2006 | 15,900 | 40,310 | 67,550 | 106,900 | 235,600 | 416,600 | 3.4 | 8.6 | 14.5 | 22.9 | 50.5 | 22.3 | 0.470 | 0.543 | 0.417 | 0.099 | 0.192 | 0.289 |
| 2005 | 15,360 | 39,440 | 66,740 | 105,000 | 230,000 | 405,300 | 3.4 | 8.6 | 14.6 | 23.0 | 50.4 | 22.2 | 0.469 | 0.545 | 0.411 | 0.098 | 0.192 | 0.289 |
| 2004[7] | 15,200 | 38,880 | 65,870 | 103,900 | 224,600 | 391,400 | 3.4 | 8.7 | 14.7 | 23.2 | 50.1 | 21.8 | 0.466 | 0.543 | 0.406 | 0.097 | 0.190 | 0.286 |
| 2003 | 15,200 | 39,040 | 66,270 | 104,900 | 223,600 | 385,000 | 3.4 | 8.7 | 14.8 | 23.4 | 49.8 | 21.4 | 0.464 | 0.530 | 0.397 | 0.095 | 0.187 | 0.283 |
| 2002 | 15,510 | 39,420 | 66,430 | 104,500 | 223,100 | 389,600 | 3.5 | 8.8 | 14.8 | 23.3 | 49.7 | 21.7 | 0.462 | 0.514 | 0.398 | 0.095 | 0.186 | 0.279 |
| 2001 | 15,930 | 40,020 | 66,990 | 105,000 | 229,400 | 409,300 | 3.5 | 8.7 | 14.6 | 23.0 | 50.1 | 22.4 | 0.466 | 0.515 | 0.413 | 0.098 | 0.189 | 0.282 |
| 2000[8] | 16,320 | 40,750 | 67,860 | 105,500 | 228,600 | 405,600 | 3.6 | 8.9 | 14.8 | 23.0 | 49.8 | 22.1 | 0.462 | 0.490 | 0.404 | 0.096 | 0.185 | 0.275 |
| 1999[9] | 16,480 | 40,470 | 67,740 | 105,400 | 224,800 | 390,800 | 3.6 | 8.9 | 14.9 | 23.2 | 49.4 | 21.5 | 0.458 | 0.476 | 0.386 | 0.092 | 0.180 | 0.268 |
| 1998 | 15,650 | 39,510 | 66,120 | 102,300 | 216,400 | 377,100 | 3.6 | 9.0 | 15.0 | 23.2 | 49.2 | 21.4 | 0.456 | 0.488 | 0.389 | 0.093 | 0.181 | 0.271 |
| 1997 | 15,200 | 38,010 | 63,940 | 99,030 | 211,100 | 370,500 | 3.6 | 8.9 | 15.0 | 23.2 | 49.4 | 21.7 | 0.459 | 0.484 | 0.396 | 0.094 | 0.183 | 0.272 |
| 1996 | 15,100 | 37,060 | 62,340 | 96,480 | 202,900 | 353,500 | 3.6 | 9.0 | 15.1 | 23.3 | 49.0 | 21.4 | 0.455 | 0.464 | 0.389 | 0.093 | 0.179 | 0.266 |
| 1995[10] | 15,050 | 36,780 | 61,500 | 94,530 | 197,300 | 340,500 | 3.7 | 9.1 | 15.2 | 23.3 | 48.7 | 21.0 | 0.450 | 0.452 | 0.378 | 0.090 | 0.175 | 0.261 |
| 1994[11] | 14,240 | 35,480 | 59,770 | 93,020 | 195,500 | 337,800 | 3.6 | 8.9 | 15.0 | 23.4 | 49.1 | 21.2 | 0.456 | 0.471 | 0.387 | 0.092 | 0.179 | 0.268 |
| 1993[12] | 13,880 | 35,190 | 58,980 | 91,660 | 191,000 | 327,800 | 3.6 | 9.0 | 15.1 | 23.5 | 48.9 | 21.0 | 0.454 | 0.467 | 0.385 | 0.092 | 0.178 | 0.266 |
| 1992[13] | 14,030 | 35,140 | 59,200 | 90,880 | 176,100 | 279,500 | 3.8 | 9.4 | 15.8 | 24.2 | 46.9 | 18.6 | 0.433 | 0.417 | 0.324 | 0.080 | 0.160 | 0.243 |
| 1991 | 14,320 | 35,970 | 59,750 | 91,080 | 174,700 | 272,600 | 3.8 | 9.6 | 15.9 | 24.2 | 46.5 | 18.1 | 0.428 | 0.411 | 0.313 | 0.078 | 0.156 | 0.237 |
| 1990 | 14,720 | 37,030 | 61,170 | 92,220 | 179,000 | 285,000 | 3.8 | 9.6 | 15.9 | 24.0 | 46.6 | 18.5 | 0.428 | 0.402 | 0.317 | 0.078 | 0.156 | 0.236 |
| 1989 | 15,060 | 37,480 | 62,300 | 94,230 | 184,200 | 297,600 | 3.8 | 9.5 | 15.8 | 24.0 | 46.8 | 18.9 | 0.431 | 0.406 | 0.324 | 0.080 | 0.158 | 0.239 |
| 1988 | 14,530 | 36,690 | 61,360 | 92,750 | 177,100 | 279,300 | 3.8 | 9.6 | 16.0 | 24.2 | 46.3 | 18.3 | 0.426 | 0.401 | 0.314 | 0.078 | 0.155 | 0.236 |
| 1987[14] | 14,300 | 36,330 | 60,750 | 91,820 | 174,600 | 275,100 | 3.8 | 9.6 | 16.1 | 24.3 | 46.2 | 18.2 | 0.426 | 0.408 | 0.314 | 0.078 | 0.155 | 0.237 |
| 1986 | 13,920 | 35,800 | 59,910 | 90,250 | 170,800 | 267,600 | 3.8 | 9.7 | 16.2 | 24.3 | 46.1 | 18.0 | 0.425 | 0.416 | 0.310 | 0.077 | 0.155 | 0.237 |
| 1985[15] | 13,750 | 34,860 | 57,860 | 87,030 | 162,600 | 250,800 | 3.9 | 9.8 | 16.2 | 24.4 | 45.6 | 17.6 | 0.419 | 0.403 | 0.300 | 0.075 | 0.151 | 0.231 |
| 1984[16] | 13,770 | 34,300 | 56,840 | 85,580 | 157,400 | 237,600 | 4.0 | 9.9 | 16.3 | 24.6 | 45.2 | 17.1 | 0.415 | 0.391 | 0.290 | 0.073 | 0.147 | 0.225 |
| 1983 | 13,340 | 33,500 | 55,390 | 83,120 | 152,600 | 230,600 | 4.0 | 9.9 | 16.4 | 24.6 | 45.1 | 17.0 | 0.414 | 0.397 | 0.288 | 0.072 | 0.147 | 0.226 |
| 1982 | 13,170 | 33,330 | 55,180 | 82,060 | 150,500 | 227,400 | 4.0 | 10.0 | 16.5 | 24.5 | 45.0 | 17.0 | 0.412 | 0.401 | 0.287 | 0.072 | 0.146 | 0.226 |
| 1981 | 13,420 | 33,430 | 55,390 | 82,560 | 147,500 | 219,100 | 4.1 | 10.1 | 16.7 | 24.8 | 44.3 | 16.5 | 0.406 | 0.387 | 0.277 | 0.070 | 0.141 | 0.220 |
| 1980 | 13,770 | 34,270 | 56,560 | 83,320 | 148,600 | 222,000 | 4.2 | 10.2 | 16.8 | 24.7 | 44.1 | 16.5 | 0.403 | 0.375 | 0.274 | 0.069 | 0.140 | 0.216 |

Footnotes provided on next page.

Table A-4b.

## Selected Measures of Household Income Dispersion: 1967 to 2022—Con.

(Income in 2022 dollars, adjusted using the C-CPI-U (2000 to 2022) and R-CPI-U-RS (pre-2000). Further explanation of income inequality measures is available in "The Changing Shape of the Nation's Income Distribution: 1947-1998," *Current Population Reports*, Series P60-204. Information on confidentiality protection, sampling error, nonsampling error, and definitions is available at <https://www2.census.gov/programs-surveys/cps/techdocs/cpsmar23.pdf>)

| Year | Measures of income dispersion | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mean household income of quintiles | | | | | | Shares of household income quintiles | | | | | | Summary measures | | | | | |
| | | | | | | | | | | | | | | | | Atkinson | | |
| | Lowest quintile | Second quintile | Third quintile | Fourth quintile | Highest quintile | Top 5 percent | Lowest quintile | Second quintile | Third quintile | Fourth quintile | Highest quintile | Top 5 percent | Gini index of income inequality | Mean logarithmic deviation of income | Theil | e=0.25 | e=0.50 | e=0.75 |
| 1979[17] | 14,210 | 35,350 | 58,280 | 85,530 | 153,500 | 234,100 | 4.1 | 10.2 | 16.8 | 24.6 | 44.2 | 16.9 | 0.404 | 0.369 | 0.279 | 0.070 | 0.141 | 0.216 |
| 1978 | 14,310 | 35,150 | 58,040 | 85,020 | 151,800 | 231,000 | 4.2 | 10.2 | 16.8 | 24.7 | 44.1 | 16.8 | 0.402 | 0.363 | 0.275 | 0.069 | 0.139 | 0.213 |
| 1977 | 13,840 | 34,060 | 56,350 | 82,560 | 147,200 | 225,200 | 4.2 | 10.2 | 16.9 | 24.7 | 44.0 | 16.8 | 0.402 | 0.364 | 0.276 | 0.069 | 0.139 | 0.213 |
| 1976[18] | 13,930 | 34,090 | 56,070 | 81,420 | 144,100 | 219,600 | 4.3 | 10.3 | 17.0 | 24.7 | 43.7 | 16.6 | 0.398 | 0.361 | 0.271 | 0.068 | 0.137 | 0.211 |
| 1975[19] | 13,590 | 33,370 | 54,750 | 79,550 | 140,400 | 213,100 | 4.3 | 10.4 | 17.0 | 24.7 | 43.6 | 16.5 | 0.397 | 0.361 | 0.270 | 0.067 | 0.136 | 0.210 |
| 1974[19, 20] | 14,080 | 34,990 | 56,390 | 81,440 | 144,300 | 219,300 | 4.3 | 10.6 | 17.0 | 24.6 | 43.5 | 16.5 | 0.395 | 0.352 | 0.267 | 0.067 | 0.134 | 0.207 |
| 1973 | 14,110 | 35,470 | 58,180 | 83,690 | 149,700 | 230,700 | 4.2 | 10.4 | 17.0 | 24.5 | 43.9 | 16.9 | 0.400 | 0.360 | 0.275 | 0.069 | 0.139 | 0.213 |
| 1972[21] | 13,460 | 34,770 | 56,740 | 81,460 | 146,200 | 226,700 | 4.1 | 10.4 | 17.0 | 24.5 | 43.9 | 17.0 | 0.401 | 0.371 | 0.279 | 0.070 | 0.140 | 0.216 |
| 1971[22] | 12,750 | 33,690 | 54,620 | 77,650 | 137,600 | 211,000 | 4.1 | 10.6 | 17.3 | 24.5 | 43.5 | 16.7 | 0.396 | 0.370 | 0.273 | 0.068 | 0.138 | 0.214 |
| 1970 | 12,650 | 34,280 | 55,200 | 77,810 | 137,700 | 211,400 | 4.1 | 10.8 | 17.4 | 24.5 | 43.3 | 16.6 | 0.394 | 0.370 | 0.271 | 0.068 | 0.138 | 0.214 |
| 1969 | 12,870 | 34,750 | 55,530 | 77,780 | 136,700 | 210,400 | 4.1 | 10.9 | 17.5 | 24.5 | 43.0 | 16.6 | 0.391 | 0.357 | 0.268 | 0.067 | 0.135 | 0.209 |
| 1968 | 12,540 | 33,630 | 53,340 | 74,400 | 129,300 | 197,700 | 4.2 | 11.1 | 17.6 | 24.5 | 42.6 | 16.3 | 0.386 | 0.352 | 0.261 | 0.065 | 0.133 | 0.206 |
| 1967[23] | 11,550 | 32,010 | 51,100 | 71,500 | 128,700 | 203,000 | 4.0 | 10.8 | 17.3 | 24.2 | 43.6 | 17.2 | 0.397 | 0.377 | 0.280 | 0.070 | 0.141 | 0.218 |

[1] Implementation of 2020 Census-based population controls.
[2] Estimates reflect the implementation of an updated processing system and should be used to make comparisons to 2018 and subsequent years.
[3] The 2014 CPS ASEC included redesigned questions for income and health insurance coverage. All of the approximately 98,000 addresses were eligible to receive the redesigned set of health insurance coverage questions. The redesigned income questions were implemented to a subsample of these 98,000 addresses using a probability split panel design. Approximately 68,000 addresses were eligible to receive a set of income questions similar to those used in the 2013 CPS ASEC, and the remaining 30,000 addresses were eligible to receive the redesigned income questions. The source of these 2013 estimates is the portion of the CPS ASEC sample that received the redesigned income questions, approximately 30,000 addresses.
[4] The source of these 2013 estimates is the portion of the CPS ASEC sample that received the income questions consistent with the 2013 CPS ASEC, approximately 68,000 addresses.
[5] Implementation of 2010 Census-based population controls. Beginning with 2010, standard errors in this table were calculated using replicate weights. Before 2010, standard errors were calculated using the generalized variance function.
[6] Median income is calculated using $2,500 intervals. Beginning with 2009 income data, the Census Bureau expanded the upper income intervals used to calculate medians to $250,000 or more. Medians falling in the upper open-ended interval are plugged with "$250,000." Before 2009, the upper open-ended interval was $100,000 and a plug of "$100,000" was used.
[7] Data have been revised to reflect a correction to the weights in the 2005 CPS ASEC.
[8] Implementation of a 28,000-household sample expansion.
[9] Implementation of 2000 Census-based population controls.
[10] Full implementation of 1990 Census-based sample design and metropolitan definitions, 7,000 household sample reduction, and revised editing of responses on race.
[11] Introduction of 1990 Census-based sample design.
[12] Data collection method changed from paper and pencil to computer-assisted interviewing. In addition, the 1994 CPS ASEC was revised to allow for the coding of different income amounts on selected questionnaire items. Limits either increased or decreased in the following categories: earnings limits increased to $999,999; Social Security limits increased to $49,999; Supplemental Security Income and public assistance limits increased to $24,999; veterans' benefits limits increased to $99,999; child support and alimony limits decreased to $49,999.
[13] Implementation of 1990 Census-based population controls.
[14] Implementation of a new CPS ASEC processing system.
[15] Recording of amounts for earnings from longest job increased to $299,999. Full implementation of 1980 Census-based sample design.
[16] Implementation of Hispanic population weighting controls and introduction of 1980 Census-based sample design.
[17] Implementation of 1980 Census-based population controls. Questionnaire expanded to show 27 possible values from 51 possible sources of income.
[18] First year medians were derived using both Pareto and linear interpolation. Before this year, all medians were derived using linear interpolation.
[19] Some of these estimates were derived using Pareto interpolation and may differ from published data, which were derived using linear interpolation.
[20] Implementation of a new CPS ASEC processing system. Questionnaire expanded to ask 11 income questions.
[21] Full implementation of 1970 Census-based sample design.
[22] Introduction of 1970 Census-based sample design and population controls.
[23] Implementation of a new CPS ASEC processing system.
Note: Estimates may differ from previous publications due to additional rounding implemented to protect respondent privacy. Margins of error are available via email at <sehsd.isb.list@census.gov>.
Source: U.S. Census Bureau, Current Population Survey, 1968 to 2023 Annual Social and Economic Supplements (CPS ASEC).

AMERICAN UNIVERSITY • KOGOD SCHOOL OF BUSINESS
KOGOD TAX POLICY CENTER

Statement for the United States House of Representatives Committee on Ways & Means in Connection with the hearing on April 11, 2024, titled, "Expanding on the Success of 2017 Tax Relief to Help Hardworking Americans."

Professor Caroline Bruckner,
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April 24, 2024

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Chair Smith, Ranking Member Neal, and Members of the U.S. House of Representatives Committee on Ways & Means (the "Committee") thank you for holding a full Committee hearing on April 11, titled, "Expanding on the Success of 2017 Tax Relief for Hardworking Americans." My name is Caroline Bruckner and I am a tax professor on the faculty at American University Kogod School of Business. I also serve as the Managing Director of the Kogod Tax Policy Center (KTPC), which conducts non-partisan research on tax administration and compliance issues specific to small businesses and entrepreneurs. Our mission is to develop and analyze tax research and related policy recommendations, and to promote public dialogue through publications; research; congressional testimony, submissions, and engagement; and media education on challenges facing small businesses and entrepreneurs.

Since 2015, I have focused our research agenda, in part, on the tax and compliance issues impacting self-employed small business owners and women business owners, the overwhelming majority of which are small businesses. In connection with the April 11 hearing, I would like to raise the issue of the small business tax literacy gap in connection with tax challenges small business owners face as well as new KTPC data on women as witnesses during Congressional legislative hearings. This research is particularly relevant to this Committee's work on the 2017 tax bill (commonly referred to as the "Tax Cuts and Jobs Act" or "TCJA").[1]

1. **The Small Business Tax Literacy Gap is an Overlooked and Understudied Challenge of Small Business Owners that Continues to Grow.**

It is an unfortunate reality that tax literacy is a significant—albeit overlooked and understudied—challenge of small business owners and a factor as to their tax compliance.[2] Since 2016, the KTPC has developed research on how millions of small business owners struggle to meet their tax filing obligations because they don't know how (or when) to comply with tax rules and, importantly, how these challenges can impact retirement savings.[3] For example, our 2023 survey of small business owners found that small businesses struggle with tax compliance because too many do not know what's due when or how to file, and ultimately have to spend money to pay for tax advice or preparation services.[4] Moreover, we found that a college degree does not guarantee essential tax literacy skills: while 76% of our respondents had a college degree (compared to 23.5% of the U.S. population) only 13.5% of our respondents learned how to do taxes in college (and only 7.5% learned how to do taxes in high school). Compounding these challenges is that fact that more than one-third of respondents reported that they never or only sometimes received tax forms from businesses that engaged them.

[1] Pub. L. No. 115–97.
[2] *See, e.g.*, Caroline Bruckner, KOGOD TAX POLICY CTR, SHORTCHANGED: THE TAX COMPLIANCE CHALLENGES OF SMALL B USINESS OPERATORS DRIVING THE ON-DEMAND PLATFORM E CONOMY 1 (2016), https://www.american.edu/kogod/research/upload/shortchanged.pdf (2016); Small Business Tax Reform: Modernizing the Code for the Nation's Job Creators: Hearing Before the H. Comm. on Small Bus., 115th Cong. 5 (2017) (testimony of Caroline Bruckner), https://republicans-smallbusiness.house.gov/uploadedfiles/10-4-17_bruckner_testimony.pdf.
[3] *See, e.g.*, Bruckner, Caroline & Jonathan Forman (2022). *Women, Retirement, and the Growing Gig Workforce*. GA STATE UNIVERSITY L. REV. 2 (2022). https://readingroom.law.gsu.edu/cgi/viewcontent.cgi?article=3125&context=gsulr.
[4] Bruckner, Caroline & Barbara Robles (April 2023). The Small Business Tax Literacy Project: Understanding Tax Literacy Gaps for Small Business and the Growing Gig Workforce. Kogod Tax Policy Center in partnership with Public Private Strategies. Survey Infographic.

It's not just high taxes that impact small businesses, but also the compliance challenges presented by low tax literacy rates. This pain point is particularly acute for small businesses who are more likely to use tax savings as a source of capital to fund their businesses.[5] At the same time, this problem is continuing to grow exponentially, as evidenced by the growth of new firms and the number of independent workers in recent years. In fact, the U.S. Chamber of Commerce is tracking the surge in entrepreneurship across the country and noted that according to U.S. Census data, in 2023, a record-breaking 5.5 million new business applications were filed. This entrepreneurial activity is also reflected in private sector data tracking the extraordinary growth of the independent workforce. In its 2023 State of Independence Report on the independent workforce, MBO Partners found that in 2023, "a record 72.1 million Americans worked independently, up from 64.6 million in 2022 [and] the number of Full-Time Independents, defined as those working more than 15 hours per week, rose sharply from 21.6 million in 2022 to 26 million— an increase of 20%."[6]

**2. The Small Business Tax Literacy Gap Contributes to the Tax Gap**

At the same time, KTPC research consistently indicates that the current tax administration system is not designed to facilitate compliance for small business owners and the independent workforce.[7] For example, tax research consistently shows that when workers' income is subject to both tax withholding and third-party information reporting, the tax filing process is typically straightforward. However, when there is no tax withholding or information reporting to IRS, as is the case with millions of independent workers, tax compliance rates drop significantly.[8] The extraordinary growth of small businesses and the independent workforce, along with the corresponding tax literacy gap has quantifiable implications for the tax gap, which is the difference between the amount of tax imposed by law and that which is ultimately collected. Last year, IRS published its latest estimate of the gross annual tax gap for 2021 and found it to be $688 billion, which was comprised of (1) nonfiling ($77 billion), (2) underreporting ($542 billion), and (3) underpayment ($68 billion). Of that $542 underreporting tax gap, IRS estimated individuals failing to report all of their business income to be as much as $182 billion, and individuals failing to correctly report their self-employment tax was $68 billion. Overall, the IRS estimated underreported nonfarm proprietor income to be $110 billion (or 16% of the gross tax gap).[9] While these estimates indicate that small businesses substantially contribute to the tax gap, they don't explain why. Other KTPC research has found that small businesses struggle to comply with tax filing obligations because working outside of traditional employment – as a small business owner or as part of the independent workforce – often requires compliance with increased tax filing requirements with which these business owners have little familiarity and understanding (e.g., quarterly-estimated payments, self-employment tax).[10] This research is further evidenced by the latest KTPC survey results, which show that many taxpayers – even experienced small business owners – don't know how to pay their taxes (25%) or whether they even had to pay quarterly-estimated payments (approx. 33%).[11] Taken together, this indicates that poor small business tax literacy is a likely contributor to the growing tax gap.

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[5] Dunkelberg, William (2021). *The Impact of Taxes on Small Business*. Forbes. https://www.forbes.com/sites/williamdunkelberg/2021/10/06/impact-of-taxes-on-small-business/?sh=6f655d463250.
[6] MBO Partners, 2023 State of Independence, https://info.mbopartners.com/rs/mbo/images/MBO_2023_State_of_Independence_Research_Report.pdf.
[7] Bruckner & Forman, *Women, Retirement & the Growing Gig Workforce*, *supra* n. 3.
[8] U.S. Government Accountability Office Statement of James R. McTigue, Director of Strategic Issues, (2019) *Tax Gap: Multiple Strategies Are Needed to Reduce Noncompliance*, before the Committee on Ways & Means, U.S. House of Representatives, https://www.gao.gov/assets/gao-19-558t.pdf.
[9] IRS Tax Gap Estimates 2020 & 2021, IRS Publication 5869 (Rev. 10-2023) (Oct. 12, 2023).
[10] Bruckner & Forman, *Women, Retirement & the Growing Gig Workforce*, *supra* n. 3; Bruckner, *Shortchanged, supra* n. 2.
[11] Bruckner & Robles, *supra* n. 4.

This is not an issue that is unique to the United States. For example, the Organization for Economic Cooperation and Development (OECD) has been investigating how tax literacy impacts tax culture and compliance in countries around the world. In 2021, they issued a ground-breaking report on 140 tax education initiatives undertaken by 59 countries and concluded that "[t]ax literacy can help people save money…legitimately lower their tax bills or how to avoid filing late or other pitfalls that might cause them to incur fines or penalties."[12]

While the independent workforce and number of small business owners has grown, there has not been a corresponding effort to promote small business tax education to prepare these new business owners for the tax challenges they face. Although extensive research has been done to show that financial education has become a significant factor in preparing the next generation of work-for-pay labor market participants[13] and at least 26 states require some financial literacy training for high school graduation[14], a review of the financial education curriculum for high school and beyond displays a disturbing gap in preparing young and work-age labor market entrants as well as early-stage entrepreneurs for meeting their tax compliance obligations and accessing capital through tax savings as they engage in a variety of income generating activities. Consequently, prioritizing closing the small business tax literacy gap is one way that Congress and IRS can help small businesses access capital through tax savings and work to close the growing tax gap.

### 3. Recommendations for Closing the Small Business Tax Literacy Gap

While this Committee does not have jurisdiction over small business matters specifically, this Committee can task IRS and the U.S. Department of Treasury (Treasury) to engage constructively with the U.S. Small Business Administration (SBA) and other federal agencies that have financing programs targeted specifically to small businesses to work to close the small business tax literacy gap. To that end, I recommend this Committee task IRS with engaging with SBA and other federal agencies to prioritize small business tax education initiatives. In particular, this Committee should take the following steps.

I. Request Organization of Task Force to Measure Tax Literacy Among Small Business Taxpayers

This Committee should request IRS and Treasury work with SBA to organize a task force to study small business tax literacy issues to develop a comprehensive strategy to regularly measure and test tax literacy, and to work to incorporate tax literacy content into SBA and Treasury financial literacy programming. Together with IRS, SBA should be tasked with developing recommendations for small business and independent workforce tax literacy modules for inclusion in financial literacy and civics curricula/courses developed for SBA programs, including those prepared and distributed among SBA's networks and programs.

[12] OECD, Building Tax Culture, Compliance and Citizenship, 2021, https://www.oecd.org/tax/building-tax-culture-compliance-and-citizenship-second-edition-18585eb1-en.htm. Bruckner, Caroline & Collin Coil (Jan. 2024). AI and the Modern Tax Agency: Adopting and Deploying AI to Improve Tax Administration. IBM Center for the Business of Government.

[13] See, e.g., Lusardi, A., Michaud, P. C., & Mitchell, O. S. (2020). Assessing the impact of financial education programs: A quantitative model. Economics of Education Review, 78, 101899.

[14] Povich, E., (April 27, 2022), "COVID Woes Prompt More States to Require Financial Literacy Classes," Stateline Article, PEW Trust Foundation, https://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2022/04/27/covid-woes-prompt-more-states-to-require-financial-literacy-classes.

II. IRS Should Coordinate Inter-Agency Tax Education Strategy.

This Committee should urge IRS to prioritize outreach and education of small business owners and the independent workforce by forming a small business tax information and training coalition together with SBA, U.S. Department of Agriculture, U.S. Department of Commerce and other agencies with small business financing programs. The coalition's main charter should be promoting small business tax education to facilitate compliance and access capital through tax savings.

III. Expanded VITA Volunteer Recruiting.

This Committee should urge IRS to work with SBA to promote Volunteer Income Tax Assistance (VITA) program recruiting through SBA's network of programs (e.g., Small Business Development Centers; Women's Business Centers; SCORE) and other small business financing networks (e.g., CDFI networks) as well as high schools, community colleges and university students.

Going forward, IRS/SBA should collaborate on funding and employing participatory research and tax awareness and education as a wholistic methodology for learning what type and level of tax literacy has the most significant impact on small business access to capital and facilitates compliance.

4. **The Ongoing Need for Inclusive Legislative Hearings.**

Finally, this Committee has a poor record of considering the impact of tax policy on women business owners, who now represent approximately 39.1% of all U.S. enterprises.[15] These business owners have grown in both number and economic impact in recent years. According to a recent 2024 report on the state of women-owned businesses:

1. Between 2019 and 2023, the number of women-owned businesses increased at nearly double the rate of those owned by men. From 2022 to 2023, the rate of growth increased to 4.5 times that of men's;

2. From 2019 to 2023, women-owned businesses' growth rate outpaced the rate of men's by 82.4% and, in 2022 to 2023 alone, by 59.1%; and

3. In 2023, 14 million women-owned businesses employ 12.2 million people and generate $2.7 trillion in revenue.[16]

Although the growth of women-business owners is remarkable, the ongoing challenges they have accessing capital remain. Research shows that two-thirds of women-owned firms "cannot access either some or all of the capital they need."[17] Tax savings is an obvious strategy for these business owners to access capital, however, KTPC research consistently shows that when it comes to tax matters, women-business owners are often overlooked and underrepresented at legislative hearings.[18] For example, in connection with the

[15] Wells Fargo, *The 2024 Impact of Women-Owned Businesses* (2024). Available at: https://stories.wf.com/wp-content/uploads/2024/03/IWOB-2024-report_JD-V9_a11y.pdf.
[16] *Id*.
[17] *Id*. at 21.
[18] Bruckner, Caroline (2020): *Doubling Down on a Billion Dollar Blind Spot: Tax Reform and Women Business Owners*. AMERICAN UNIVERSITY BUSINESS LAW REVIEW, Vol. 9, Iss. 1. *Available at*: https://digitalcommons.wcl.american.edu/cgi/viewcontent.cgi?article=1129&context=aublr

debate over the 2017 tax reform bill, at no point did either of the tax-writing committees meaningfully consider whether the bill would specifically impact women business owners.[19] In 2020, KTPC research found that in 2017, the congressional tax-writing committees held a total of twelve hearings on tax reform, and less than 19 percent of the witnesses testifying at these hearings were women. In fact, "women participated as witnesses in only seven, and no women business owners testified at the sole [U.S. Senate Committee on Finance] hearing on business tax reform. Notably, no women testified at five (42 percent) of the twelve total tax reform hearings the tax-writing committees held on tax reform."[20]

This year, KTPC research on women testifying before Congress found that the underrepresentation of women at congressional legislative hearings is not confined to the tax-writing committees. Specifically, our latest research of more than 7,750 legislative hearings held by 16 congressional committees – including this Committee – from the 110th through the 116th Congresses found that of the 36,950 witness appearances at legislative hearings, women were underrepresented as a share of total witnesses. In fact, women only appeared 9,071 times, or around 24.5% of the total.[21] During the same period, panels exclusively comprised of male witnesses totaled just under 40% of the nearly 7,750 hearings in our dataset. On the other hand, women-only panels were a rarity with only 254 occurrences. Movover, excluding budget and agency oversight hearings, both of which commonly comprise a single representative from the Executive Branch (e.g., a cabinet secretary testifying at a budget hearing), women-only panels occurred a mere 83 times. In other words, just under 1.1% of all legislative hearings were women-only panels.

There is an increasing recognition of bias reflected in the U.S. tax code and members of Congress have been increasingly insistent on the need for additional research and demographic data on how taxpayers benefit from—or are penalized by—different tax provisions and administrative policies.[22] Recently, researchers at Treasury and IRS have indicated that they are working to enable tax expenditure data transparency.[23] However, this Committee can play a critical role in the coming months as the tax provisions from the 2017 tax reform bill are debated by working to ensure that women business owners are included as witnesses at legislative hearings. In addition, this the Committee should work with the Joint Committee on Taxation to include demographic distribution data when estimates of small business tax expenditures are debated in connection with the work on improving tax policy for small business owners. Updating small business tax expenditures to make smarter, equitable investments in the small businesses who will grow our economy is a vital function of this Committee.

Again, thank you to the Committee for holding this important hearing. I stand ready to help the Committee with its work. Feel welcome to contact me with questions regarding the foregoing.

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[19] Id.

[20] Id. at 17-18.

[21] Collin Coil, Caroline Bruckner, Natalie Williamson, Karen O'Connor & Jeff Gill (15 Feb 2024): *Still Underrepresented? Gender Representation of Witnesses at House and Senate Committee Hearings*, Journal of Women, Politics & Policy, DOI: 10.1080/1554477X.2024.2311023.

[22] Bruckner, *supra* n. 1. *See, e.g.,* Neubig, Thomas, *Disparate Racial Impact: Tax Expenditure Reform Needed.* March 2021. https://www.cepweb.org/wp-content/uploads/2021/03/Neubig-2021.-Disparate-Racial-Impact-Mar21.pdf; U.S. Senate Committee on Finance, "Wyden Statement on GAO Report on Tax, Demographic Data," Press Release (May 18, 2022), https://www.finance.senate.gov/chairmans-news/-wyden-statement-on-gao-report-on-tax-demographic-data.

[23] Julie-Anne Cronin, Portia DeFilippes, and Robin Fisher, *Tax Expenditures by Race and Hispanic Ethnicity: An Application of the U.S. Treasury Department's Race and Hispanic Ethnicity Imputation*, U.S. Dept. of Treasury, Office of Tax Analysis Working Paper 122 (Jan. 2023), https://home.treasury.gov/system/files/131/WP-122.pdf.

Business Roundtable

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April 9, 2024

The Honorable Jason Smith
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

The Honorable Richard Neal
Ranking Member
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Smith and Ranking Member Neal:

On behalf of Business Roundtable, an association of more than 200 chief executive officers of America's leading companies, I want to thank you for holding a hearing on "Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans." We ask that you include this letter in the hearing record.

Generating long-term U.S. economic growth and opportunity for American workers depends on a competitive tax rate for companies and tax rules that allow American companies to compete on a level playing field internationally.

Reforms in the 2017 Tax Cuts and Jobs Act (TCJA) resulted in historic wage and job growth and investment in the United States. To support continued long-term U.S. economic growth and opportunity for American workers, we urge Congress to maintain and strengthen these reforms.

Background

Prior to the 2017 reforms, the U.S. corporate tax rate was the highest among industrialized countries. There was widespread bipartisan agreement that the United States had an outdated, anti-competitive tax code, resulting in the continued loss of investment, jobs and innovation. In response, Congress lowered the corporate rate. The new combined federal and state corporate rate of 25.8% puts the U.S. 2% higher than the average for Organization for Economic Cooperation and Development (OECD) countries and higher than 23 of our 38 OECD competitors, including Belgium, Spain and the UK.

Congress offset 75% of the cost of the corporate rate reduction with tax increases. About half ($695 billion) was offset from domestic corporate base broadeners, including:

- The limitation on interest deductibility.
- The modification of the net operating loss deduction.
- The repeal of the deduction for domestic production activities.

Another quarter ($324 billion) was paid for with aggressive international tax changes, including:

- The establishment of the Base Erosion and Anti-Abuse Tax (BEAT) to apply a surtax on certain otherwise deductible payments between a U.S. company and its foreign affiliates.
- The first global corporate minimum tax was adopted in the Global Intangible Low-Taxed Income (GILTI) regime.
- To address foreign income earned prior to the implementation of the new rules, a transition tax was applied to foreign earnings that had not previously been subject to U.S. tax, even if that income was never repatriated to the United States.

The economic response to the 2017 reforms was immediate and profound. Wage growth across a variety of cohorts was stronger in the two years after the 2017 reforms than at any point since prior to the global financial crisis. The unemployment rate hit generational lows. Prime-age labor force participation was at a 15-year high as the strong labor market brought in more people off the sidelines. Economists estimate that the TCJA increased domestic investment by 20%.

Tax Reform Benefitted Workers

Prior to passage of TCJA, a survey of Business Roundtable members indicated that 76% of CEOs would increase hiring at their company if tax reform was enacted. Indeed, after passage and prior to the pandemic, the 3.5% unemployment rate was the lowest rate since 1969 and nearly 3 percentage points below the average for the 15 years from 2003 through 2017.

This low unemployment drove wage growth – median real wage growth immediately after passage doubled the total growth in real wages over the 15 prior years. The Atlanta Federal Reserve Bank found low-income workers to be the greatest beneficiary, as wage growth was largest for those in the lowest quartile of the wage distribution.

A recent analysis Business Roundtable conducted in partnership with The Burning Glass Institute estimated that from 2018 to 2022, 7.1 million American workers at leading U.S. companies were elevated into jobs with middle-class wages, averaging out to just over 1.4 million workers per year.

Tax Reform Benefited the Economy

Analysis from the National Bureau of Economic Research showed that companies that saw larger reductions in tax rates from TCJA also grew investment more in the years that followed. Economy-wide, business investment was a larger share of real GDP in the six years following TCJA enactment than at any point in the last three decades.

Business responded to the pro-growth changes in TCJA and brought money back home. Overall, firms have repatriated nearly $2.5 trillion in past overseas earnings since passage of TCJA. By neutralizing the favorable tax treatment of foreign operations, Congress created an incentive for American corporations to repatriate foreign earnings. International transactions data from the Bureau of Economic Analysis showed that in the years leading up to 2017, firms were repatriating only 34% of prior-year foreign earnings. Since 2019, they have on average repatriated 55%.

Further, base broadening and pro-growth tax reform have resulted in record high corporate tax receipts that exceeded pre-TCJA Congressional Budget Office (CBO) estimates by tens of billions. In dollar terms, FY2023 corporate tax revenue was 6% higher than CBO's pre-tax reform FY2023 forecast. CBO forecasts record breaking corporate receipts again this year.

Tax Reform Made the United States a Better Place to Do Business

TCJA's reforms also stemmed the flow of corporations moving out of the United States through mergers and acquisitions, also known as "inversions."

After the passage of TCJA, the dollar share of outbound transactions (acquisitions by U.S. companies of foreign assets and companies) grew by 50% and inbound transactions (acquisitions by foreign companies of U.S. assets and companies) fell by 25%. The Tax Policy Center also concluded that there have been no major tax-motivated inversions since the enactment of TCJA. In addition, a 2017 Business Roundtable study concluded that if a globally competitive U.S. corporate income tax rate had been in place earlier, it would have kept 4,700 companies in the United States from 2004 to 2016.

Any attempts to increase the corporate tax burden would immediately undo these pro-growth effects, undermine U.S. global competitiveness and risk resuming that trend.

The Impact of Corporate Tax Policy Changes

Because of base broadeners in TCJA, 75% of the revenue cost of a lower corporate rate was offset in the bill. Moreover, U.S. corporations face additional tax increases enacted after TCJA. For example, the 2022 Inflation Reduction Act included nearly $300 billion in corporate tax increases through the corporate alternative minimum tax ($222 billion) and the excise tax on stock buybacks ($74 billion).

As a result of the base broadening and international changes in TCJA and additional tax increases in subsequent years, even what may seem like small increases in the corporate tax rate would result in most corporate earnings being taxed at a higher effective tax rate than prior to 2018, when the United States had the highest corporate tax rate among developed countries.

There is widespread agreement, including from CBO, the Joint Committee on Taxation and the OECD that a significant portion of the corporate tax burden is borne by workers in the form of lower wages. The Treasury Department estimates that families making less than $72,500 pay more in corporate income taxes than they do in individual income taxes. Failure to maintain a competitive tax code will hurt hardworking Americans.

Conclusion

Thank you for the Committee's continued leadership in highlighting the importance of a competitive tax code for economic growth and job creation in the United States. We look forward to working with you as Congress debates tax policy changes in the coming months.

Sincerely,

Catherine Schultz
Vice President, Tax and Fiscal Policy
Business Roundtable
cschultz@brt.org

RATE
COALITION

# WRITTEN TESTIMONY OF SENATOR BLANCHE LINCOLN

*Advisor, Reforming America's Taxes Equitably (RATE) Coalition*

ratecoalition.com

United States House Committee on Ways and Means

## Hearing on Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans

April 11, 2024

On behalf of the 55 million American workers across all 50 states employed by our members and affiliates, the RATE Coalition commends the Committee for its focus on building on the success of the 2017 tax cuts to expand economic growth for all Americans. Since its founding in 2011, RATE has been advocating for a pro-growth tax code that increases economic prosperity for all Americans. We strongly believe that a competitive corporate tax rate is essential to promoting economic growth and prosperity, benefiting working people, families, and American businesses.

The corporate tax rate reduction enacted in 2017 helped spur an economic boom, resulting in increased economic growth, increased investment, higher wages for working families, and more jobs in America. The corporate rate reduction was enormously successful for the U.S. economy, working just as the Committee had predicted.

The corporate rate was reduced from the highest rate in the world to a much more competitive rate. The rate cut increased U.S. competitiveness, brought capital back to the U.S., and ended the practice of U.S. companies moving their operations overseas. Since the rate was reduced, US growth in real GDP has exceeded every other G-7 country, including France, Germany, and the United Kingdom.

A major research paper by the National Bureau of Economic Research confirms that the 2017 tax cuts were successful in boosting investment, wages, growth, and corporate tax revenues. The study found that the corporate tax changes, particularly the corporate rate reduction, increased domestic capital investment by 20% in the two years after enactment.

The economic data and anecdotal information point to significant benefits resulting from the tax relief that was achieved by the Tax Cuts and Jobs Act. These results are why we are firmly opposed to increasing the corporate rate, including the proposal to increase the corporate rate to 28% included in the FY 2025 Administration Budget. Raising the rate to 28% is a 33% tax increase that would have devastating consequences for our workers, families, and businesses, slowing investment and economic growth, and hurting working families and American businesses large and small.

We respectfully disagree with the Biden administration's claim that the corporate rate cut increased the deficit. In fact, the Joint Committee of Taxation revenue estimates show that most of the rate cut was paid for by other corporate revenue offsets when the bill was enacted. The JCT estimates show that 75% of the rate cut was paid for by corporate tax increases from loophole closings, base broadening, and limits on corporate deductions

**The U.S. tax rate would be higher than every other OECD country except Colombia**

Increasing the rate to 28% would result in a combined federal-state tax rate of 32.4%, putting U.S. companies at a significant competitive disadvantage against global competitors and increasing the pressure to move jobs and investment overseas. This new U.S. rate of 32.4% would be higher than every other OECD country but one – Colombia. The rate would be significantly higher than the 23.5% average tax rate for the other 37 OECD countries, threatening our ability to compete. Worse still, the increased tax rate would be 30% higher than China's top rate of 25%.

Also, a U.S. tax increase would mark a reversal of the steps being taken by virtually every other country in the world to reduce their corporate rate. It makes no sense for us to increase our corporate rate and make ourselves less competitive than our international competitors.

**Increasing the corporate rate threatens to move jobs and tax revenue out of the U.S.**

Since passage of the Tax Cuts and Jobs Act, corporate tax receipts have soared to record high levels. In fiscal 2024, receipts are projected to increase to $520 billion, the highest level ever, up 24% over fiscal 2023, and 145% higher than fiscal 2020. Corporate tax collections as a share of the economy are now higher than the 40-year average. Increasing the corporate tax rate threatens to reverse this progress.

A corporate rate increase could also result in major job losses in American communities. In the two decades before the 2017 tax cuts, nearly one hundred US companies moved to foreign countries to avoid the high U.S. rate. Since the rate was reduced to a competitive level, tax inversions have disappeared. Raising the corporate rate could once again force US companies to consider moving their headquarters and operations overseas.

**Increasing the corporate rate will hike taxes for individuals and working families**

Study after study has shown that as much as 70% of the burden of a corporate rate increase falls on working families. A Federal Reserve Board study found that a corporate rate increase would be "uniformly harmful to workers." Other studies have found that a corporate rate hike would have a "significant effect" on prices, with nearly one-third of a corporate tax increase falling on consumers in the form of higher prices.

Studies have also shown that a corporate rate hike would fall on millions of individual taxpayers and working families. A study by the Joint Committee on Taxation shows that 172 million individual taxpayers would bear the burden of a higher corporate rate, with 98% of them with income below $500,000. More than 125 million taxpayers earning less than $100,000 would be hit by a higher corporate tax rate.

Research also shows that a corporate rate increase does not just hit big corporations. Small businesses would be hit by a corporate rate increase. As many as 1.4 million small businesses employing about 13 million employees would be forced to pay a higher rate. According to the NFIB, small employers are c-corps which underscores why a corporate tax hike would be "a disaster for small businesses."

In conclusion, we urge the Committee to protect the current competitive U.S. rate and reject proposals to raise the U.S. rate. An overwhelming body of economic research shows that a corporate rate increase is the most economically damaging tax increase. The Tax Foundation has forecasted the Biden budget would reduce long run economic output by 2.2%, wages by 1.6%, and employment by nearly 800,000 jobs. They believe the budget would put the U.S. in a distinctly uncompetitive international position and threaten the health of the U.S. economy. Further, they project that raising the corporate rate to 28% would be the largest cause of negative effects on the economy.

We strongly believe that raising the corporate rate would be a major economic mistake, increasing the chances of an economic downturn and economic stagnation. We believe that the competitive tax rate enacted by Congress in the 2017 Tax Cuts and Jobs Act is essential to continued economic growth and prosperity, benefiting working people, families, and American businesses.

Statement for the Record

**House Ways and Means Committee**
Expanding the Success of the 2017 Tax Cuts and Jobs Act
April 11, 2024

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 Thursday, April 25, 2024. For questions, or if you encounter technical problems, please call (202) 225-3625.

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**.

American Citizens Abroad Statement (ACA) for the Record to House Ways and Means Committee Hearing entitled **Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans**
April 11, 2024

American Citizens Abroad, Inc, (ACA) hereby submits our Statement for the Record.

American Citizens Abroad, Inc. (ACA) is a leading advocacy organization representing Americans living and working overseas. Headquartered in Washington, DC, ACA is nonpartisan, non-profit (section 501 (c)(4)), with a 40-plus-year history of advocating on behalf of the community of Americans living and working overseas. Alongside ACA is its sister charitable (section 501(c)(3)) research and educational organization, American Citizens Abroad Global Foundation (ACAGF).

ACA thanks the House Ways and Means Committee for hosting this hearing and opening discussion on the 2017 Tax Cuts and Jobs Act (TCJA) ahead of the 2025 sunset of key provisions, many of which have critical impacts for U.S. citizens living outside the country.

U.S. SMALL BUSINESSES, GILTI AND LEVELLING THE INTERNATIONAL PLAYING FIELD

The hearing featured lengthy discussion on the need to preserve provisions in the TCJA that protect and support small businesses and that "make U.S. business more competitive by levelling the international tax playing field"[1].

These two ambitions remain unfulfilled, however, for the small to medium sized businesses that are owned by Americans abroad. Arguably and conversely, the TCJA has imperiled American small businesses abroad and made them far less competitive.

Although GILTI Tax was designed to tax the unrepatriated the profits of the overseas subsidiaries of large U.S. multinational corporations, it also applies, unfortunately, to the profits of the small to medium size businesses of U.S. citizens living, working, raising families and retiring abroad.

The TCJA decreased the corporate tax rate to approximately the international average. Rep. Hern said:

[1] Senator Gramm made this statement in response to questions by Rep Estes about GILTI and FDII improving the U.S. corporate taxation system.

> *"The Average combined U.S. (corporate) tax rate is 25% which is just above the global mean of 23%. Lowering the corporate tax rate almost the global mean made American businesses ... more competitive in the global marketplace."*

Except that small business owners abroad pay GILTI tax on undeclared profits at their **personal marginal tax rate,** and not the corporate tax rate. Further, corporations are entitled to GILTI tax offsets, deductions and discounts that are inaccessible to small business owners abroad. Having extra taxes taken out of the business – taxes that your local competitors are not paying – clearly does not make you more competitive in the global marketplace.

It is clear to us that members of Congress are simply not aware of the impact the GILTI and Repatriation Tax provisions had on American business owners abroad.

Rep Tenney extolled the virtues of the Repatriation tax, celebrating the benefits in her district of the *"one-time reduction in the corporate tax rate to big businesses that brought back money from abroad and jobs back to the U.S."* But the businesses owned and operated by Americans abroad support their families and save for their futures, which may not be back in the U.S. The Repatriation Tax ripped away the retirement savings they were accumulating in their businesses (because many have no access to U.S. or non-U.S. retirement savings plans). The Repatriation Tax look-back to 1986 was devastating for them.

Rep Smucker said, the TCJA helped *"middle income Americans keep more of their hard-earned money."* Rep Miller said, *"All families, corporations and small businesses benefitted from the passage of the TCJA."* These statements are simply not true. Rep Miller is further mistaken in this belief:

> *"To this day the positive impacts of a simpler tax code are being felt... The TCJA was extremely successful at simplifying the tax code on the individual."*

Due to GILTI, U.S. tax compliance complexity and costs have increased enormously for American small business owners abroad. The complex formula to calculate GILTI demonstrates that it was, in fact, never intended for the profits of small to medium sized businesses owned by ordinary, working-class Americans abroad. They were never the GILTI tax target and they are years overdue for relief.

CHILD TAX CREDIT

Increased Child Tax Credits (CTC) in the TCJA were a great benefit to families living abroad. The American Rescue Plan Act expanded on the CTC by adding full refundability and advance payments. However, a residency requirement was included in the provision that denied CTC beneficiaries living abroad access to full refundability and advance payments. This was greatly disappointing and upsetting for non-resident parents who already bear an inordinately costly and complex U.S. tax filing burden.[2] We ask that in TCJA renewals of the CTC the Ways and Means Committee ensure no U.S. residence requirement is included in the eligibility criteria for full CTC refundability as well as the CTC advance payments.

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[2] Ordinary, middle-class taxpayers filing from abroad need to understand the IRC's arcane provisions for non-resident filers and, further, are required to navigate the convergence of U.S. tax rules and the tax rules of the country where they live, including provisions in the U.S. tax treaty.

Rep Evans described the CTC as *"one of the most powerful tools for addressing childhood poverty."* U.S. parents living abroad benefit from the Child Tax Credit (CTC) in the same ways that parents living in the U.S. do. They can afford more childcare which enables them to work more hours and better provide for their families. They can better manage household budgets and so avoid pay-day loans or other expensive credit arrangements to manage lumpiness of household income. And, overall, the reduction in financial distress results in less family distress.

Research published in 2022 about U.S. citizens living abroad includes gross household income data that indicates 76% qualify for the whole of the CTC. Up to 96% would be eligible for some portion[3]. Inflationary pressures persist in nations around the world, making this a time of considerable financial distress for middle income U.S. families regardless of where they reside. This cohort of U.S. citizens, already identified as under-served by the IRS, is no less deserving of government assistance and is in genuine need of support.

It is not clear to us why, from an equity or a tax administration point of view, the residency requirement exists for CTC advance payments. The IRS portal for administering the CTC enables CTC beneficiaries living abroad to register with their non-U.S. addresses, phone numbers and bank accounts, thus eliminating any obstacle to beneficiaries abroad receiving the CTC advance payments. Providing U.S. parents abroad access to CTC full refundability and advance CTC payments in fulfills the obligation of the Congress to observe equal protection provisions in making and implementing law.

INCLUDING AMERICANS ABROAD IN THE TCJA

Rep Schneider made the point that the TCJA is "not withstanding the test of time… Reforms like this can't be rushed through the system and should be bi partisan." ACA believes that Congress has an opportunity to do what, according to comments made by Rep George Holding and W&MC Chair Kevin Brady during 2017 TCJA floor debate, it didn't have time for in 2017, which is to include individuals in the U.S. shift from a world-wide tax system to a territorial tax system. A switch from Citizenship Based Taxation to Residency Based Taxation would provide relief to U.S. citizens abroad that they have long waited for.

Non-resident U.S. citizens suffer considerable tax policy-based discrimination, such as: some double-taxation; being taxed (Net Investment Income Tax) for programs they cannot access (Affordable Care Act); being excluded from full refundability of the child tax credit when they are otherwise eligible; having offshore income treated as "untaxed income" in the Free Application for Federal Student Aid when it is subjected to taxation in the country where it is generated; barriers to U.S. investment vehicles which require U.S. residential addresses, as well as punitive treatment of investment vehicles available in our countries of residence; and much more.

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[3] Once Uncomfortable, Now Suffocating: A 2022 Update on Tax and Financial Access Issues of Americans Abroad, Democrats Abroad, November 2022. https://www.democratsabroad.org/2022_report_data

RESIDENCE BASED TAXATION

ACA has long advocated that the real solution to the problems of overseas taxpayers is the adoption of Residence-based taxation (RBT) which would tax U.S. citizens overseas on the basis of where income is earned, therefore excluding foreign earned income from U.S. taxation and only taxing U.S. sourced income. ACA was the first organization to develop a https://assets.nationbuilder.com/americansabroad/pages/33/attachments/original/1709155089/residency-based-taxation-aca-side-by-side-comparison-4-20-2022.pdf?1709155089that indicates where in the current tax code changes could be made in a move to a system of taxation based on residence. ACA has fielded https://www.americansabroad.org/aca_deg_analysis_of_revenue_effects_of_residents_based_taxation on the subject with District Economics Group (DEG), Washington, DC-based economic consulting firm – one in 2017 and one in 2022 - that provide valuable information on the income, asset and taxation of U.S. citizens living and working overseas. This data, one of a kind, supports our position that RBT can be adopted and be revenue neutral and tight against abuse.

ACA's research studies provide invaluable data on the community of U.S. citizens living and working abroad and most importantly, gives Congress an accurate number for the size of the community of U.S. citizens living and working outside the U.S. ACA estimates this figure at approximately 4-5 million (excluding US military). Unfortunately, many in Congress continue to reference the U.S. State Department figure of 9 million. In recent meetings with the U.S. State Department ACA has learnt the DOS will no longer be publishing this figure, citing the difficulty in accessing robust data to make these estimates. This acknowledges the inaccuracy in the 9 million estimate, a figure which has, firstly, distorted many of the government estimates for changes in tax policy that affect U.S. citizens living and working outside the U.S. and, further, has only cemented the false optic that U.S. citizens overseas are tax evaders.

CONGRESSIONAL HEARINGS ON TAXATION AND U.S. CITIZENS ABROAD

ACA believes it is essential that Congress hold hearings on the issues affecting this very important group of U.S. citizens. ACA has presented our research and data to the Ways and Means Committee staff as well as the other Tax Writing Committees on Capitol Hill. But the time has come for our data and knowledge, and that of other organizations and individuals, be put on official record with Congress. There is Congressional interest in tax reform for U.S. citizens abroad, evidenced by the introduction of several pieces of legislation.

- H.R.2729 - 118th Congress (2023-2024): Commission on Americans Living Abroad Act of 2023 | Congress.gov | Library of Congress (The Commission on Americans Living Abroad Act) which would call for the creation of a commission to begin investigating the concerns of this community. This Commission would be an excellent start to the process of holding hearings.

- H.R.5432 - 118th Congress (2023-2024): Tax Simplification for Americans Abroad Act | Congress.gov | Library of Congress The Tax Simplification for

Americans Abroad Act calls on the Congress to mandate the IRS to create a simplified filing form (worksheet) for certain US citizens filing from overseas.

- H.R.5799 - 117th Congress (2021-2022): Overseas Americans Financial Access Act | Congress.gov | Library of Congress The Overseas Americans Financial Access Act would call for the use of a Same Country Exemption (safe harbour) for reporting of financial account held overseas.

**Congress owes it to the community of U.S. citizens overseas, as well as to the Congressional offices that support legislative and regulatory change, to make hearings a priority.** It is imperative that the issues of U.S. citizens living overseas are put on record with the Committees and Congress before the expiring and other provisions of the TCJA are settled. ACA can assist with the organization of witnesses to provide data, testimony and case studies. Please contact us at any time to discuss.

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American Chemistry Council

SUBMITTED VIA E-MAIL: WMSubmission@mail.house.gov

April 25, 2024

The Honorable Jason Smith
Chairman
U.S. House of Representatives Ways and Means
Longworth House Office Building 1011
Washington, DC 20515

The Honorable Richard E. Neal
Ranking Member
U.S. House of Representatives Ways and Means
Cannon House Office Building 372
Washington, DC 20515

Re: Hearing on Expanding the Success of the 2017 Tax Relief to Help Hard Working Americans

Dear Chairman Smith and Ranking Member Neal:

The American Chemistry Council (ACC) represents the leading companies engaged in the $640 billion-dollar business of chemistry. ACC members apply the science of chemistry to make innovative products, technologies and services that make people's lives better, healthier, and safer.

ACC appreciates the opportunity to submit comments in response to the Committee's hearing April 11, 2024, on the success of the 2017 Tax Cuts and Jobs Act, (TCJA) specifically the impact to U.S. manufacturing.

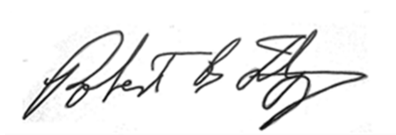
U.S. economic growth requires sound tax policies that incentivize capital investment, job creation and global competitiveness of U.S. businesses. Immediate R&D expensing, the pre-2022 Section 163(j) interest expense deduction limitation, and full expensing of capital equipment purchases – all part of TCJA – are all tax policies that allow U.S. businesses to thrive, create jobs and strengthen the U.S. economy.

As we have been advocating for years, ACC urges Congress to take action now to restore immediate R&D expensing, revert to pre-2022 Section 163(j) interest deduction limitation based on EBIDTA and extend the full expensing provision. Taking such action through passage of the Tax Relief for American Families and Workers Act has bipartisan support and has the support of U.S. manufacturers including ACC members.

In stark contrast, the proposals outlined by the Administration as part of the FY 2025 budget have ACC members very concerned, particularly as they roll back provisions in TCJA. Significantly raising the corporate tax rate and the CAMT rate, and the many other proposals that raise taxes indiscriminately (e.g., the repeal of foreign derived intangible income and changes to the interest limitation rules) would choke U.S. manufacturers, diverting dollars from Domestic investment and workers.

We look forward to actively participating in discussions around the expiration of TCJA and believe the hearing was an important fist step. We thank you for the opportunity to provide these comments.

Very truly yours,



Robert B. Flagg
Senior Director, Federal Affairs
American Chemistry Council

AFFORDABLE HOUSING TAX CREDIT COALITION

**Statement of the Affordable Housing Tax Credit Coalition**

**In Response to the House Ways and Means Committee Hearing on Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans**

**April 11, 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 this hearing on expanding on the success of the 2017 tax relief to help hardworking Americans. 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. We are pleased to submit this statement for the record of this hearing and appreciate the opportunity to provide our perspective on the importance of expanding and strengthening the Housing Credit to address our nation's pervasive and growing affordable housing crisis.

The Housing Credit is our nation's primary tool for financing affordable housing production and preservation in rural, suburban, and urban communities alike. As the only federal program that directly expands the production of affordable housing, the Housing Credit has financed the production or preservation of 3.85 million affordable rental homes since 1986 and has the lowest foreclosure rate of any real estate asset class.[1] [2] The Housing Credit's role in financing critically needed affordable housing production, addressing a chronic lack of supply that continues to drive up inflation rates and rents, makes it foundational to the success of our nation's economy. As a state-administered program, the Housing Credit provides desperately needed financial resources that can be tailored to each state's specific housing needs and ensures 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 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. Thankfully, there is

[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] CohnReznick, *2023 Affordable Housing Credit Study*, p. 23. Available at: https://www.cohnreznick.com/insights/2023-affordable-housing-credit-study

a solution. The Housing Credit is a highly successful public-private partnership that provides a market-based solution with a proven track record and long-term bipartisan support. Most importantly, 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 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.

Investing in the Housing Credit is critical to addressing America's affordable housing crisis, and more needs to be done. Expanding and strengthening the Housing Credit will support the production of more affordable and safe rental housing, and the growth of economies and communities nationwide through direct job creation and better housing closer to employers. Over the over 36-year history of the program, the Housing Credit has supported 6 million jobs, generated $688.5 billion in wages & business income,[3] revitalized neighborhoods, and increased local purchasing power. Americans are looking for better opportunities for economic mobility, and the stable, quality housing provided through increased Housing Credit supply can do just that.

This hearing comes at an important time as a window of opportunity for Congress to invest in affordable housing has been opened by the passage of the **Tax Relief for American Families and Workers Act of 2024 (H.R.7024)** by an overwhelming majority of the U.S. House of Representatives. We thank the Ways and Means Committee for passing the bill to the full chamber with **Housing Credit provisions that would finance the production or preservation of more than 200,000 additional affordable rental homes.[4]** Expanding and strengthening the Housing Credit at this critical time would provide urgently needed resources to provide housing for hardworking Americans, and generate jobs, wages and business income, and tax revenue for states and localities across the nation.

The Tax Relief for American Families and Workers Act of 2024 contains two key Housing Credit production provisions derived from the Affordable Housing Credit Improvement Act (AHCIA) of 2023 (S. 1557 / H.R. 3238), bipartisan legislation to expand and strengthen the

[3] ACTION Campaign national factsheet https://rentalhousingaction.org/wp-content/uploads/2022/12/ACTION-NATIONAL-2022-NEW-LOGO_01.pdf
[4] 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

AFFORDABLE HOUSING TAX CREDIT COALITION

Housing Credit. These include 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. The AHCIA has earned the support of nearly half of the entire 118th Congress with 222 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.

Enacting key production 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 Housing Credit allocation increase at the end of 2021 left state housing agencies with too few resources available to sustain prior levels of affordable housing production, and the problem has only worsened since then. Though there is broad bipartisan support for restoring the allocation increase, Congress has thus far failed to act, while our nation’s affordable housing crisis is growing by the day. It is urgent that Congress not only reverse this cut to our primary affordable housing production program, but also further expand and strengthen the Housing Credit allocation as proposed in the AHCIA.

The other core production provision included in the Tax Relief for American Families and Workers Act would increase the amount of affordable housing that can be financed using private activity bonds (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 proposed to 25 percent), which would unlock four percent Housing Credit equity to further increase affordable housing supply. 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. Enacting the tax bill with these broadly supported proposals would increase affordable housing production by over 200,000 additional affordable homes than otherwise possible over two years, providing sorely needed relief for Americans struggling to afford rent and other essential needs.[5] We commend the House of Representatives for passing these provisions and hope to see them enacted into law soon.

As we wait on the Senate to consider the Tax Relief for American Families and Workers Act, movement on the full AHCIA remains a priority as a bipartisan solution for addressing the nation’s acute need for affordable rental housing. In addition to the provisions described above, the AHCIA also contains other important production provisions, such as additional state allocation and “basis boosts” to make more developments financially feasible for particular

[5] 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

AFFORDABLE HOUSING TAX CREDIT COALITION

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.

Nearly 2 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.[6] With Congress approaching the expiration of critical tax policies enacted in 2017, it is essential that affordable housing remains a priority and that AHCIA provisions are incorporated into any tax legislation that arises.

The Housing Credit is vital to addressing the nation's worsening affordable housing crisis and enhancing economic opportunities. Not only does the Housing Credit promote stability, growth, and better health for low-income families and individuals, it promotes stability and economic growth for broader communities in urban, suburban, and rural areas alike. We urge the Ways and Means Committee members to continue to support the AHCIA's provisions, as part of forthcoming efforts to expand on 2017 tax legislation. We thank you for your continued leadership and look forward to continuing to collaborate with you and the entire committee on these priorities.

[6] Novogradac Data May 2023: https://www.novoco.com/notes-from-novogradac/lihtc-pab-provisions-newly-reintroduced-ahcia-could-result-nearly-2-million-additional-affordable

April 11, 2024

*Re: Hearing on Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans*

Dear Chairman Smith, Ranking Member Neal, and Members of the House Committee on Ways and Means,

Thank you for holding a hearing on the 2017 tax reform package and thinking about a future tax reform package in 2025. Engine is a non-profit technology policy, research, and advocacy organization that bridges the gap between policymakers and startups. Engine works with government and a community of thousands of high-technology, growth-oriented startups nationwide to support a policy environment conducive to technology entrepreneurship. Clear, straightforward tax policy that enables startup creation and incentivizes investment in startups is crucial for the continued strength of our innovation ecosystem, and policymakers should prioritize startup needs—as the nation's primary net new job creators—when thinking about tax reform.

Tax policy can be difficult for cash-strapped startups to navigate. Overly complicated or discriminatory tax frameworks can result in complex tax planning and significant real or passed-down costs for startups. Conversely, tax benefits to investors, startup founders, and early employees can increase capital, talent, and opportunities for nascent companies, thereby boosting the economy. The Ways and Means Committee, and more broadly the House of Representatives, have already acted on two critical issues for startup founders and the growth of their companies—a return to immediate expensing for research and development (R&D) expenses and an expansion of the Child Tax Credit (CTC), to give more people the cushion they need to pursue innovation and support their families. Unfortunately, the Senate has not yet acted on the House-passed package that would include both of those provisions.

Members of the committee should continue to urge their Senate colleagues to immediately pass the Tax Relief for American Families and Workers Act. We have heard from countless startups about the importance of a return to immediate expensing for R&D expenditures. Without a return to immediate expensing, many startups will have to roll back R&D and some will have to forgo hiring and further growth to contend with significant tax bills. Failing to rectify this issue is bad for innovation and puts us at a competitive disadvantage with many other countries that prioritize technological advancement, including China. Expanding the Child Tax Credit is also critical for startup founders, especially women founders, who increasingly shoulder family care responsibilities with those of being a breadwinner. Many founders are shut out of innovation as a career pathway due to the cost of child care. An expanded child tax credit helps to lift children out of poverty and better enables parents to work, including as entrepreneurs, because they have greater support when providing for their families' care.

Startups from all across the country and varying industries have spoken out about both of these issues and their importance to the innovation ecosystem. You will find previous letters to Congress attached below, underscoring the critical need to restore immediate expensing for R&D and for greater support for child care, including through an expanded CTC, as well as a startup spotlight on how changes to R&D expensing have affected founders and their companies.

Thank you again for holding this important hearing. As always, Engine is happy to serve as a resource regarding the impact of tax reform on the startup ecosystem.

Sincerely,
Engine Advocacy
700 Pennsylvania Ave SE
Washington, D.C. 20003

June 6, 2023

| | |
|---|---|
| Chairman Jason Smith<br>House Committee on Ways and Means | Ranking Member Richard Neal<br>House Committee on Ways and Means |
| Chairman Ron Wyden<br>Senate Committee on Finance | Ranking Member Mike Crapo Senate Committee on Finance |
| Chairman Roger Williams<br>House Committee on Small Business | Ranking Member Nydia Velázquez House Committee on Small Business |
| Chairman Ben Cardin<br>Senate Committee on Small Business and Entrepreneurship | Ranking Member Joni Ernst<br>Senate Committee on Small Business and Entrepreneurship |

Dear Chairmen Smith, Wyden, Williams, and Cardin and Ranking Members Neal, Crapo, Velázquez, and Ernst,

We represent founders, innovators, and support organizations throughout the U.S.' vibrant startup ecosystem. While our companies reflect diverse industries, we have in common a commitment to undertaking research and development activities in support of our startups and the broader innovation economy. As such, we write to you to encourage you to take action to mitigate the effects of Research and Experimentation (R&E) capitalization and amortization as mandated by the 2017 Tax Cuts and Jobs Act on the startup ecosystem by implementing a return to immediate expensing.

Our nation's startups are scrappy companies, often operating on lean budgets with minimal staff, particularly in their initial stages. Even for startups that have reached seed stage, they typically have limited capital—roughly $55,000 a month—to operate.[1] These limited funds must cover a lot—from office space, to salaries, to insurance, to research and development, and more. Research, development, and experimentation costs can quickly eat away at a growing startup's budget, but immediate expensing for R&E expenditures helps to offset these costs, allowing startups to propel the U.S. as a leader in global innovation.

Unfortunately, the ability of a startup to invest heavily in research, development, and experimentation is at risk. This work is expensive, and immediate expensing allowed many startups to offset the cost, particularly as startups may have high research, development, and experimentation costs relative to the size of their companies. But under the newly implemented section 174 capitalization, startups will no longer be able to immediately expense qualifying costs and will instead be forced to amortize the costs over five years (15 years for international expenses), causing a significant hit to startups' cash flow. For startups that continue to engage in R&D, they will be forced to dedicate more of their limited funds to tax payments, eschewing other critical areas for startup success, like hiring. For many startups, research, development, and experimentation will simply become unaffordable, requiring founders to limit expenditures in order to pay operating costs like rent, legal services, and salaries. The end result is slowed innovation and stunted startup growth.

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[1] Engine, *The State of the Startup Ecosystem*, https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/60819983b7f8be1a2a99972d/1619106194054/The+State+of+the+Startup+Ecosystem.pdf.

Many industries, like software development, have already seen a hit from the change. As it stands, the U.S. remains now one of the only countries without immediate expensing for R&E expenditures.[2] As tax season rolled around, many companies expected Congress to have already implemented a return to immediate expensing, as policymakers had indicated they supported a fix. Instead, these companies were met with significant tax bills and uncertainty as to whether or not they will be able to survive the year.[3] And for startups that are generating revenue but are pouring that revenue back into research, development, and experimentation, the shift to amortization could be catastrophic,[4] especially as not all expenses falling under section 174 are clearly eligible for the R&D tax credit.[5]

While many believe only large companies avail themselves of tax benefits that support research, development, and experimentation, many small companies throughout the U.S. startup ecosystem rely on these provisions. Policymakers in both chambers, from both sides of the aisle support a fix. The startup community does not have the time to wait for a fix. We urge your committees to act quickly to investigate this issue and advance a legislative solution that includes a return to immediate expensing, to ensure the startup ecosystem can continue to innovate and prosper, supported by research and development efforts.

Sincerely,

| | | |
|---|---|---|
| Abstract Sacramento, CA | Cuttlesoft, LLC Denver, CO | Institute for Energy and Sustainability, Inc. Worcester, MA |
| Actionfigure Washington, DC | Denver Angels Denver, CO | Intersectional Group Portland, OR |
| Austin R&D, LLC Houston, TX | Ecobot Asheville, NC | KCRise Fund Kansas City, MO |
| Baru Inc. Cleveland, OH | Engine Washington, DC | M1PR, Inc. Roswell, GA |
| Big Propeller, LLC Miami, FL | Epistimis, LLC Poulsbo, WA | Make Startups, Inc. Atlanta, GA |
| BIPOC Adoptees, LLC Portland, OR | Float New York, NY | MENTOR$CHIP, INC. Portland, OR |
| Brave Founders Portland, OR | Formspree San Antonio, TX | MITO Material Solutions Indianapolis, IN |
| Bryght Labs, Inc, Kansas City, KS | FreeFuse Inc. Los Angeles, CA | Moved Jacksonville, FL |
| Carefully, LLC Brooklyn, NY | Hacom, LLC Santa Ana, CA | Narmi Jacksonville, FL |
| CodeHS Chicago, IL | Hangar New York, NY | NetBeez, Inc. Pittsburgh, PA |

[2] Vanessa Cruze, *Unprofitable Startups May Owe 2022 Taxes* (Nov. 18, 2022), https://www.cpapracticeadvisor.com/2022/11/18/unprofitable-startups-may-owe-2022-taxes/73373/.
[3] Eric Rosenbaum, Software Firms Across U.S. Facing Massive Tax Bills that Threaten Tech Startup World Survival (April 18, 2023), https://www.cnbc.com/2023/04/18/software-firms-face-huge-tax-bills-that-threaten-tech-startup-survival.html.
[4] Cruze, *supra* note 2.
[5] Josh Zagorsky, How the New 174 Capitalization Rules Punish Innovation (April 21, 2023) https://blog.taxcredit.ai/en/blog/section-174-capitalization-changes-punish-innovation.

Cofounders Capital Venture Partners
Cary, NC

Colorado Startups Denver, CO

Concert Archives Vancouver, WA

Cormig, LLC Portland, OR

Oppti Westminster, CA

PILOT, Inc. New York, NY

Planship Seattle, WA

PolyGone Systems, Inc Princeton, NJ

Privacy Vaults Online, Inc. Dumfries, VA

QBOID, Inc. San Jose, CA

Raydiant Oximetry, Inc San Ramon, CA

RevUp Capital San Ramon, CA

Scintillation Nanotechnologies Inc. Tucson, AZ

Signals Provo, UT

SmolTech LLC Rochdale, MA

Social Impact Capital New York, NY

Tampa Bay Wave Tampa, FL

The Alliance for Longevity Initiatives
Arlington, VA

hobbyDB Boulder, CO

IncentiLock, LLC
Chesterfield, MO

Infiltron Software Suite
Warner Robins, GA

InnovateEDU New York, NY

TechFW
Fort Worth, TX

TheraTec, Inc Horace, ND

The Shape Sensing Company
Austin, TX

Toast Wear, Inc. Portland, OR

Tostie Productions, LLC
San Diego, CA

Ultrasonic Technology Solutions
Knoxville, TN

UnaliWear, Inc. Austin, TX

Venntive, LLC Warwick, NY

Via
New York, NY

Vitro3D, Inc. Boulder, CO

Voatz Boston, MA

VODIUM Nashville, TN

Wearable Tech Ventures
Baltimore, MD

Zagaran, Inc. Boston, MA

Nucleic Sensing Systems Saint Paul, MN

OculoTherapy Memphis, TN

Onfleet, Inc.
San Francisco, CA

Oppti Westminster, CA

Zylinium Research, LLC Atlanta, GA

September 15, 2023

Chairman Ron Wyden
Senate Committee on Finance
219 Dirksen Senate Office Building Washington, D.C., 20510

Ranking Member Mike Crapo Senate Committee on Finance
219 Dirksen Senate Office Building Washington, D.C., 20510

Chairman Jason Smith
House Committee on Ways and Means 1139 Longworth House Office Building Washington, D.C., 20515

Ranking Member Richard Neal
House Committee on Ways and Means 1129 Longworth House Office Building Washington, D.C., 20515

Dear Chairmen Wyden and Smith and Ranking Members Crapo and Neal,

We represent women startup founders and startup ecosystem leaders spanning multiple industries in communities across the country. As women founders, the deck is already stacked against us. We face more hurdles accessing the capital we need, carry more student loan debt on average, remain underrepresented in STEM fields, and shoulder more family and childcare responsibilities than our male counterparts. We have miles to go before women will have achieved equity in the U.S. startup ecosystem, and policymakers must act. Congress can begin by addressing the financial burdens faced by thousands of women caregivers of children throughout the country through a permanent enhanced child tax credit (CTC) so that these women have more security and flexibility to be innovators.

The American Rescue Plan provided a historic boost to the child tax credit—increasing the amount of the credit and making it fully refundable, expanding access to low and no-income families. It importantly supported mothers, who in particular, shouldered additional burdens during and emerging from the pandemic. Many women were forced to scale back working hours, or worse, leave their jobs, to manage increased caregiving responsibilities.[6] But the enhanced child tax credit helped thousands of women with children afford food, secure childcare, and pay rent, and it affords parents the ability to work more and pursue better employment opportunities.[7]

For the startup ecosystem, the enhanced CTC supported and encouraged entrepreneurship and gave many people the added security they needed to found companies.[8] According to research, 21.3 percent of CTC recipients were planning to launch a business or were already running a business.[9] Self-employment increased amongst low-income families by roughly 3 percent following the

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[6] Stephanie Hingtgen, *This Mother's Day, Congress can Support Mothers by Expanding the Child Tax Credit*, Center on Budget and Policy Priorities (May 5, 2022), https://www.cbpp.org/blog/this-mothers-day-congress-can-support-mothers-by-expanding-child-tax-credit.

[7] Carmen Reinicke, *With the Support of the Child Tax Credit, Some Parents Launched Businesses Last Year* (Feb. 19, 2022), https://www.cnbc.com/2022/02/19/the-child-tax-credit-helped-some-parents-launch-businesses-last-year.h tml.

[8] *Id.*

[9] Kelli Smith, *Expanded Child Tax Credit and Earned Income Tax Credit Boost Local Economies*, Economic Security Project (Nov. 3, 2022), https://economicsecurityproject.org/resource/how-expanded-tax-credits-boost-local-economies/#:~:text=T he%20Child%20Tax%20Credit%20creates,freedom%20to%20take%20a%20risk.

implementation of the enhanced benefit.[10] This equates to thousands of new businesses created.[11] But entrepreneurship is a risky business, one where women are already constantly having to work harder and longer for less. New founders often lack safety nets to support their families as they grow their startups and work to generate revenue. For entrepreneur parents, the enhanced CTC helped to lessen this burden.[12]

Women-run startups are exceedingly innovative and are more likely to be successful than their male-led counterparts when they receive the funding they need. While women-founded and co-founded startups receive less VC investment on average, they still perform better over time, generating more revenue over five years,[13] and they generate a higher return on investment—35 percent higher—than startups founded by men.[14] Women-led startups are also more likely to be job creators for other women—startups founded or co-founded by women hire 2.5 times more women than male-founded startups.[15] In short, women founders and the startups they launch are good investments, but policymakers repeatedly and continuously fail to give us the support we need in the innovation ecosystem.

Policymakers should be doing everything in their power to dismantle barriers to entrepreneurship, including those created because women more often than not shoulder the responsibility of family caregiving. Implementing a permanent enhanced child tax credit is one step Congress can take to help ease the path to entrepreneurship for women, allow women of more socioeconomic backgrounds to pursue entrepreneurship, and provide the support children need so they can succeed in school and in their future careers.

Sincerely,

Enovia Bedford VettDeck - Charlotte, NC

Grace Belangia
Make Startups - Palo Alto, CA

Suzanne Borders
BadVR, Inc. - Los Angeles, CA

Leslie Borrell
Carefully - Brooklyn, NY

Amelia Eichel
Wonderfil, PBC - Scotts Valley, CA

Zhou Fang
Intersectional Group, LLC - Portland, OR

Yasmin Ferrine
Visible Hands - Boston, MA

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[10] Reinicke, *supra* note 2.

[11] See letter from business organizations: https://smallbusinessmajority.org/sites/default/files/policy-docs/BusinessOrganizations-Support-ChildTaxC redit.pdf.

[12] Gabrielle Bienasz, *How the New Child Tax Credit is Helping Parent Entrepreneurs*, https://www.inc.com/gabrielle-bienasz/child-tax-credit-parent-entrepreneurs.html.

[13] Katie Abouzahr, Matt Krentz, John Harthorne, and Frances Brooks Taplett, *Why Women-Owned Startups are a Better Bet* (June 6, 2018), https://www.bcg.com/publications/2018/why-women-owned-startups-are-better-bet.

[14] *Female Founder Statistics*, Springboard Enterprises, https://sb.co/female-founder-stats/.

[15] Collin West and Gopinath Sundaramurthy, *Women VCs Invest in up to 2x More Female Founders*, Kauffman Fellows (March 25, 2020), https://www.kauffmanfellows.org/journal/women-vcs-invest-in-up-to-2x-more-female-founders.

Emily Brown
Free From Market - Kansas City, MO

Allison Byers
Scroobious - Westwood, MA

Emily Cadiz
Finnegan the Dragon - Hillsboro, OR

Tani Chambers RAVN - New York, NY

Debbie Chen
Hydrostasis - San Diego, CA

Adriana Cisneros Basulto Maxwell - Omaha, NE

Jen Consalvo
Established - Kennebunkport, ME

Alice Crisci
MedAnswers, Inc. - Sagle, ID

Renee Dua
Together by Renee - Palo Alto, CA

Sonja Ebron
Courtroom5 - Durham, NC

Noelle London Illoominus - Atlanta, GA

Sarah Lord
Mpathic - Bellevue, Washington

Sara Makin
Makin Wellness - Pittsburgh, PA

Deldelp Medina
Black & Brown Founders - San Francisco, CA

Kellee Mikuls Swishboom - Omaha, NE

Amy Millman
StageNext, LLC - Bethesda, MD

Erin Grau
Charter - New York, NY

Regina Gwynn
Black Women Talk Tech - New York, NY

Diane Hamilton
Binary Formations - Glen Allen, VA

Felena Hanson
Hera Hub - San Diego, California

Bettina Hein juli - Hull, MA

Laurel Hess
Hampr - Lafayette, LA

Elizabeth Hitchcock
Orbit Group - Manchester, NH

Monica Jablonski OculoTherapy - Memphis, TN

Renee King
FundBlackFounders - New York, NY

Esther Lee
Refraction - McLean, VA

Amy Li
Dance4Healing - Sunnyvale, CA

Eve Rodsky
The Fair Play Policy Institute - Los Angeles, CA

Maya Rogers
Blue Startups - Honolulu, HI

Faye Sahai
Telosity - Redwood City, CA

Sylvia Salazar
Green Lemon, LLC - Portland, OR

Julie Samuels Tech:NYC - New York, NY

Reva Minkoff
Digital4Startups Inc. - Chicago, IL

Erin Mote
InnovateEDU - New York, NY

Ellen Murphy
Bellybaloo - Stoughton, MA

Molly O'neil
Superb Shifts Inc. - Omaha, NE

Carolyn Pitt
Productions.com - Atlanta, GA

Jie Qi
Chibitronics, Inc. - Wilmington, DE

Vimi Rao
Sapta, Inc. - Menlo Park, CA

Carrie Rich
The Global Good Fund - Washington, DC

Reshma Saujani
Moms First - New York, NY

Sarah Siders
Spark - Manhattan, KS

Leslie Smith
Themis Strategic Partners, LLC - Chicago, IL

Shannon Snow
The Smitten Project - Omaha, NE

Jennifer Sparks
Vacmobile Corporation - Atlanta, GA

Sue Spencer
Seamly Systems, Inc. - Paducah, KY

Kimberlee Spillers
Rural Community Solutions - Atlantic, IA

Elizabeth Tenety Motherly - Park City, UT

Laura Truncellito Enployable, Inc. - Tysons, VA

Kate Tummarello Engine - Washington, DC

Miurika Valery
Flustr, Inc. - Los Angeles, CA

Tiffany Whitlow
Acclinate - Birmingham, AL

Sophia Yen, MD
Pandia Health, Inc. - Sunnyvale, CA

# STARTUP SPOTLIGHT ON R&D expensing

Engine

"As a bootstrapped startup, we run our company at break even/slight profitability. We've been stuck in a holding pattern focusing on services revenue (vs. software revenue) because our software related payroll is no longer expensable. Put another way, if I spend money on R&D, I will go from breakeven to showing a large profit. I cannot afford the tax bill, so I am not investing in additional R&D hires at the moment. This is a perspective that is not shared often, i.e., that R&D capitalization puts bootstrapped startups at a disadvantage compared to VC-backed startups. That is because many VC-backed startups are still not profitable even after capitalizing R&D. If you are running a net income loss of -50%, and you lose the ability to expense 20% of that (R&D) expense, you are still running at a -30% loss, which means you have no tax bill."

**- Sal Abdulla**
**Founder & CEO,**
**Nixsheets (San Francisco, CA)**

nixsheets
Accounting Simplified

"174 capitalization sounds like a benign accounting rule, but it creates fictional profit and a big tax bill that we're supposed to pay with cash we haven't actually earned. These extra taxes will reduce our hiring by one or two people this year."

**- Josh Zagorsky**
**Co-Founder,**
**Zagaran (Boston, MA)**

"This capricious rule change is a major disincentive to startup R&D. If it stays in place, it is going to materially impact startups as they invest in product development which they cannot deduct as they go, and could even cause a cash crunch for many startups at a critical time."

**- Matt Caywood**
**CEO & CTO,**
**Actionfigure (Washington, DC)**

"This currently does not affect IncentiLock but, for companies that it will, it is just craziness. Startups are struggling to raise money because investors are more cautious due to the economic uncertainty. So, a startup with R&D costs will be getting a triple hit: 1) costs of R&D have been exploding so this puts pressure on cash 2) because R&D costs are not deducted in the year paid, startups may have a tax liability where any liability would have been eliminated by the R&D spend (more cash out the door); and 3) cash from investment is harder than ever to raise given the uncertain economic conditions making investors nervous."

**- Jane Vancil**
**CEO,**
**Incentilock (Chesterfield, MO)**

"When R&D can be immediately expensed, it allows small, early-stage technology companies to immediately re-invest those dollars in building more innovative solutions. When it's amortized over five years, it suddenly feels irrelevant. Not worth the time to track, because what matters to a startup is THIS year. We don't have the luxury of thinking in five-year blocks."

**- Lee Lance**
**Co-Founder & CEO,**
**Ecobot (Asheville, NC)**

NATIONAL RESTAURANT ASSOCIATION

April 25, 2024

The Honorable Jason Smith
Chairman
Committee on Ways & Means
United States House of Representatives
1139 Longworth House Office Building
Washington, D.C. 20515

The Honorable Richard Neal
Ranking Member
Committee on Ways & Means
United States House of Representatives
1129 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Smith and Ranking Member Neal,

On behalf of the National Restaurant Association, we appreciate the opportunity to submit comments regarding the *Tax Cuts and Jobs Act of 2017* (TCJA) and tax relief for Main Street restaurant operators. The U.S. restaurant and foodservice industry is comprised of more than one million outlets with a workforce of 15.5 million employees. The National Restaurant Association ("the Association") is the leading business association for the industry, and together with 50 state associations, D.C., and Puerto Rico, we serve every restaurant through advocacy, education, and food safety programs.

Almost every U.S. County has at least three restaurants and they are the backbone of their communities, fueling local economic growth, creating jobs, and promoting togetherness. The restaurant and foodservice workforce is projected to grow in every state between 2022 and 2032, adding two million jobs within the period. **However, this growth would be restrained if certain tax policies in the TCJA are phased down or allowed to expire.**

The average restaurant has a pre-tax profit margin of three to five percent and only has enough cash reserves to cover 16 days of operations.[1] Additionally, costs have spiked in nearly every category. In March 2024, the *Producer Price Index for All Foods* remained 29% above the February 2020 level. Financial challenges are compounded when facing the tighter treatment of the business interest expense deduction starting in 2022 and the slowdown of accelerated depreciation in 2023 and again in 2024.

Looking ahead, restaurant operators seek to **make permanent certain tax policies** from the TCJA that promote long-term growth and avoid temporary fixes which create complexity and uncertainty. While restaurants are affected by many components of the federal tax code, from real estate provisions to the business meals deduction, we urge the Committee to specifically advance:

1. **A permanent adoption of the qualified business income (QBI) deduction (Sec. 199A), as proposed by the bipartisan "Main Street Tax Certainty Act" (H.R. 4721).**

   The vast majority of restaurants operate as pass-through businesses (partnerships, LLCs, S-Corps, or sole proprietorships) who benefit more from the QBI small business deduction than almost anything other policies passed by the TCJA. For the average restaurant operator, the small business deduction can reduce the business' top effective tax rate from 37% to 29.6%.

[1] JPMorgan Chase Institute's "Cash is King: Flows, Balances, and Buffer Days," September 2016

If Congress allows the deduction to expire, they will not only significantly erode small business profitability but create a distinct advantage for businesses situated as C-corporations which pay a fixed corporate tax rate.

2. **A permanent adoption of the work opportunity tax credit, as redesigned by the "Improve and Enhance the Work Opportunity Tax Credit (WOTC) Act" (H.R. 6833).**

   The restaurant industry is a significant job creator, employing over 15.5 million people nationwide. Restaurants have high ceilings for career advancement or ownership in addition to a low barrier for entry. This includes first jobs, second chances for justice-involved individuals, and military returning to civilian life. At every level of the industry, employees gain valuable, transferable skills like communication, teamwork, and customer service. These skills can be leveraged for advancement within the restaurant industry or as a springboard to other career paths.

   The WOTC program simply boosts applicants who have traditionally faced barriers to employment. For example, an individual who relies on public assistance can find meaningful work and transition off government programs, which saves the federal government an estimated $202 billion over ten years. When restaurant operators look to fill open positions with qualified individuals who may have been overlooked by other employers, WOTC provides a win for the new employee, the employer, and the government.

   This Committee is urged to modernize the WOTC program, which has not been meaningfully changed in decades. Legislation from Reps. Lloyd Smucker and Terri Sewell should be included in a permanent WOTC update to the tax code as the bill will help older Americans access employment and increase the current credit percentage from 40% to 50% of qualified wages.

3. **A permanent adoption of the immediate business deduction of capital expenditures, as proposed by the "ALIGN Act" (H.R. 2406) and a permanent adoption of the restored business interest expense standard, as proposed by the bipartisan "AIM Act" (H.R. 2788).**

   Restaurants are a capital-intensive and owners rely on accelerated depreciation and business interest expense deductions to manage investments within their business. In a single year, a restaurant operator will balance decisions on whether to upgrade a kitchen to maintain efficiency and safety, renovate dining rooms to enhance the customer experience, or purchase a catering vehicle to meet the needs of their community. These purchases are not only desirable, but they are a critical part of competition to make these capital expenditures year after year. Accelerated deductions allowing full expensing in year one of the purchase, and the restoration of depreciation and amortization to the business interest deduction calculation must be made permanent features of the tax code.

   Due to two successive challenges, the restaurant industry did not fully benefit from the immediate depreciation deduction as passed by the TCJA. First, a drafting error in the legislation created a nightmare for many restaurant operators from 2018–2020 as the 100% depreciation schedule did not include qualified improvement property (QIP) in restaurants. This error lengthened the standard 15-

year depreciation period to 39 years, worsening rather than improving tax depreciation for restaurants. While the QIP error was fixed in March 2020, ensuing COVID-related closures and capacity restrictions slowed restaurant investment in 2020 and 2021. This effectively froze out the restaurant industry for four years (Q4 2017 – Q4 2021) of the full accelerated depreciation level which then started to phase down in 2023.

The QIP error and the pandemic illustrate how temporary tax code measures do not work in an age of global competition and unforeseen events. For example, 39 of the 40 OECD countries support their businesses with an interest expense deduction calculation which includes depreciation and amortization. However, a policy passed by the TCJA began limiting the business interest expense deduction in 2022 – an extremely challenging time for restaurant owners, many of whom managed to keep employees paid during the pandemic by taking on new debt.

On top of the scheduled limitation, the Federal Reserve raised interest rates 11 times within the span of a year and a half. Not since the 1980s has the Federal Reserve increased the cost of capital so quickly for Main Street businesses. Beginning in 2023, many restaurant operators who want to renovate their buildings or pay off loan debt have seen their overall tax liability rise by nearly 30 percent due to the tighter expense limit.

The Committee must restore deductions for full accelerated depreciation and restore the EBITDA-based calculation for deducting business interest.

4. **A repeal of the estate tax, as proposed by the bipartisan "Death Tax Repeal Act" (H.R. 7035).**

   Family-owned restaurants are fundamental to Main Street, often growing in popularity and loyalty as subsequent generations improve, renovate, and update their iconic corner spots. However, any new or expanded federal tax on a small or medium-sized business hinders the next generation of operators from investing in their workforce, menus, equipment, and future.

   A "death tax" disincentivizes continued family ownership of a restaurant since a new operator could be forced to pay high taxes during a tragic period even as payroll and other operational costs must be met. Often, business assets are not liquid, yet the taxes must be paid. This leads to a restaurant reducing operations, scaling back employment, or selling off assets or locations – causing more heartbreak in the community it serves.

   The restaurant industry strongly supports the bipartisan "Death Tax Repeal Act" and urges Congress not to repeal the stepped up basis which would trigger similar tax challenges for multi-generational, family-owned restaurants.

**Protecting Small Businesses from New, Unexpected Taxes**

As the Committee evaluates tax treatment and potential revenue raisers, we urge special attention for small and medium-sized businesses who operate as pass-through entities. In March, the Department of Treasury proposed an increase to the net investment income tax (NIIT) from 3.8 to 5 percent and to apply the NIIT to the active business income of small and medium-sized businesses.

These combined NIIT proposals would add $797 billion in new taxes for Main Street businesses, according to the Treasury's analysis, and cut an estimated 241,000 full-time equivalent jobs from the workforce.[2]

As part of the Affordable Care Act, the Obama Administration approved the NIIT for passive investment income on interest, dividends, annuities, royalties, rents and gains. It explicitly did not include the "active" business income of a small business. This is not a loophole within the NIIT, as passive investment income is distinct and separate from a broadly based Main Street tax hike.

The Association strongly urges Congress not to advance legislation which applies the NIIT to active business income of small businesses.

Finally, the Association urges the Committee to work across party lines to permanently improve the tax code for small and medium-sized businesses. In recent years, sweeping legislation like the Affordable Care Act and the TCJA became law without significant input or collaboration from each political party. This created a hostile environment for implementation and reflexive opposition for badly needed fixes when flaws emerged. To avoid systemic problems like the QIP fix from lingering over certain industries, Congress must ensure both parties have a stake in the legislation.

The Committee met the moment this year, working in bipartisan fashion to overwhelmingly approve the bipartisan *Tax Relief for American Families and Workers Act of 2024* through markup and full House approval. For restaurant operators, this bill includes vital provisions offering both timely relief for Main Street and a bridge to negotiations next year on expiring policies from the TCJA. The urgency for the Senate to finalize this legislation grows by the day as the restaurant industry works tirelessly to make it a reality in the 118th Congress.

Nine in 10 consumers say they enjoy going to restaurants, with a majority also viewing the industry as an essential part of their lifestyle. In a hypercompetitive industry, restaurant operators must constantly innovate with new technology, cooking equipment, menu choices, and customer experience. A competitive tax code is essential to support these investments made by the nation's second-largest private sector employer which is comprised mostly of small businesses. The Association stands ready to work with both parties to support long-term growth in the restaurant industry.

Sincerely,

Aaron Frazier

Aaron Frazier
Vice President of Public Policy

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[2] Tax Foundation, "Details and Analysis of President Biden's Fiscal Year 2025 Budget Proposal," March 2024

Written Statement for the Record
U.S. House of Representatives, Committee on Ways and Means
April 11, 2024 - Hearing on: Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans

**Introduction**
The undersigned organizations representing the U.S. innovation ecosystem appreciate the opportunity to submit comments regarding the impact of the Tax Cuts and Jobs Act (TCJA) of 2017 on the innovation economy, in response to the April 11, 2024, hearing held by the U.S. House Committee on Ways and Means.

The U.S. economy is the largest, most innovative, and dynamic in the world because of the American entrepreneurial spirit and its power to drive economic growth, innovation, and opportunity. Tax policy affects nearly every aspect of the innovation ecosystem. As Congress prepares to engage on tax reform, we encourage you to bolster and expand tax incentives that promote equity ownership and drive investment to the startup and small business ecosystem. Critical to this will be driving a tax regime that maintains competitive tax rates for corporations, individuals, and pass-through entities, attracting capital to the U.S. and incentivizing investment. Beyond this, however, there are key pillars that would contribute to fostering growth: preserve and expand the innovation ecosystem; expand the value of ownership; and modernize the Internal Revenue Service (IRS).

**Preserve and expand innovation ecosystem**
Start-ups and small businesses are a vital part of the American economy but they depend significantly on investment capital to innovate, build a new workforce, and achieve meaningful growth. Founding, investing in, and working for a startup can be riskier by nature. In the earlier stages of a business, tax policy can be particularly impactful to affect critical decisions that would create more opportunities for companies to grow, attract resources, and boost productivity. The tax code should make it easier for small businesses to access the financing they need to succeed in today's economy.

- *Preserve and expand QSBS treatment.*
  Congress enacted the qualified small business stock (QSBS) exclusion[1] (section 1202 of the Internal Revenue Code) to spur job creation and incentivize long-term investment in startups and small businesses, which are inherently risky. This important bipartisan provision exempts most startup investors, employees, and founders from paying capital gains taxes when selling their equity if they have met certain conditions, including a five-year holding commitment. The QSBS incentive attracts essential capital formation from early-stage investors across the country that is vital to help entrepreneurs pursue innovative ideas and companies that will fuel continued economic growth.

  Recently, policymakers have proposed rolling back the QSBS exclusion to raise revenue. The QSBS exclusion is vital to the innovation economy and American competitiveness. We urge Congress to maintain this important provision and expand eligibility to more businesses, making it easier and cheaper for entrepreneurs to raise capital and provide more flexibility in financing options.

[1] QSBS coalition letter from the innovation ecosystem, submitted April 20, 2023.

Written Statement for the Record
U.S. House of Representatives, Committee on Ways and Means
April 11, 2024 - Hearing on: Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans

- *Preserve capital gains rate and carried interest tax treatment.*
  Long-term capital gains offer favorable tax treatment to investors that provide an extended period (greater than one year) of investment in an asset. This capital spurs job creation, new businesses, economic growth—all of which are favorable policy outcomes. We encourage Congress to maintain this lever to incentivize asset investments with longer holding periods.

  Carried interest helps align the interests of investment fund managers with investors by allowing the fund manager to share in the fund's profits. Fund managers are generally compensated in two ways: management fees and carried interest. While management fees are charged as a percentage of assets under management (AUM) (generally 2%), carried interest is the percentage of a private fund's investment profits a fund manager receives as compensation (generally 20%). Because these profits are a return on investment, they are taxed at a capital gains rate like other investments. Much like equity in a startup or other companies, carried interest is used to incentivize fund managers. This incentive is particularly critical for emerging fund managers, who have less assets under management and rely on carry to continue to grow and invest in emerging founders. Efforts to eliminate or limit carried interest tax treatment would disproportionately impact those emerging fund managers who back early-stage businesses and provide them with long-term investment horizons.

- *Promote corporate investment in innovation.*
  Restoring 100% immediate expensing for research and development (R&D) costs and making bonus depreciation permanent will boost investments in innovation and give an edge to U.S. competitiveness. The ability to deduct R&D expenses has incentivized critical investments in the advancement of research and technology, which has led to countless scientific breakthroughs and accelerated decades of economic growth. The TCJA repealed the option to expense R&D under section 174 of the Internal Revenue Code (IRC) in 2022 and required businesses to capitalize those costs—including software development costs— and amortize them over a period of five years for domestic research or 15 years for foreign research.

  As a result, businesses that may have broken even or lost money are now facing significant tax bills because of the substantial and unexpected increase to their taxable income. The nation's startups are hit disproportionately by this change, as they tend to invest heavily in developing, testing, and improving their new product or service. A significant and unexpected tax burden can be devastating for innovative but fragile new companies with small reserves to sustain a tax hike in the crucial early years. We encourage[2] Congress to restore full R&D expensing under section 174 and make 100% bonus depreciation permanent, incentivizing businesses to invest in new technology, computer software, and machinery that allow them to grow, hire, and expand.

[2] R&D coalition letter from the innovation ecosystem, submitted January 11, 2024.

Written Statement for the Record
U.S. House of Representatives, Committee on Ways and Means
April 11, 2024 - Hearing on: Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans

**Expand value of ownership**
Equity ownership drives performance, innovation, and economic opportunity. Our tax code should incentivize it and enable more employee owners to realize and optimize the full value of ownership. Employee equity helps companies attract and retain the best talent, creating a more engaged workforce that improves company performance. It also aligns interests around the long-term, innovative efforts that the most ambitious startups and small businesses undertake. Employee ownership enables the people helping build the company to participate in its profit. This can lead to uncapped upside that creates a sustainable asset for wealth creation. And when wages have not kept pace for all but the highest earners, this can help erode income inequality. Equity ownership is critical to employees, U.S. companies, and our communities. The tax code can help bolster it and make that ownership meaningful.

- *Align taxation to time of sale*.
  Taxation on equity ownership should be aligned to the year that shares are sold. Tax on equity compensation is largely applied to paper gains, not actual gains. Stock options are taxed the year the employee purchases the option; equity grants are taxed when they vest. This means the employee-owner often pays taxes before they sell any shares. Further, despite paying taxes on that share value, there is no guarantee the value will not fall in the future or that the employee will ever realize such gain. The critical roadblock to employee ownership has increasingly become a concern around the affordability of exercising these options. Whether it is making it more affordable for employees to purchase stock options, pay taxes upon equity grant, or exercise Incentive Stock Options (ISOs) within the limited 90-day (or three-month) post-termination exercise period when an employee departs a company—improvements can be made to the tax code to better support equity holders by aligning the tax liability to the year equity shares are sold.

  We encourage Congress to shift the equity ownership tax burden to the year of sale to help employees realize the full value of their hard-earned equity, and we also urge Congress to extend the duration in which former employees can exercise their options following their departure from a company.

- *Make 83(b) elections electronic*.
  Section 83(b) elections enable founders, employees, and other service providers who are granted compensatory equity (or other property), subject to vesting, to be taxed on the value of such equity on the grant date on which the equity is acquired rather than a later date when the equity vests or becomes transferable. Making a timely election can have a substantial impact on tax liability and planning for new business owners and employee-owners. Although the IRS has made improvements[3] enabling electronic signature, this highly manual process continues to create hurdles for timely filing within the short 30-day window and uncertainty around the filing status. We encourage Congress to require the IRS to provide e-filing of section 83(b) elections to ease the burden of taxpayer

[3] IRS comment letter: "Request to Make Electronic Signatures Permanent and Allow E-Filing for Section 83(b) Elections," submitted February 10, 2023.

compliance because the current paper filing process is inefficient, labor intensive, and costly.

**Modernize the IRS**

While the tax system has increased in complexity, and technology has become more integrated into taxpayers' lives and business operations, the IRS infrastructure has not kept pace. This has adversely impacted taxpayers, created delays, led to uncertainty, and shaped how taxpayers engage the IRS. We encourage Congress to continue to push the IRS to execute on its modernization plan. Doing so will modernize the IRS's systems and technology to improve customer experience, streamline and lower the administrative burdens on startups, small businesses, and employees, and provide greater clarity to all taxpayers.

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The tax code can hinder growth or unlock it by driving investment to the innovation ecosystem, and empowering those builders to further invest in their people, products, and the future. These principles and examples will be critical to driving American competitiveness and innovation. The list we have provided is not comprehensive, but it offers fundamental principles to inform your early deliberations on the future of U.S. tax policy.

We applaud your leadership and look forward to working together towards our common goal of creating innovation and economic growth for more Americans.

Sincerely,

AdvaMed
Angel Capital Association (ACA)
Carta
Center for American Entrepreneurship (CAE)
Engine
Financial Technology Association (FTA)
Institute for Portfolio Alternatives (IPA)
National Venture Capital Association (NVCA)
QSBS Expert
Small Business Investor Alliance (SBIA)
Technology Councils of North America (TECNA)

THE ASSOCIATION OF AMERICANS RESIDENT OVERSEAS
Celebrating 50 Years 1973 – 2023

Established 1973

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## *Re: "Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans"*

***Hearing on April 11, 2024***

***Submission on behalf of The Association of Americans Resident Overseas (AARO)***

House Committee on Ways & Means
Email to: WMSubmission@mail.house.gov

April 25, 2024

Dear Chairman Jason Smith,
Ranking Member Richard Neal, and
Members of the Committee:

Please accept this as our submission with respect to the April 11, 2024, House Committee on Ways & Means Hearing: "Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans."

The Association of Americans Resident Overseas (AARO) is an international, non-partisan, non-profit association with members who vote in 40 States. Our members, and the wider expat community of which they are a part, have too often been victims of poorly considered and targeted tax legislation. So, we appreciate the opportunity to provide AARO's perspective on the issues that need to be addressed as portions of the most significant tax legislation since 1986, the 2017 Tax Cuts and Jobs Act (TCJA), expire.

The Tax Reform Act of 1986 was a landmark reform that has served as the foundation of a tax system which has in important ways worked well. Large amounts of personal income tax are collected cheaply at source or assured by simple third-party reporting.

The system is significantly progressive in its incidence. None of this has required confiscatory tax rates at the high end. These features need to be preserved.

But other elements of the system, notably those relating to business and international activity, have worked less well. They have become the focus of intense debate, especially in Washington and at the OECD. Their design has too often had damaging consequences, often inadvertently, for the overseas community, notably citizenship-based taxation of non-residents, punitive tax treatment of defined contribution retirement plans outside the United States and, with the advent of the TCJA, an adverse impact on small businesses operating abroad. Returns are too complex, often requiring expensive professional assistance. There are too many obscure information reporting requirements which are the tax equivalents of speed traps and do little but generate disproportionate fines. And these sections of the Tax Code have not been effective revenue raisers.

In addition, we have had 38 years of amendments to the Tax Code, additions of new tax incentives and new financial reporting requirements. The result of all this is a system in which too many taxpayers, especially expats, feel that they are drowning in complexity and compliance costs. Simple indicators of what has happened in terms of complexity include the length of the Tax Code, now more than 10,000 pages[1] (up from 27 pages when originally enacted in 1913), and the size of Form 1040 Instruction Booklet (52 pages just before the 1986 reform, 257 pages for the 2022 tax year)[2]. This is excessive.

At the same time proliferating tax incentives, varying tax statuses and inconsistent tax treatment of individual activities, expenditures or income flows across countries and sub-national jurisdictions are reflected in costs, prices and tax liabilities. These create arbitrage opportunities which erode the revenue base as the system responds to the incentives these create.  Taxpayers of all sorts, from low income households to monied, well-advised corporations, find ways to take advantage.

The tax treatment of U.S.-source passive portfolio income, i.e. interest, dividends and capital gains, unconnected to a U.S. trade or business and paid to non-residents (i.e. both aliens and U.S. citizens, as well as foreign-owned corporations) is illustrative. Non-residents who are also U.S. persons (mainly American citizens and green card holders, also some entities) are subject to full U.S. taxation on this income. But foreign

[1] On the basis of 400 words per page.
[2] As reported by D. Brady, “6.5 Billion Hours, $260 Billion: What Tax Complexity Costs Americans” National Taxpayers Union Foundation Policy Paper, April 17, 2023.

corporations and non-resident aliens are not taxed on portfolio interest or gains on securities and face only a 30% withholding tax on dividends. These groups outside the United States are therefore not only favored relative to Americans living abroad, but also relative to their counterparts in the U.S.

The rationale for such disparate treatment is not obvious. Why do non-resident aliens and foreign corporations face a 30% withholding on dividends (unless modified by a tax treaty), far above the statutory maximum, while they get a free ride on everything else? This serves to encourage foreign investors to structure income-generating investments in the U.S. as debt, rather than equity, and favors them vis-à-vis both U.S. expats and U.S. residents.

As foreign investors face no taxation of U.S. source interest or gains many, if not most, security valuations will appear higher to them than to U.S. persons. The result is that market forces push such securities toward foreign ownership, as well as to U.S.-based tax-exempt entities such as university endowments, and significantly erode the tax revenue base. Indeed, the share of total U.S. corporate equity held by foreigners rose from 16% in 1986 to 42% at the end of 2022.[3]

Numbers to measure the revenue impact of providing tax-advantages to foreign investors in U.S. financial markets are hard to find but in 2007, the Government Accountability Office (GAO) looked at the issue. It reported that ,for tax year 2003, Qualified Intermediaries and Registered Withholding Agents paid $200.5 billion in U.S. source portfolio income to foreign corporations; $2.8 billion was withheld as tax, an overall rate of 1.4%[4]. Another $92.8 billion was paid to individuals and non-corporate entities, some of whom may have been U.S. persons. Withholding on this was only $2.5 billion. AARO is not in a position to update these figures or to estimate taxes foregone. But with growth and inflation the size of the economy (measured in current dollars) has more than doubled since 2003, suggesting that untaxed U.S.-source income paid to foreign corporations alone could now exceed $400 billion per year. Potential revenues from taxing this U.S. source income are material.

[3] S. Rosenthal and L. Mucciolo, “What’s Left to Tax? Grappling with a Dwindling Shareholder Tax Base”, *Tax Notes Federal*, April 1, 2024.
[4] Government Accountability Office, “Tax Compliance”, *testimony by Michael Brostek before the Committee on Finance, US Senate*; GAO-07-823T, May 3, 2007.

At the same time, the wider context is that all non-U.S. residents are subject to their own local tax regime but only U.S. citizens are subject to double taxation by the United States. None of this makes sense.

The tax system needs drastic simplification and streamlining. This should involve treating all individuals and businesses much more similarly, wherever they are based. As regards the U.S.-source passive income discussed above, the favored treatment of foreign individuals and corporations should end. Simple withholding at source would largely achieve this. As for non-U.S. source income of all types, tax treatment for U.S. citizens living overseas should be set solely by their host country's framework and policies, i.e., by ending U.S. taxation based on citizenship. All financial information reporting should be consolidated and simplified. The system will be both fairer and more resistant to erosion of the revenue base as the economic system responds to the embedded incentives.

It is likely that many other parts of the system would similarly benefit from simplification and streamlining.

Thank you for your attention.

Respectfully submitted by:

The Association of Americans Resident Overseas:
Doris L. Speer, President

*Association of Americans Resident Overseas*
*4 rue de Chevreuse, 75006 Paris, France*
*president@aaro.org*
*www.aaro.org*

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*About AARO:*

*The Association of Americans Resident Overseas (AARO) is an international, non-partisan non-profit association formed under the laws of France with members in over 40 countries. AARO seeks fair treatment for Americans abroad by advocating the issues that negatively affect their lives and informs its members of their rights and responsibilities as Americans. See AARO.*

On behalf of the nearly 100,000 combined members of the National Multifamily Housing Council (NMHC)[1] and the National Apartment Association (NAA)[2], we write to submit a statement for the record for the House Committee on Ways and Means' April 11, 2024, hearing, *Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans*, to share the views of the multifamily housing industry. We strongly believe that *Tax Cuts and Jobs Act (TCJA)* provisions affecting tax rates, the 20 percent qualified business income deduction, and the estate tax should be made permanent. At the same time, we encourage the Congress to use potential 2025 tax legislation addressing expiring *TCJA* provisions to enact tax incentives to ameliorate the nation's housing supply crisis while avoiding the enactment of counterproductive and onerous revenue raisers.

As the House Ways and Means Committee conducts this hearing, we start from the premise that tax policy has a critical role to play when it comes to promoting workable and sustainable policies to address our nation's housing challenges. Our ultimate goal is to ensure that apartment providers can meet the long-term housing needs of the 40.0 million Americans who live in apartment homes[3] and continue to make significant contributions to the growth of our economy, currently totaling $3.9 trillion annually.[4]

Addressing our nation's housing challenges, in general, and more specifically our housing affordability crisis, is crucial to promoting economic opportunity in our country and will require strong collaboration and partnership between policymakers and the private sector. Before exploring the essential role tax policy, and *TCJA* in particular, plays in multifamily housing markets, we would like to present members of the Committee an overview of the industry and current challenges and conditions.

## <u>The Housing Imperative</u>

Challenges may present themselves differently from community to community, but it will come as no surprise to Americans nationwide that we are facing a widespread housing affordability crisis. No wonder communities are feeling pinched—we simply do not have enough housing to go around. Today, in more and more communities, hard-working Americans are unable to rent homes due to increased costs driven by a lack of supply, barriers to development, and regulatory burdens.

The total share of cost-burdened households (those paying more than 30 percent of their income on housing) increased steadily from 28.0 percent in 1985 to 36.9 percent in 2021 and is growing,

[1] Based in Washington, D.C., NMHC is a national nonprofit association that represents the leadership of the apartment industry. Our members engage in all aspects of the apartment industry, including ownership, development, management and finance, who help create thriving communities by providing apartment homes for nearly 40 affordable housing million Americans, contributing $3.4 trillion annually to the economy. NMHC advocates on behalf of rental housing, conducts apartment-related research, encourages the exchange of strategic business information and promotes the desirability of apartment living.

[2] The NAA serves as the leading voice and preeminent resource through advocacy, education, and collaboration on behalf of the rental housing industry. As a federation of 141 state and local affiliates, NAA encompasses over 96,000 members representing more than 12 million apartment homes globally. NAA believes that rental housing is a valuable partner in every community that emphasizes integrity, accountability, collaboration, community responsibility, inclusivity and innovation.

[3] 2021 American Community Survey, 1-Year Estimates, U.S. Census Bureau, "Total Population in Occupied Housing Units by Tenure by Units in Structure."

[4] Hoyt Advisory Services, National Apartment Association and National Multifamily Housing Council, "The Contribution of Multifamily Housing to the U.S. Economy," https://weareapartments.org/pdf/Economic_Impact.pdf

while others have been priced out of communities altogether.[5] This is not sustainable, particularly in a period of higher inflation. Wage stagnation in conjunction with barriers to new supply – for instance, onerous regulatory hurdles, antiquated and often discriminatory zoning and land use policies at the local level, and local opposition to development (also known as NIMBYism or "Not in My Backyard" opposition) – has led the nation to this juncture. It has taken many decades to get to this point, and it will take time to reverse these trends, but it is critical that we start now to enact new and innovative policies that will incentivize new housing production.

In addition, continued economic instability poses a serious threat to the ability of housing providers to leverage the private-market capital necessary to generate needed housing. Higher interest rates have contributed to a period of economic volatility, which is driving up the cost of building new housing, discouraging new investment, and pushing some in our sector out of the market altogether.

Increased construction, material and labor costs, significant increases in insurance costs, and state and local property taxes have made the current operating environment extremely challenging. NMHC and NAA members are reporting that current economic and regulatory challenges are causing them to cut back significantly on development activities, in some cases, by as much as 50 percent. This slowdown has long-term implications.

As of January 2024, NMHC's Quarterly Survey of Apartment Market Conditions also recorded seven consecutive quarters of decreasing sales volume and eight consecutive quarters in which equity financing became less available. Respondents did report improved conditions for debt financing in January, but this comes after nine straight quarters of worsening conditions (Oct. 2021 – Oct. 2023).[6]

**Housing Affordability: Growing Demand vs. Supply Challenges**

It is essential that we build housing at all price points to meet the wide range of demand. According to research conducted by Hoyt Advisory Services and Eigen10 Advisors, LLC, and commissioned by NMHC and NAA, the U.S. is facing a pressing need to build 4.3 million new apartment homes by 2035.

Key findings include:

- **Shortage of 600,000 Apartment Homes.** The 4.3 million apartment homes needed includes an existing 600,000 apartment home deficit because of underbuilding after the 2008 financial crisis.

- **Loss of Affordable Units.** The number of affordable units (those with rents less than $1,000 per month) declined by 4.7 million from 2015 to 2020.

- **Homeownership.** Apartment demand also factors in a projected 3.8 percent increase in the homeownership rate.

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[5] NMHC tabulations of 1985 American Housing Survey microdata, U.S. Census Bureau; 2021 American Housing Survey; U.S. Census Bureau.

[6] https://www.nmhc.org/research-insight/quarterly-survey/2024/nmhc-quarterly-survey-of-apartment-conditions-january-2024/

- **Immigration.** Immigration is a significant driver of apartment demand. Levels tapered before the pandemic and have remained low, but a reversal of this trend would significantly increase apartment demand.

## Opportunity Abounds: Sustainable Solutions to Enhance Housing Supply and Address Housing Affordability

The good news: There is a clear path to solving this challenge. Congress must prioritize increasing our nation's housing supply and support pro-housing policies that will in turn ensure greater housing stability and affordability for renters at a variety of income levels for decades to come.

While there is no one silver bullet, a multifaceted approach can be effective in easing market constraints. This statement for the record focuses on the critical role provisions in *TCJA* play in addressing housing supply. We also present additional proposals Congress should consider as part of potential 2025 tax legislation addressing *TCJA* to further enhance housing supply and ease the housing affordability crisis.

## Enact and Enhance Tax Policy That Promotes Housing Supply

While it will take a variety of tax and non-tax approaches to increase supply, the rental housing industry believes tax policy can play a critical role in this regard. To this end, we strongly urge Congress to:

- Make permanent critical provisions enacted as part of *TCJA,* namely those pertaining to tax rates, the 20 percent qualified business income deduction, and the estate tax.

- Use potential 2025 tax legislation addressing expiring *TCJA* provisions to enact other tax incentives to boost housing supply, including those that would:

    - Expand and enhance the Low-Income Housing Tax Credit;
    - Enact the *Workforce Housing Tax Credit Act* to support workforce housing;
    - Enhance Opportunity Zones, which were enacted as part of *TCJA*, to incentivize the rehabilitation and preservation of multifamily buildings; and
    - Encourage the adaptive reuse of underutilized commercial properties into multifamily housing.

- Avoid including revenue-raising provisions in potential 2025 tax legislation that would disrupt capital flows to the multifamily industry and make it more costly to develop and preserve housing units.

Each of these proposals is briefly described below.

**EXPIRING *TCJA* PROVISIONS**

***Make Permanent TCJA Tax Rates and the 20 Percent Qualified Business Income Deduction***

The multifamily industry is dominated by "pass-through" entities (e.g., sole proprietorships, LLCs, partnerships and S corporations) instead of publicly held corporations (e.g., C corporations). Indeed, approximately three-quarters of apartment units are owned by pass-through entities. This means that a company's taxable income is passed through to the equity owners, who pay taxes on their share of the income on their individual tax returns, regardless of whether the owner receives any cash distribution of the income or it is reinvested in the business. Additionally, a significant number of industry participants are organized as REITs that generally pay no tax at the entity level and pass-through dividends to shareholders.

The tax treatment of pass-through entities contrasts with the taxation of large publicly held corporations, so called C corporations, which generally face two levels of tax. Those entities remit tax at the corporate level under the corporate tax system. Taxable shareholders are then taxed upon the receipt of dividend income. Notably, some shareholders of corporate stock, including certain retirement accounts and non-profit organizations, are exempt from taxes on those dividends.[7]

In 2017, as part of *TCJA*, Congress lowered taxes on pass-through entities and REITs through 2025 by:

- Reducing marginal tax rates, including the top tax rate to 37 percent from 39.6 percent; and
- Providing a 20 percent tax deduction for qualifying pass-through income and REIT dividends, effectively reducing the top tax rate on qualifying business income to 29.6 percent.

Unfortunately, absent Congressional action, pass-through entities will see a substantial tax increase at the end of 2025 when the tax provisions benefiting pass-through entities expire. Instead of facing a top rate of 29.6 percent on qualifying business income, such entities will be confronted by a 39.6 percent rate, a 33.8 percent increase. In contrast, the corporate tax rate will remain at 21 percent.

Congress should continue to promote the use of flow-through entities and investment in multifamily housing by making permanent the tax rate reductions and the 20 percent qualified pass-through income deduction enacted as part of the *TCJA*. To this end, the multifamily industry strongly supports the *Main Street Tax Certainty Act* (H.R. 4721 / S. 1706) that would make permanent the 20 percent qualified business income deduction. Introduced by Representative Smucker and Senator Daines, this legislation has 170 House cosponsors and 32 Senate cosponsors.

[7] Rosenthal, Steven M. and Mucciolo, Livia, *Who's Left to Tax? Grappling with a Dwindling Shareholder Tax Base*, Tax Notes Federal, Volume 183, April 1, 2024.

Failure to extend today's tax laws would result in a substantial tax increase and further exacerbate the nation's housing challenges. Put simply, higher taxes mean fewer dollars to build new units and preserve our existing housing stock.

***Make Permanent TCJA Estate Tax Rules***

Because many apartment firms are small businesses, often family owned, estate planning is a major consideration for company principals. A critical part of planning focuses on the estate tax imposed on the transfer of their assets to their heirs.

As part of *TCJA*, Congress doubled the estate tax exclusion through 2025. As many apartment executives prepare to leave a legacy to their heirs, today's estate tax rules provide clarity and consistency in the tax code but only through 2025. The apartment industry supports making the estate tax rules enacted in 2017 permanent.

The estate tax rules include three key elements:

- Exemption level: The estate tax exemption level is the amount that a donor may leave to an heir without incurring any federal estate tax liability. In 2024, the law establishes a $13.61 million exemption ($27.22 million per couple, indexed for inflation).

- Tax rate: The estate tax rate applies to the value of an estate that exceeds the exemption level. Under the rules, the maximum rate is 40 percent.

- Basis rules: The basis rules determine the tax basis of inherited property. The estate tax today features stepped-up basis rules, which reset the tax basis of inherited property to reflect the fair market value of the property at the time of the inheritance. This is particularly important for the apartment industry because many industry executives' estates include significant amounts of depreciable real property.

Without stepped-up basis, the tax basis of inherited property can be quite low if the property was purchased long ago and has been depreciated over a number of years. As a result, heirs could inherit an apartment property with no basis and sizeable debt. If they sell it, they will face significant depreciation recapture taxes and capital gains taxes. This discourages heirs from investing further capital to maintain it and removes valuable affordable housing from the inventory.

**HOUSING AFFORDABILITY TAX INCENTIVES**

As mentioned above, housing tax policy can play key role in spurring housing supply. Accordingly, a 2025 tax bill could be a vehicle for enacting tax proposals designed to expand the Low-Income Housing Tax Credit, establish a Workforce Housing Tax Credit, reinvigorate opportunity zones, and create a new incentive for adaptive reuse.

***Expand and Enhance the Low-Income Housing Tax Credit***

The Low-Income Housing Tax Credit (LIHTC) is a public/private partnership that leverages federal dollars with private investment to produce affordable rental housing and stimulate new economic development in many communities. Between its inception in 1986 and 2022, the LIHTC program has, according to the A Call To Invest in Our Neighborhoods (ACTION) Campaign, developed or preserved 3.85 million apartments, served 8.97 million low-income households, supported 6.33 million jobs for one year, generated $257.1 billion in tax revenue, and produced $716.3 billion in wages and income.[8] The LIHTC program provides critical support to the nation's affordable housing production but could be made even more impactful.

NMHC and NAA support the *Affordable Housing Credit Improvement Act of 2023* (*AHCIA*) (H.R. 3238 / S. 1557). Introduced by Representatives LaHood, DelBene, Wenstrup, Beyer, Tenney, and Panetta and Senators Cantwell, Young, Wyden, and Blackburn, this bipartisan bill, which is supported by a total of 222 Members of the House and 34 Senators, would, among other provisions, make permanent the now-expired 12.5 percent increase in LIHTC authority for 2018-2021 to enable the production of new units and further augment credit authority by 50 percent. Additionally, the bill would lower the private activity bond financing threshold to 25 percent from 50 percent required to receive the full amount of 4 percent LIHTC.

Enacting the primary unit financing provisions in the *Affordable Housing Credit Improvement Act* could finance up to an additional 1.94 million affordable units over 10 years. Over that period, this enhanced financing could also support nearly three million jobs, $333 billion in wages and business income, and $115 billion in additional tax revenue.[9]

We also strongly support LIHTC provisions in the *Tax Relief for American Families and Workers Act of 2024* (H.R. 7024), which the House approved on January 31 by a bipartisan 357-70 vote. Provisions included in H.R. 7024 would augment LIHTC authority by 12.5 percent between 2023 and 2025, as well as reduce the private activity bond financing threshold to 30 percent from 50 percent in 2024 and 2025. These provisions would create over 200,000 new multifamily units and represent a critical step toward addressing this nation's affordable housing supply crisis.[10]

Finally, we would encourage Congress to consider increasing the private activity bond volume cap to enhance the utilization of 4 percent LIHTC. According to March 2023 data by Tiber Hudson and Novogradac, 18 states and Washington, DC, are oversubscribed. Authorizing these states to issue additional private activity bonds would enable the financing of additional 4 percent LIHTC projects.[11]

***Enact the Bipartisan Workforce Housing Tax Credit Act***

Housing affordability is an issue threatening the financial wellbeing of both middle-income and low-income households across the nation. According to the U.S. Census Bureau's Survey of Market Absorption, the median asking rent for apartment units completed in the third quarter of 2023 was $1,833, a 12.23 percent increase from the same period in 2018.[12] For a renter to afford

[8] https://rentalhousingaction.org/wp-content/uploads/2023/11/ACTION-NATIONAL-NOV-2023.pdf

[9] https://www.novoco.com/notes-from-novogradac/lihtc-pab-provisions-newly-reintroduced-ahcia-could-result-nearly-2-million-additional-affordable

[10] https://www.novoco.com/periodicals/news/low-income-housing-tax-credits-news-briefs-march-2024

[11] Tiber Hudson and Novogradac, *Volume Cap Scarcity*, March 2, 2023.

[12] U.S. Census Bureau, Survey of Market Absorption.

one of those units at the 30 percent of income standard, they would need to earn at least $73,320 annually.

Furthermore, Harvard University's Joint Center for Housing for Housing Studies reported in January 2024 that "Renter households with annual incomes of $45,000 to $74,000 have seen the fastest growth in their burden rates, both over the longer term and during the pandemic. Indeed, 41 percent of renter households in this income category were burdened in 2022, a 5.4 percentage point increase since the start of the pandemic, nearly doubling their 2001 rate."[13]

Accordingly, this is an issue affecting those workers who comprise the very fabric of strong communities nationwide, including teachers, firefighters, nurses, and police officers whose wages are not keeping pace with costs. Tax policies to spur the production of multifamily housing targeted to middle-income Americans should be a part of any legislation that seeks to address housing affordability on a comprehensive basis.

We urge Congress to enact the bipartisan and bicameral *Workforce Housing Tax Credit Act* (H.R. 6686 / S. 3436), sponsored by Representatives Panetta and Carey and Senators Wyden and Sullivan. This legislation establishes a new tax credit to produce affordable rental housing for households earning 100 percent or less of the area median income (AMI).

Designed to complement the successful LIHTC program, the WFHTC program would enable state housing agencies to issue credit allocations to developers that would subsequently be sold to investors. Investors would receive a dollar-for-dollar reduction in their federal tax liability over a 15-year period, and developers would invest the equity raised to build apartments. The equity raised would cover 50 percent of the cost of constructing qualifying units. A development project eligible for WFHTC would have to set aside 60 percent of units for households earning 100 percent or less of AMI and must be kept affordable for up to 30 years.

***Enhance Opportunity Zones to Incentivize Rehabilitation of Housing Units***

Enacted as part of *TCJA*, Opportunity Zones are designed to provide tax incentives for investments in distressed communities. Opportunity Zones hold great promise for the development of multifamily housing. In fact, Novogradac reports that residential investment (and specifically multifamily housing) continued to be the leading investment area in 2023 for Opportunity Funds. Funds tracked by Novogradac have raised $20.5 billion for multifamily housing and have been or will be invested in 972 developments.[14]

Under the program, Governors have designated over 8,700 qualified low-income census tracts nationwide as Opportunity Zones. Opportunity Zone designations remain in effect through 2028. Real estate developers and others may establish Opportunity Funds to construct and rehabilitate multifamily property that are eligible for two tax incentives:

First, taxpayers may defer taxes capital gains that are reinvested in Opportunity Funds to the earlier of the date an investment in an Opportunity Fund is disposed of or December 31, 2026.

[13] Harvard Joint Center for Housing Studies, *State of the Nation's Housing 2024*.

[14] https://www.novoco.com/notes-from-novogradac/multifamily-residential-development-continues-to-dominate-qof-investment-tracked-by-novogradac

Notably, gains deferred for five years are eligible for a 10 percent basis step up, while gains deferred for seven years are eligible for an additional five percent basis step up.

Second, post-acquisition capital gains on investments held in Opportunity Funds for at least 10 years may be permanently excluded from income.

While taxpayers may continue to invest capital gains in Opportunity Funds through June 28, 2027, it is already too late to meet requirements for a step up in basis attributable to newly deferred capital gains. In addition, the economy has changed since Opportunity Zones were originally designated.

Opportunity Zones can be a helpful tool to incentivize housing production and, thereby, assisting to address the nation's housing affordability crisis. However, to fully maximize the potential of Opportunity Zones, Congress should:

- Enable States to recertify and/or redesignate Opportunity Zones to account for current economic realities and changes since Zones were originally designated; and

- Establish new investment deadlines so that taxpayers are incentivized to receive both a longer deferral period and the potential for a 10 percent or 15 percent basis increase with respect to reinvested capital gains.

While Opportunity Zones are beneficial for new multifamily development, taxpayers may find it difficult use Opportunity Zone benefits to rehabilitate existing properties. To qualify for Opportunity Zone benefits for renovations, the basis of an existing asset must be doubled excluding land. Although property that is added to and improves an asset can count toward this threshold, doubling the basis can still be a high hurdle. Accordingly, Congress should reduce the basis increase necessary to qualify a multifamily rehabilitation project for Opportunity Zone purposes.

***Encourage the Adaptive Reuse of Underutilized Commercial Properties into Multifamily Housing***

Given the nation's shortage of affordable rental housing, many are considering turning unused and underutilized commercial real estate structures, including offices, hotels, and retail spaces into housing. Not only would such repurposing help address the nation's housing supply challenge, but it would also create jobs and boost local property tax revenues.

A segment of commercial real estate space could potentially be available to be converted into housing. A February 2023[15] Urban Land Institute study commissioned by the NMHC Research Foundation provided case study examples of successful conversions, and several large jurisdictions, including Washington, DC, and New York City, have recently embarked on plans to incentivize office-to-residential conversions.[16]

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[15] Kramer, Anita. *Behind the Facade: The Feasibility of Converting Commercial Real Estate to Multifamily*. Washington, D.C.: Urban Land Institute, 2023. https://www.nmhc.org/globalassets/research--insight/research-reports/conversion/behind-the-facade_conversion-report.pdf

[16] https://dcregs.dc.gov/Common/NoticeDetail.aspx?NoticeId=N135303 and https://www.nyc.gov/site/officeconversions/index.page

Changing consumer preferences and online shopping are also changing the real estate landscape. Estimates show between several hundred million and 1 billion square feet of surplus and obsolete retail space. Slower post-pandemic business travel is also challenging a portion of the nation's hotel stock.[17]

Unfortunately, converting commercial real estate into housing can be extremely challenging and can be more complicated than typical ground-up development. Costs associated with property acquisition and conversion, including addressing structural building issues (e.g., beams, columns, ceiling heights, utilities, and floor layouts), can quickly add up and make the difference between a viable or unfeasible project. This is in addition to other barriers that may arise, including permitting, zoning rules, and NIMBYISM.

A Federal tax incentive to encourage property conversions would be greatly beneficial in helping to overcome these obstacles and spurring additional housing supply. In addition, it would help revitalize distressed commercial property and stabilize the surrounding communities. Notably, Representaitve Gomez has reintroduced the *Revitalizing Downtowns Act* (H.R. 419) that would provide a 20 percent tax credit to convert office buildings into other uses, including residential use. Senator Stabenow introduced the measure (S. 2511) last Congress.

The multifamily industry is interested in working with Congress on this type of proposal but would like to see it modified to, among other things, enable other types of commercial properties (e.g., shopping centers and hotels) to qualify for the tax incentive; ensure REITs could utilize the benefit; and clarify that the credit does not reduce other tax benefits including the LIHTC.

Additionally, the multifamily industry would encourage Congress to explore whether tax-exempt private activity bonds could be used as a means of promoting adaptive reuse. Housing finance agencies could issue such bonds to help facilitate adaptive reuse of underutilized properties, particularly in areas that have a plan to track discriminatory land use policies as envisioned by the *Yes In My Backyard Act (YIMBY Act)* (H.R. 3507 / S. 1688). NMHC and NAA strongly support this legislation which requires recipients of Community Development Block Grants to provide information on how they are reducing local barriers to housing development.

**OPPOSE ONEROUS REVENUE RAISERS DISRUPTING CAPITAL FLOWS TO THE MULTIFAMILY INDUSTRY**

We strongly support the extension of *TCJA* provisions affecting tax rates, the 20 percent qualified business income deduction, and estate tax rules, while also encouraging Congress to use a potential 2025 tax bill to include incentives boosting housing supply. We are concerned, however, about revenue-raising proposals that would negatively affect the housing industry and ultimately limit the supply of housing. Specifically, we urge Congress to reject proposals such as those in President Biden's Fiscal Year 2025 Budget that would limit capital flowing to the multifamily industry, including those that would:

- Increase the top marginal income and capital gains tax rates;

[17] Kramer, Anita. *Behind the Facade: The Feasibility of Converting Commercial Real Estate to Multifamily*. Washington, D.C.: Urban Land Institute, 2023. https://www.nmhc.org/globalassets/research--insight/research-reports/conversion/behind-the-facade_conversion-report.pdf

- Limit deferral of taxable gain from a like-kind exchange;
- Tax carried interest as ordinary income;
- Expand the net investment income tax to encompass active business income while increasing the applicable tax rate;
- Tax unrealized capital gains at death; and
- Require 100 percent recapture of depreciation deductions as ordinary income for real estate.

These types of proposals would directly affect the operations of housing providers by reducing real estate investment and inhibiting the capital flows that are so critical to the development and preservation of critically needed housing.

## **Conclusion**

This is the bottom line: there is no silver bullet, but we think a multi-faceted approach to improving housing affordability and increasing housing supply is our best bet. The health and stability of the rental housing sector is paramount to that of our overall economy. And, importantly, the sufficient supply of quality housing is necessary in ensuring the continued economic prosperity and household stability for Americans nationwide and providing household stability. Without it, we put both at risk. Solving this challenge should be mission critical. It certainly is for our industry.

On behalf of the multifamily industry and the nearly 40 million Americans we serve, we applaud the House Ways and Means Committee for examining the efficacy of *TCJA* and look forward to working with Congress to ensure tax policy promotes solutions to address the nation's most significant housing challenges.

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April 25, 2024

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NWLC Written Statement for U.S. House of Representatives, Committee on Ways and Means, *Hearing on Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans*, April 11, 2024

Dear Chairman Smith and Ranking Member Neal,

The National Women's Law Center (NWLC) appreciates the opportunity to submit this written statement for the record.

The coming expiration of many provisions of the 2017 tax law (also known as the Tax Cuts and Jobs Act, or TCJA) represents a watershed moment in tax policy. Congress faces a critical decision: will we double down on the failed policies of "trickle down" economics, or make progress towards a tax code that works for all of us, not just those at the top? Like previous tax cuts that overwhelmingly benefitted the wealthiest, the 2017 tax law exacerbated inequality and left women and families behind, while constraining investments that allow communities to thrive. Now more than ever, we need big public investments in child care, paid family and medical leave, aging and disability care, affordable and accessible housing, health care and more, to ensure that all of us can succeed in this economy. The ability to make those investments will be deeply impacted by the course Congress charts as provisions of the TCJA expire. Not only should Congress let the temporary provisions of the TCJA that benefit the wealthiest expire, but it should go further and enact additional tax changes to make sure the wealthy and big corporations are paying their fair share.

**<u>The TCJA continued the failed strategy of tax cuts at the top</u>**

The purpose of the tax code is to raise revenues so the government can fund priorities we all rely on. Decades of tax cuts at the top, however, have diminished federal capacity to invest in women, families, and communities. Despite familiar promises, tax cuts at the top do not "trickle down" to benefit average Americans, instead working to exacerbate wealth and income inequality, drive gender and racial wealth gaps, and drive increasing debt levels.

The TCJA exemplifies this failed strategy. The 2017 tax cuts were overwhelmingly skewed to high-income taxpayers and wealthy corporations.[i] The law overall was regressive: it gave larger tax reductions both in dollar amounts and as a percentage of income to high-income households compared to low-income households.[ii] At the time of passage, analysis strongly indicated that this would be the case, and indeed, in the first year it was in effect, "[t]he wealthiest 5 percent of households received nearly half—42.6 percent—of the Trump tax cuts, with the top 0.1 percent receiving an average tax cut of $193,380 in 2018."[iii] In the six years since the law's enactment, the overwhelming share of its benefits has continued to go to the top,[iv] as laid out in Dr. Kathryn Edwards' testimony. In 2025, the top 1% will see an average tax cut of over $61,000, while the lowest income quintile will see an average tax cut of less than $100. In percentage terms as well, the lowest quintile receives an average tax cut of only 0.4% of their income, while the top 1% sees an average tax cut of 2.9% -- more than seven times as large.[v]

The 2017 tax law also continues to demonstrate that reducing the taxes paid by the top does not "trickle down." The TCJA did not lead to increased worker pay or benefits.[vi] For example, the tax savings from the large reduction in the corporate rate went primarily to owners of corporations and the top 10% of wage earners with each firm, with the bottom 90% of wage earners not receiving any benefit.[vii] Overall, more than 80% of the gains from the corporate rate cut were captured by the top 10% of the income distribution.[viii] Additionally, there is broad and bipartisan consensus that the tax law did not spur economic growth to "pay for itself,"[ix] as some suggested at its passage.[x]

**<u>The TCJA exacerbated inequality and left women and families behind</u>**

The 2017 tax law exacerbated gender and racial inequality – and left women and families behind, because they are underrepresented among those that saw the most reduction in their taxes and overrepresented among those that saw little, if any, of the law's promised benefits.

Women of color in particular, and women overall, are disproportionately left out of tax preferences that favor the top. Systemic discrimination, both historic and ongoing, keeps women and especially women of color from accumulating wealth to the same extent white men have.[xi] Women are underrepresented among top earners,[xii] and women supporting families on their own have the lowest median income among family households.[xiii] Women make up nearly two-thirds of the workforce in the 40 lowest paid jobs, and these workers are disproportionately women of color.[xiv] In addition, white tax filers represented 84% of tax filers in the top 10 percent of the income distribution in 2014, compared to 4.1% of Latinx tax filers and 2.8% of Black tax filers.[xv]

Crucially, even changes to the Child Tax Credit (CTC) in 2017, which is specifically designed to help families with children, left out the families that need it most.[xvi] The TCJA doubled the size of the CTC from $1000 to $2000 per child, and made families with six-figure incomes eligible to receive the credit for the first time. This expansion of the CTC in the TCJA provided little, if any, benefit to families with very low incomes, however. In addition, the TCJA changed the law in order to exclude some immigrant families from benefiting from the CTC altogether.[xvii] By contrast, the expansion of the CTC enacted in the American Rescue Plan Act made the credit fully refundable so that families with the lowest incomes could benefit from it, leading to a steep reduction in child poverty in 2021.[xviii]

**<u>The TCJA deprived the nation of revenues to make the investments women and families need and deserve</u>**

In addition to exacerbating inequity within the tax code, the 2017 tax cuts lost massive amounts of federal revenue. In the 10-year period after its passage, the TCJA will have lost $1.9 trillion dollars.[xix] This revenue loss has been a primary driver of the federal deficit. Extending the temporary provisions that expire in 2025 would lose even more federal tax revenue: an estimated $3.5 trillion over the next 10 years.[xx] The significant federal revenue losses from TCJA threaten programs women and families rely on, and have undermined the ability of the government to make public investments women and families need and deserve.

After passing this large tax cut for the wealthy in 2017, some lawmakers then championed cuts to federal programs women rely on, like the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps), Social Security, and housing assistance, cynically citing the growing federal debt as the justification.[xxi] Moreover, the revenue losses have constrained the fiscal space to make robust public investments that would benefit our communities, workforce, and economy as a whole -- like investments in care infrastructure. The lack of investment in child care, paid family and medical leave, and aging and disability care disproportionately leaves women to perform unpaid or underpaid care work, contributing to gender and racial wealth gaps.[xxii]

**The TCJA expirations are an opportunity to change course and require the wealthiest and big corporations to pay more of their fair share**

Prior to 2017, the tax code already privileged those at the top, and wealth over work, disadvantaging historically marginalized communities. The TCJA only made our inequitable tax code even more so, to the detriment of our economy and our nation. As the expirations loom, Congress must ensure that the tax code works for all of us, not just the wealthy few.

It is clear that we cannot afford to continue the disastrous approach of more tax cuts for the wealthiest. Instead, lawmakers should allow the temporary 2017 tax cuts for those making over $400,000 a year to expire. Moreover, beyond allowing expiring provisions of the TCJA that disproportionately benefit the wealthy and big corporations to sunset, policymakers should enact additional tax changes. If lawmakers limit the tax debate in 2025 to expiring provisions of the TCJA, they will miss the opportunity to create a more progressive tax system and prevent the wealthiest individuals and profitable corporations from gaming the tax system in their favor. Making the wealthiest pay a fairer share of taxes would, moreover, expand the fiscal space to support investments in women and families. These types of tax changes would also advance gender and racial equity within the tax code[xxiii] and mitigate racial and gender wealth gaps[xxiv] such as that between single Black women and Latinas and single white men (9 cents of wealth for every dollar owned by the latter).[xxv]

Provisions of the TCJA that Congress should address in determining whether to extend expiring provisions include:

- *Top individual income rate*: The TCJA reduced the top income rate from 39.6% to 37%, which in 2024 applies to marginal income over $609,350 for individuals.[xxvi] This change expires at the end of 2025. Comparing the change in tax liability across income groups following the TCJA, those in the lowest tax bracket saw their taxes go down by about $40 per year, while those in the top 5% saw an average tax cut of $11,200 per year.[xxvii] Raising this rate to 39.6% and adjusting the top tax bracket, as President Biden has proposed, would raise $246 billion over 10 years, primarily for the years 2024 and 2025.[xxviii]

- *Estate tax changes:* The TCJA raised the exemption amount for the estate tax from $5.5 million[xxxiii] to $13.6 million in 2024[xxix] (for individuals). This change expires at the end of 2025. As a result of the TCJA, the number of estates subject to the estate tax has dropped dramatically since 2017, to less than 2,000 estates per year.[xxx] (In addition to allowing the TCJA changes to expire, Congress should take additional steps to make this tax more effective. One such proposal is estimated to raise $430 billion over 10 years.)[xxxi]

- *Pass-through deduction:* The 2017 tax law created a new deduction (reduction in the amount of personal taxable income) for income from "pass-through" businesses – those whose owners pay taxes through their personal returns. This kind of income is overwhelmingly concentrated among high-income individuals.[xxxii] More than half of the tax savings from this new deduction went to taxpayers with income over $1 million.[xxxiii] Further, research shows that women entrepreneurs are less likely to have income that qualifies for this deduction due to the size of the business they run.[xxxiv] It is estimated this provision costs more than $50 billion per year as of 2021.[xxxv]

- *Other corporate tax deductions:* In addition to the reduction in the headline corporate tax rate, other deductions that further reduced taxes for corporations were incorporated in the TCJA, including increased deductions for interest on debt and corporate expenses such as research and equipment.[xxxvi]

- *Expand the Child Tax Credit to Help Low Income Families*: Under current law, 19 million children live in families—disproportionately families of color and women-headed families[xxxvii]—that do not qualify for the full credit because they are paid too little.[xxxviii] Improving the Child Tax Credit, first and foremost by making it fully refundable, would meaningfully benefit millions of women and families and advance gender and racial equity--in contrast to the 2017 changes expanding income eligibility, which primarily benefited higher-income families. Congress should allow the 2017 prohibition against claiming the CTC for children with Individual Tax Identification Numbers (ITINs) to expire in 2025.

- *Corporate tax rate:* The TCJA lowered the corporate tax rate from 35% to 21%. Even though this change does not expire in 2025, Congress should take the opportunity to undo this highly regressive provision. As discussed above, these tax savings benefited top executives and managers, not average workers, with more than 80% of the gains going to the top 10% of the income distribution.[xxxix] Raising the corporate rate to 28%, as President Biden has proposed, would generate $1.35 trillion in additional federal revenue.[xl]

In addition to these changes to the provisions of the TCJA, Congress should make other meaningful changes to the tax code that would make the tax code more progressive and advance equity. Here again, Congress has many options, including:

- *Increasing income tax rates for the wealthiest:* A proposed "millionaires surtax,"[xli] such as one passed by the House of Representatives in 2021, would increase tax fairness by ensuring those at the top who can afford to pay more do so.[xlii] This proposal would raise an estimated $228 billion over ten years.[xliii]

- *Taxing income from wealth like income from work:* The design of the individual income tax is intended to take taxpayers' ability to pay into consideration. Yet billionaires pay an estimated effective tax rate of only 8% annually,[xliv] compared to higher rates for working people. Forty-one percent of the income received by the richest households in the United States is derived from wealth, rather than from work.[xlv] Income from wealth, such as capital gains, is generally taxed at a lower rate than the top marginal rate for income from work (20% compared to a top marginal rate of 37%).[xlvi] Moreover, income from work is taxed when received while capital gains are only taxed when assets are sold, even though economists and tax scholars recognize that these gains meet the economic definition of income.[xlvii] This enables the wealthy to borrow against their wealth, or wait to sell until they have other financial circumstances that reduce their tax liability. In addition, wealthy individuals can avoid taxation on their assets if they hold onto them until they die. When the next generation inherits, the asset is valued, for tax purposes, as of the time of inheritance—known as the "step up in basis" or "stepped-up basis."[xlviii] This way, the heirs receive the benefit of assets that have grown in value over a lifetime without those gains ever being taxed.

  Raising the capital gains rate and closing the stepped-up basis loophole,[xlix] as proposed by the Biden Administration, would raise an estimated $289 billion over ten years.[l] Taxing unrealized capital gains annually for the wealthiest, moreover, such as in President Biden's proposed Billionaire Minimum Income Tax, would raise an estimated $503 billion over ten years.[li]

- *Increasing taxes on stock buybacks:* Stock buybacks are commonly used to reduce the number of shares of stock a company on the market, thereby increasing the value per share, as a method of returning profits to shareholders. Other methods, such as dividends, are taxed when they are distributed, but gains from stock buybacks, like other capital gains, are not taxed until the shares are sold, and may never be taxed at all.[lii] Tax advantages for capital gains such as stock buybacks overwhelmingly benefit the wealthy[liii] and white households,[liv] as they are the most likely to hold shares of stock.

  The Inflation Reduction Act introduced a new tax on stock buybacks in order to begin addressing the disparate tax treatment of stock buybacks and dividends. Companies now are required to pay a 1% excise tax on stock buybacks. President Biden has proposed increasing this tax to 4%,[lv] which would raise an estimated $167 Billion over ten years.[lvi]

- *Closing the Carried Interest Loophole:* This provision privileges compensation for private equity managers by allowing them to characterize their income as capital gains, which are subject to a lower tax rate than ordinary income.[lvii] The current treatment of carried interest benefits wealthy workers,[lviii] and raises particular equity concerns, given that private equity is a sector that is notoriously lacking in gender and racial diversity.[lix] Proposals to close this loophole, such as from the Biden Administration[lx] and Congress,[lxi] would raise an estimated $6.6 billion over ten years.[lxii]

Policymakers can also ensure that more federal revenue is collected by ensuring the IRS has sufficient resources to enforce the tax laws already on the books. Every year, an estimated $688 billion in taxes is owed but not collected, known as the "tax gap."[lxiii] Households in the top 1% of income are responsible for an estimated one-quarter of the tax gap.[lxiv] A decade of deep budget cuts left the IRS unable to go after high-income taxpayers with sophisticated tax counsel and the resources to wage lengthy, expensive legal battles over their tax liability.[lxv] A study by the Treasury Inspector General found that, in Tax Years 2014 through 2016, the IRS failed to pursue over 300,000 high-income individuals who did not even file tax returns.[lxvi] The Inflation Reduction Act (IRA) provided the IRS with almost $80 billion in additional funding over 10 years,[lxvii] although this funding has since been reduced. The original IRA funding was conservatively estimated to collect around $400 billion net over a 10-year period.[lxviii] The IRS has already stepped up its enforcement at the top, including auditing millionaires who did not even file returns, collecting significant unpaid taxes.[lxix] Restoring the full IRA funding and adding additional mandatory funding would continue these efforts, raising an estimated $341 billion over ten years.[lxx]

Not only are these changes good policy, but they are also popular. Changes to the tax code to make the wealthiest and big corporations pay their fair share have significant public support, across political affiliation.[lxxi] Specifically, two-thirds of voters support allowing the temporary provisions of the TCJA benefitting the wealthy to expire. In addition, investments in child care, paid family and medical leave, and aging and disability care that could be supported by increasing taxes on the wealthiest are also strongly supported by the public. That is because these long-overdue investments -- unlike tax cuts for the wealthiest -- would support sustainable and inclusive economic growth, and broadly shared prosperity.

For far too long, our tax policies have favored the wealthiest among us and exacerbated gender, racial, and economic disparities. But it doesn't have to be that way. We can make different policy choices that advance equity and support an economy that works for all of us. As policymakers consider the upcoming expiration of the temporary 2017 tax cuts, they should reject the failed strategy of tax cuts at the top and instead align the tax code with our values. The tax code should work for all of us, not just the wealthy few.[lxxii] A more progressive tax code will also raise revenue to support significant public investments in child care, paid family and medical leave, aging and disability care, affordable and accessible housing, healthcare and more,[lxxiii] fostering a stronger and more inclusive economy and advancing racial and gender equity.

NWLC appreciates the opportunity to submit this written statement for the record. Should you have any questions, please do not hesitate to contact Amy Royce, Senior Counsel for Income Security at aroyce@nwlc.org.

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ONE VOICE
FOR MANUFACTURING
NATIONAL TOOLING AND MACHINING ASSOCIATION
PRECISION METALFORMING ASSOCIATION

April 11, 2024

The Honorable Jason Smith
Chairman
Committee on Ways and Means
United States House of Representatives
1139 Longworth House Office Building
Washington, D.C. 20515

The Honorable Richard Neal
Ranking Member
Committee on Ways and Means
United States House of Representatives
1129 Longworth House Office Building
Washington, D.C. 20510

Dear Chairman Smith and Ranking Member Neal:

On behalf of One Voice, the joint effort between the National Tooling and Machining Association (NTMA) and the Precision Metalforming Association (PMA), and our nearly 2,000 metalworking member companies, thank you for your efforts to help support the growth of American manufacturing. One Voice strongly supports legislation such as the bipartisan Tax Relief for American Families and Workers Act of 2024, passed by the House of Representatives on January 31, 2024, to generate growth among small businesses manufacturing in America.

Federal tax policy has a significant impact on our businesses. When a manufacturer has more resources available to reinvest back into the business, they will purchase more equipment, add more customers, and hire more employees. However, the loss of full expensing and the requirement to amortize R&D expenses have caused surprise tax bills for small and medium-sized manufacturers, which many will struggle to cover. This drastic change in the tax treatment of business investments in research and innovation is costing manufacturers millions while reducing incentives to invest in R&D and reducing the cash flow of manufacturers making it harder to invest in and grow our businesses.

A recent NTMA/PMA survey completed in January 2024, showed that taxes are the number one issue for One Voice members. Tax provisions such as R&D expensing, Bonus Depreciation, Section 163(j), Section 179, Section 199a, LIFO, and the estate tax can have a significant impact on small and medium-sized manufacturers, like our members. The survey showed that due to the loss of full expensing of R&D, 33 percent of One Voice members reduced their R&D activities while 37 percent of members invested less in capital expenditures due to the drop to 80 percent expensing for Bonus Depreciation, which now stands at 60 percent.

Companies, like our members, rely on these vital tax provisions to help invest in their employees and facilities. Congress should support policies that help to level the playing field for American businesses, not those that will place manufacturers and other small businesses at an even greater global competitive disadvantage.

While we believe that the U.S. Senate must pass the bipartisan Tax Relief for American Families Workers Act of 2024, as we look towards key provisions included in TCJA and which may also enhance manufacturing competitiveness, we suggest the Committee consider the following bills as starting points:

- American Innovation and R&D Competitiveness Act (H.R. 2673), repealing the R&D amortization provision reinstating full expensing;
- Accelerate Long-Term Investment Growth Now (ALIGN) Act (H.R. 2406), restoring full expensing for capital investments;
- American Investment in Manufacturing (AIM) Act (H.R. 2788), reinstating the EBITDA standard for interest deductibility;
- Freedom To Invest in Tomorrow's Workforce Act (H.R.1477), expanding 529s to cover industry recognized credentials;
- Small Business Growth Act (H.R. 3661), increasing Section 179 limitation to $2 million;
- Main Street Tax Certainty Act (H.R. 4721), make permanent Section 199a deduction;
- Death Tax Repeal Act (H.R. 7035), repealing Estate Tax and transfer tax;
- Upward Mobility Act (H.R. 6105) and Upskilling and Retraining Assistance Act (H.R. 6104), expanding Section 127 employer tax free support for employee coursework;
- Maintain ability to utilize Last-in-First-out (LIFO) accounting methodology

These bills are all critical for America's job creators. Addressing the tax priorities listed above, along with the immediate passage of the bipartisan Tax Relief for American Families Workers Act of 2024, will restore a significant amount of capital to the bottom lines of small and medium-sized manufacturers, allowing them to invest in and grow their employment base and business.

Thank you for your support on this issue and your efforts on behalf of the metalworking industry.

Sincerely,

David Klotz
PMA President

Roger Atkins
NTMA President

PRESERVATION Action

April 25, 2024

Written Statement from Russ Carnahan, President, Preservation Action and
Briana Paxton, Chairwoman, Preservation Action

United States House of Representatives
Committee on Ways and Means

**"Expanding the Success of the 2017 Tax Relief to Help Hardworking Americans"**

Chairman Smith, Ranking Member Neal, and Members of the Ways and Means Committee, on behalf of Preservation Action's thousands of members and supporters - representing nearly every state - we appreciate the opportunity to provide a written statement on the Committee's hearing, *"Expanding the Success of the 2017 Tax Relief to Help Hardworking Americans."* Founded in 1974, Preservation Action is a 501(c)4 nonprofit organization created to serve as the national grassroots advocacy organization for historic preservation. We represent an active and engaged grassroots constituency from across the country.

We would like to thank the Committee for your ongoing support of the Federal Historic Rehabilitation Tax Credit (HTC), including maintaining the credit as part of the Tax Cuts and Jobs Act of 2017. With your support, the HTC continues to rehabilitate historic properties and revitalize communities across the country. In FY22 alone, HTC-related rehabilitation investments generated approximately 122,000 jobs and were responsible for $7 billion in GDP. Despite the program's record of success, historic rehabilitation projects are facing substantial challenges. Provisions included in the bipartisan Historic Tax Credit Growth and Opportunity Act (H.R. 1785, S. 639) would help restore loss value due to legislative changes, IRS guidance and inflation, improve access to the credit, and increase value for smaller rehabilitation projects. **Any future tax reform effort should include much-needed changes to improve and modernize the HTC.**

**Background**

The HTC is the largest federal investment in historic preservation, providing a 20% credit toward qualified historic rehabilitation expenses over five years. The HTC has been a catalyst for development and job creation, and is responsible for:

- Rehabilitating more than 49,000 historic properties across the country
- Leveraging over $235 billion in private investment since inception
- Creating more than 3.2 million jobs
- Producing over 199,000 affordable housing units
- Rehabilitating historic buildings in all 50 states

PRESERVATION Action

The HTC is not just benefiting large projects in big cities. In 2022, 78% of all projects were in economically distressed areas and nearly a third of all projects were in communities of less than 50,000 people. The HTC is helping to preserve places like the Marquette Hotel, an icon in downtown Cape Girardeau, MO, that had fallen into disrepair and is now an active community asset; or the Eagle Mill in Lee, MA, which is currently undergoing a massive rehabilitation to convert the 1808 paper mill into affordable housing.

Additionally, **the HTC returns more to the federal Treasury than the cost of the program.** According to a National Park Service 2022 study, the HTC has generated $50.3 billion in federal tax receipts from $44.3 billion in credits allocated.

**Challenges to Historic Rehabilitation Projects**

The HTC has a proven track record and continues to be a vital economic development tool to revitalize communities, however the value of the HTC has diminished over the last decade. Over the last 10 years, the **HTC has lost nearly 25% of its value**. While the 2017 Tax Cuts and Jobs Act retained the HTC, the bill altered the credit, requiring it be distributed over five years. That change combined with unfavorable IRS guidance, inflation, and raising interest rates have made historic rehabilitation projects significantly more challenging. National Park Service statistics indicate that HTC applications are down 20% compared to pre-pandemic levels (2019), and the number of projects continues to decline even as the economy is rebounding. This decrease is not due to lack of need, but rather historic buildings have simply become more difficult to rehabilitate. **Changes to improve the credit are needed more now than ever before.**

**Historic Tax Credit Growth and Opportunity Act (H.R. 1785, S. 639)**

The HTC-GO Act makes several urgently-needed changes to improve and modernize the credit. To address the profound changes currently facing historic rehabilitation projects across the country and the credit's diminished value we've seen over the last decade, the HTC-GO Act includes a temporary increase to the rehabilitation credit.

- This provision increases the HTC percentage from 20% to 30% for 2023 through 2026.
- The credit percentage is phased down to 26% in 2027, 23% in 2028, and returns to 20% in 2029 and thereafter.

These changes will encourage more building reuse and more redevelopment in small, midsize, and rural communities. These provisions would not only make the credit easier to use and more historic properties eligible, but they would also enhance the value of the HTC, enable the creation of more affordable housing, and reactivate more vacant or under-utilized properties. The HTC-GO Act includes the following permanent provisions:

- Increases the credit from 20% to 30% for projects with less than $2.5 million in qualified rehabilitation expenses, making it easier to complete small rehabilitation projects;

PRESERVATION Action

- Lowers the substantial rehabilitation threshold, making more buildings eligible to use the HTC;
- Eliminates the requirement that the value of the HTC must be deducted from a building's basis (property's value for tax purposes), increasing the value of the HTC and making it easier to pair with the federal Low Income Housing Tax Credit; and
- Makes the HTC easier to use by nonprofits for community health centers, local arts centers, affordable housing, homeless services, and others by eliminating IRS restrictions that make it challenging to partner with developers.

**Conclusion**

The impact of the HTC on community revitalization, jobs creation, and economic development cannot be overstated. The HTC has helped rehabilitate thousands of historic properties across the country, serving as a catalyst for economic development and job creation, all while returning more to the Treasury than the cost of the program. However, historic rehabilitation projects are facing substantial challenges and have become much more difficult to get done. As the committee considers a path forward for tax policy in 2025, we urge you to include the changes laid out in the bipartisan Historic Tax Credit Growth Opportunity Act as part of any tax reform effort.

Thank you for the opportunity to provide a written statement as part of this important hearing. We look forward to working with the Committee and are happy to answer any questions.

Sincerely,

Russ Carnahan

Russ Carnahan
President, Preservation Action

Briana Paxton

Briana Paxton
Chairwoman, Preservation Action

**Comments for the Record**
**U.S. House of Representatives**
**Committee on Ways and Means**
**Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans**
**Thursday, April 11, 2024 at 2:00 PM.**

Michael Bindner
The Center for Fiscal Equity

Chairman Smith and Ranking Member Neal, thank you for taking my comments on this hearing.

The 2017 personal income tax changes should not be made permanent or extended, as has been proposed. This will reward savings and speculation, rather than providing an incentive to invest in plant and equipment. The latter responds to greater levels of consumption by households funded by both the public and private sectors, including Social Security recipients. For a more detailed treatment of why this is the case, see the first attachment - which was drafted in 2017 in opposition to the Trump-Ryan-Brady tax cuts.

The second attachment, which is an excerpt from my book, *Settling (and Squaring) Accounts: Who Owns the National Debt? Who Owes It?* This lays out in greater detail why government spending leads to higher GDP and why speculative investment does not, as well as a history of the relationship between deficits/surpluses in one year and growth the second year - including graphs showing these relationships by tax regime.

The 2017 Act took a year to make its way through the economy. It is not included in the last graph in the second attachment, because the next point was the pandemic. The one data point we had showed that, post tax cuts, **GDP declined by one percentage point. The current tax regime requires significant deficits to produce economic growth. Once the 2017 tax bill expires, the balance will begin to shift in the tax system so that growth can occur alongside declining deficits and additional spending cuts.**

The Pandemic and the recovery from it generated a planned recession and a period of inflation as the economy reacted to excess stimulus to higher income taxpayers. Giving money to most households did not cause inflation. Letting the "middle class" of households who are paid over $100,000 per year have any additional cash resulted in the current bout of inflation. Money chases the median dollar, not the median household, and the median dollar is earned at the $160,000 level. The stock market is doing well. Rank and file workers are not.

The 2017 cuts rewarded hard working investment managers and the denizens of Wall Street. Mortgage Backed Securities markets, this time investing in commercial and family rental units (which is how Steve Mnuchin and Wilbur Ross made their bones - and why they championed pandemic stimulus so as not to go personally bankrupt) were incentivized by the 2017 law. They received the wealth, not those who were stuck in homes where maintenance was shifted to renters - which means that the homes Mnuchin got for pennies on the dollar are deteriorating, not creating actual wealth.

If the Committee is serious about helping hardworking Americans, increase the minimum wage and continue to press the Senate to pass the committee's increases to the Child Tax Credit. **Work must pay for people to continue to work.**

In 2021, the House proposed increasing the minimum wage to $15 per hour as part of reconciliation. Until the Senate Parliamentarian ruled that this was out of order and the votes did not exist to overrule her, the Republican Minority counter-offered a $10 per hour.

American workers would appreciate putting that counter-offer back on the table, while ending the tipped wage subminimum rate. American customers are not nearly generous enough for this to be at all just. Wherever either (or both) options are proposed as ballot initiatives, they pass. In some states, higher minimums have been enacted and more economic activity, rather than less, has occurred. The reason is obvious - when lower income people have more income they spend it all back into the economy. When wealthier people get a tax cut, they take it out of the economy and into Wall Street speculation. The sad irony is that it is in the so-called "Red States" where the minimum wage has not been raised where the economy lags.

Franchise holders have a history of paying low wages and justifying their opposition to wage increases because their wages would be squeezed out. This is not the case because, again, sales will increase to compensate. That being said, the conditions of franchise employment and franchise agreements deserve attention, as well as the tactic of using the franchise system to avoid unionization and paying for such things as health insurance. If the onus on providing health care and voting for representation is shifted to the franchisor, some firms will decide that turning franchise and gig employment into full-time employment is better. That would be a socially desirable outcome.

**Any tax reform should regularize how capital gains are taxed. Our tax reform plan contains a proposal for an asset value added tax, which will tax transactions, not people or their end of the year balance sheets.** At initial public offering, option exercise and the first sale after inheritance, gift or donation, the sale would logically be marked to market. If a family keeps the stock or company, there will be no tax until someone else buys it. To avoid heirs having to pay the asset value added tax altogether, expand the ESOP tax exemption to all sales of public stock, rather than just private stock. Maximizing employee-ownership will bring a new level of motivation and excellence to the economy.

In March of this year, the Budget Committee held a "Markup" of the FY25 Budget, concurrent with the President's submission. As I stated then, the economic monster that was the 2017 Tax Law will take care of itself next year by sunsetting automatically. **The March Budget Resolution was beyond Dead on Arrival. It was Buried on Passage. It did not make a dent in the news of the day.**

The motivation for keeping the Trump Cuts alive is obvious. It is an attempt to bring Republican donors back to the Majority Party. Since the Insurrection, donations have not only fallen flat, they have all but disappeared. As long as the Party is tainted with Trumpism, not even preservation of these undesirable tax cuts will save it. Hopefully, the donor class is also aware of the underlying economics, which demands higher tax rates to function correctly.

Thank you for the opportunity to address the committee. Please contact us for an in person briefing or to arrange for a public hearing on our tax reform proposals. Remember, given the involvement of members in the sad events of January 6th, there should be no delay in shifting from grandstanding to seeking actual compromise. The alternative is a 28.8% capital gains tax rate and a matching corporate income tax rate as proposed by President Biden with passage assured by soon to be Speaker Jeffries.

**Attachment One – The Tax and Job Cuts Act**

The Tax and Job Cuts Act (not a typo) was a classic piece of Austrian Economics, where booms are encouraged and busts happen with no bailouts. Strong companies and best workers keep jobs and devil take the hindmost. It is economic Darwinism at its most obvious, but there is a safety valve. When tax cuts pass, Congress loses all fiscal discipline, the Budget Control Act baseline discipline is (as it should be) suspended and deficits grow. Bond purchasers pick up the slack caused by the TCJA, which they will as long as we run trade deficits, unless the President's economic naiveté ruins that for us.

Modern economics has become infected with the idea that higher tax rates and lower public spending hurt the economy. By definition, this is not the case. The exact opposite is true. To refresh our memories of what is in the U.S. Code and most basic economics textbooks, Gross Domestic Product equals equal government purchases, consumption from government employee, contractor, transfer recipient and second order private sector spending, which leads to private sector investment, and exports net of imports (which creates a source of funds for debt finance).

Anything that is not part of GDP is considered "savings" or in reality, is asset inflation. If you want to end poverty, give poor people and retirees more money and the economy will grow. Increase government expenditure (even bombers) and the economy will grow, including for the now notorious upper middle class.

Lower tax rates also made money available to chase the same supply of investment instruments, which bid up their price, and caused the invention of a whole range of new products which would be built up and sold by the emerging financial class, who would profit-take and watch what they created go bust and start yet another modern recession, especially the Great Recession just experienced. Only higher tax rates or increased deficit spending control such asset inflation (and the consumption cycles associated with them – which Marx thought was the driver of the boom bust cycle – Marx had a failure of imagination).

A key part of our proposals is to increase income tax revenue from the very wealthy through our income surtax. The higher the marginal tax rate goes, the less likely shareholders and CEOs will go after worker wages in the guise of productivity while pocketing the gains for themselves. Since shareholders usually receive a normal profit through dividends, it is the CEO class that gets rich off of workers unless tax rates are high enough to dissuade them.

**Attachment Two:** ***Settling (and Squaring) Accounts: Who Owns the National Debt? Who Owes It?***

**Deficit Economics**

To start with the obvious, the impact of the debt on the economy comes from fiscal policy (taxing and spending). The size of the national debt and the federal budget began to balloon with the passage of the Sixteenth Amendment authorizing the taxation of income. Prior to this amendment, the direct taxation provisions in the United States Constitution, which apportion direct tax liability between the several states based on population enumeration, were never used because they would fall more heavily on poorer states and less heavily on richer states. With the exception of the funding for the Civil War, which was funded by an income tax, revenue was raised from excise taxes and tariffs and the government remained small.

The need for spending increased with World War I and became entrenched after World War II. Modern budgetary economics dates from that era. Boom and bust cycles could now be explained by what we call welfare economics. We can now measure economic growth (changes in Gross Domestic Product) and see how we are doing before catastrophe strikes.

Gross Domestic Product (GDP) is determined in theory and economic policy by the following equation. GDP=Government Purchases + Household Consumption + Investment in Plant and Equipment + Net Exports – Imports. Investment is not mean happens on Wall Street or the Commodities Markets. These deals are done with monopoly money and affect the mix of savings. Sadly, many economists and journalists conflate the two.

The yeast in every economy is when the government buys things, pays people and transfers money to the poor and retired. This leads to household spending, leading to household spending in the non-government sector as well. All of this causes investment in plant and equipment – regardless of how it is funded.

Government's impact comes in more than just buying stuff. It is a major contributor to household consumption through other and including the stuff it buys. It buys or creates natural resources (food, oil, land, and water), supplies, buildings, military assets, health care (military, civil service, old age, disabled, Indian, international, indigent), transportation infrastructure roads, airports, bridges, spaceports, and private capital used to make government purchases.

Government distributes current and future household income via employee salaries, military pay, government pensions, old age, survivors and disability income, interest on government trust funds, contractor pay and benefits, Temporary Assistance to needy Families, Food Stamps, supplemental security income, temporary disability income, refundable income and child credits, pays net interest to bondholders, and distribution of resource payments to tribal nations (land rentals and resource extraction). This amounts to more than half of household income resulting in consumption and savings.

Consumption from these income streams also creates private sector income, leading to consumption and savings (second and third order - which is private sector spending and savings resulting from private sector consumption). All of this leads to investment in land, plant and equipment for household consumption and exports.

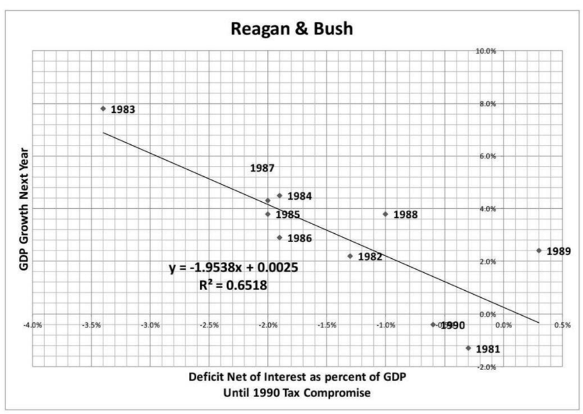
Tax collections and double counting are the means by which all of this spending goes round and round. The double and triple counting is what is known as the multiplier effect.

Government spending is stable over time, which is why it is so hard to cut the budget by following this path. Most of the volatility is in tax policy. When taxes are increased, the budget deficit goes down. When they are cut, the budget deficit increases.

The deficit or surplus is a barometer of whether we are about to grow or shrink the economy. In the financial markets, when the deficit is equal to what we spend on net interest, injections and leakages from fiscal policy balance out. When they are not equal, we can tell how the economy is likely to go. If fiscal policy is extracting money from the savings sector, the deficit goes down AND more government spending and household spending results, making GDP higher. If fiscal policy is shifting money from consumption to savings through tax policy, the economy slows unless offset with more spending or higher transfer payments.

**Predicting Growth**

... The real revolution happened under Reagan, however, in a three round tax cut and subsequent comprehensive tax reform. The latter changed the basic structure of tax rates in a way that has seen adjustments, but no revolutionary change, since then. For this reason, we will demonstrate how taxing and spending interact from that point. The Reagan expansion was not due to tax cuts. It was due to high deficits that resulted from deficit spending. As this chart clearly shows, The larger the deficit, the more economic growth the next year.

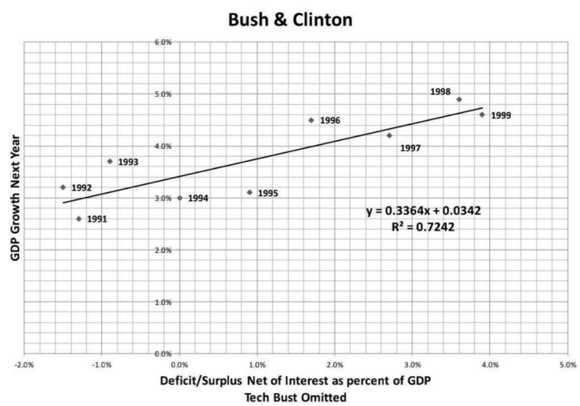



After the 1990 budget deal, which reduced tax rates on the upper middle class (33%) and increased rates on the upper class (28%) to a flat 31% rate. Capital and labor rates were the same and as effective payroll tax rates decreased, the income tax rate kicked in, yielding a 30% flat tax for most taxpayers. That increase on top taxpayers shifted more savings toward consumption.

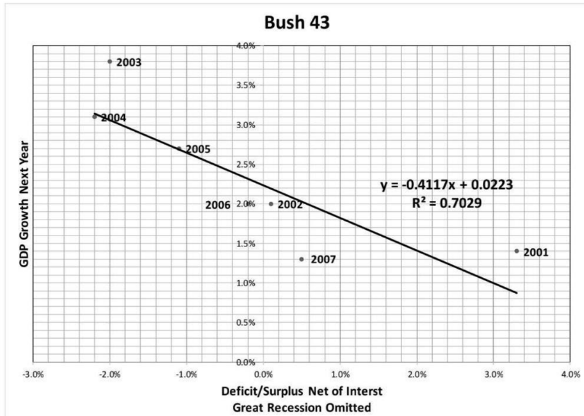
When Democrats control fiscal policy, taxes on the wealthy go up. This not only fuels the economy with increased spending, but it extracts money from savings for consumption directly, rather than through bond markets (at interest). Because spending is mostly stable (most increases are simply catch up spending), a GDP growth rate of around 3% results.

President Clinton raised taxes to 36% with a 10% surtax (3.6%), further increasing growth. The resulting expansion continued until the tech boom and bust, which was triggered by a lowering of the capital gains tax rates. This made taxes lower for investing in or starting an IPO than working.

The way to increase growth beyond average is to increase federal and contractor wages and transfer payments, especially the latter. The recipients spend most of the money. Eliminating welfare as we know it under President Clinton helped balance the budget, but cutting capital gains taxes created the tech bubble and the resulting recession. Lower transfer payments made the recovery that much harder.



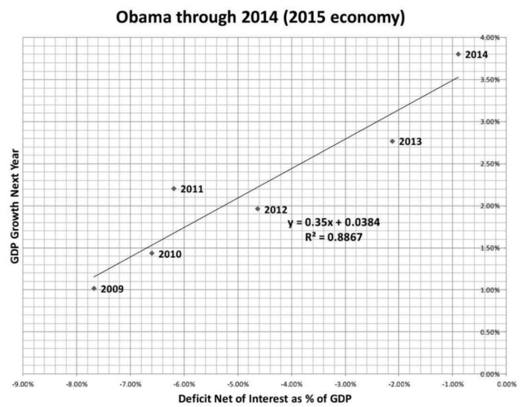

When President Bush 43 took office, tax cuts were already in the agenda. There were concerns that a balanced budget would create a shortage of federal debt to back monopoly money for the rich. The tech bust provided additional justification for tax cuts. This repeated the Reagan economy, where deficit spending was required to keep up with the tendency to shift profits from consumption and offset two rounds of tax cuts. Lower capital gains rates fueled an investment bubble. Slower consumption and income growth caused the Federal Reserve to cut interest rates and fuel an asset bubble. This gave us the Great Recession.



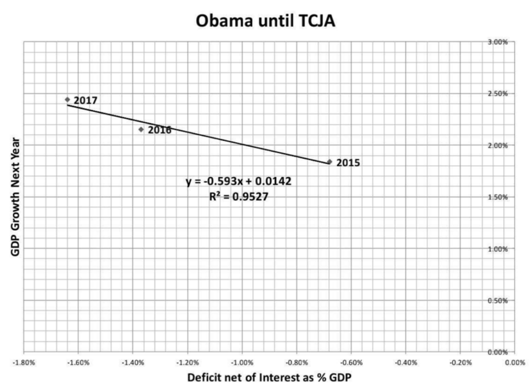

In reaction to the Great Recession, President Obama increased spending. Had he let the Bush Tax cuts expire on schedule, the recovery would have been more vigorous due to less saving, more consumption and higher incomes. Insisting that the Federal Reserve mark mortgage debt to market would have been more effective.

The *Budget Control Act of 2011* marks were devised to avoid a self-inflicted debt limit crisis and to conform to baseline requirements to fund making the tax cuts in the *Economic Growth and Tax Relief Reconciliation Act of 2001* and the *Jobs and Growth Tax Relief Reconciliation Act of 2003* permanent for all but the richest 2% of households. There was no appetite for making detailed tax and spending fixes that would raise revenue from wealthier taxpayers. A quirk in baseline calculations allowed the prior tax cuts to expire and be reinstated for the bottom 98% under the *American Taxpayer Relief Act of 2012.* This likely added almost a point to GDP growth.

The *ATRA of 2012* (passed January 2, 2013) increased tax rates on what is now the top $1.225 trillion of salary, leaving increases on those who now pay over $6 trillion on the table. Over the last six years, that left $600 billion dollars of revenue on the table. Making the upper middle class pay at Clinton rates would have let us tax enough to avoid that amount of spending cuts – or allowed less stringent collection of student loans. Without publicly financed elections, the upper middle class is more influential in some ways than the top 1433 families.




After the 2013 uptick in growth, spending increases for the Great Recession expired and were not renewed. The economy flattened in 2015, probably in response to budget cuts the prior year, slowing to an average 2% growth rate. Higher taxes would have meant more spending and less accommodation of speculation by the Federal Reserve would have kept more money out of the make-believe world of Wall Street.




President Trump's focus on the wealthy and the bad tax cut bill started to make matters worse. The first data point after the Tax Cut and Jobs Act is a full point of GDP below his first year in office (which was due to Obama's tax policy (and therefore, his economy).

After that, the COVID recession and recovery are outliers, because it was a designed recession, not one that was the result of fiscal policy.

**Attachment - Tax Reform, Center for Fiscal Equity, March 24, 2023**

**Synergy:** The President's Budget for 2024 proposes a 25% minimum tax on high incomes. Because most high income households make their money on capital gains, rather than salaries, an asset value added tax replacing capital gains taxes (both long and short term) would be set to that rate. The top rate for a subtraction VAT surtax on high incomes (wages, dividends and interest paid) would be set to 25%, as would the top rate for income surtaxes paid by very high income earners. Surtaxes collected by businesses would begin for any individual payee receiving $75,000 from any source at a 6.25% rate and top out at 25% at all such income over $375,000. At $450,000, individuals would pay an additional 6.25% on the next $75,000 with brackets increasing until a top rate of 25% on income over $750,000. This structure assures that no one games the system by changing how income is earned to lower their tax burden.

**Individual payroll taxes**. A floor of $20,000 would be instituted for paying these taxes, with a ceiling of $75,000. This lower ceiling reduces the amount of benefits received in retirement for higher income individuals. The logic of the $20,000 floor reflects full time work at a $10 per hour minimum wage offered by the Republican caucus in response to proposals for a $15 wage. The majority needs to take the deal. Doing so in relation to a floor on contributions makes adopting the minimum wage germane in the Senate for purposes of Reconciliation. The rate would be set at 6.25%.

**Employer payroll taxes.** Unless taxes are diverted to a personal retirement account holding voting and preferred stock in the employer, the employer levy would be replaced by a goods and receipts tax of 6.25%. Every worker who meets a minimum hour threshold would be credited for having paid into the system, regardless of wage level. All employees would be credited on an equal dollar basis, rather than as a match to their individual payroll tax. The tax rate would be adjusted to assure adequacy of benefits for all program beneficiaries.

**High income Surtaxes**. As above, taxes would be collected on all individual income taxes from salaries, income and dividends, which exclude business taxes filed separately, starting at $400,00 per year. This tax will fund net interest on the debt (which will no longer be rolled over into new borrowing), redemption of the Social Security Trust Fund, strategic, sea and non-continental U.S. military deployments, veterans' health benefits as the result of battlefield injuries, including mental health and addiction and eventual debt reduction.

**Asset Value-Added Tax (A-VAT).** A replacement for capital gains taxes and the estate tax. It will apply to asset sales, exercised options, inherited and gifted assets and the profits from short sales. Tax payments for option exercises, IPOs, inherited, gifted and donated assets will be marked to market, with prior tax payments for that asset eliminated so that the seller gets no benefit from them. In this perspective, it is the owner's increase in value that is taxed. As with any sale of liquid or real assets, sales to a qualified broad-based Employee Stock Ownership Plan will be tax free. These taxes will fund the same spending items as high income and subtraction VAT surtaxes. There will be no requirement to hold assets for a year to use this rate. This also implies that this tax will be levied on all eligible transactions.

The 3.8% ACA-SM tax will be repealed as a separate tax, with health care funding coming through a subtraction value added tax levied on all employment and other gross profit. The 25% rate is meant to be a permanent compromise, as above. Any changes to this rate would be used to adjust subtraction VAT surtax and high income surtax rates accordingly. This rate would be negotiated on a world-wide basis to prevent venue seeking for stock trading.

**Subtraction Value-Added Tax (S-VAT).** Corporate income taxes and collection of business and farm income taxes will be replaced by this tax, which is an employer paid Net Business Receipts Tax. S-VAT is a vehicle for tax benefits, including

- Health insurance or direct care, including veterans' health care for non-battlefield injuries and long term care.
- Employer paid educational costs in lieu of taxes are provided as either employee-directed contributions to the public or private unionized school of their choice or direct tuition payments for employee children or for workers (including ESL and remedial skills). Wages will be paid to students to meet opportunity costs.
- Most importantly, a refundable child tax credit at median income levels (with inflation adjustments) distributed with pay.

Subsistence level benefits force the poor into servile labor. Wages and benefits must be high enough to provide justice and human dignity. This allows the ending of state administered subsidy programs and discourages abortions, and as such enactment must be scored as a must pass in voting rankings by pro-life organizations (and feminist organizations as well). To assure child subsidies are distributed, S-VAT will not be border adjustable.

As above, S-VAT surtaxes are collected on all income distributed over $75,000, with a beginning rate of 6.25%. replace income tax levies collected on the first surtaxes in the same range. Some will use corporations to avoid these taxes, but that corporation would then pay all invoice and subtraction VAT payments (which would distribute tax benefits). Distributions from such corporations will be considered salary, not dividends.

**Invoice Value-Added Tax (I-VAT)** Border adjustable taxes will appear on purchase invoices. The rate varies according to what is being financed. If Medicare for All does not contain offsets for employers who fund their own medical personnel or for personal retirement accounts, both of which would otherwise be funded by an S-VAT, then they would be funded by the I-VAT to take advantage of border adjustability.

I-VAT forces everyone, from the working poor to the beneficiaries of inherited wealth, to pay taxes and share in the cost of government. As part of enactment, gross wages will be reduced to take into account the shift to S-VAT and I-VAT, however net income will be increased by the same percentage as the I-VAT. Inherited assets will be taxed under A-VAT when sold. Any inherited cash, or funds borrowed against the value of shares, will face the I-VAT when sold or the A-VAT if invested.

I-VAT will fund domestic discretionary spending, equal dollar employer OASI contributions, and non-nuclear, non-deployed military spending, possibly on a regional basis. Regional I-VAT would both require a constitutional amendment to change the requirement that all excises be national and to discourage unnecessary spending, especially when allocated for electoral reasons rather than program needs. The latter could also be funded by the asset VAT (decreasing the rate by from 19.25% to 13%).

**Carbon Added Tax (C-AT)**. A Carbon tax with receipt visibility, which allows comparison shopping based on carbon content, even if it means a more expensive item with lower carbon is purchased. C-AT would also replace fuel taxes. It will fund transportation costs, including mass transit, and research into alternative fuels. This tax would not be border adjustable unless it is in other nations, however in this case the imposition of this tax at the border will be noted, with the U.S. tax applied to the overseas base.

**Contact Sheet**

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**Committee on Ways and Means**
**Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans**
**Thursday, April 11, 2024 at 2:00 PM.**

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears:

This testimony is not submitted on behalf of any client, person or organization other than the Center itself, which is so far unfunded by any donations.