House Committee on Ways & Means - Subcommittee on Tax Hearing: Promoting Global Competitiveness for American Workers & Businesses

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Written Testimony of The Honorable Kevin Brady

66th Chairman, House Committee on Ways & Means 2015-2018; Ranking Member 2019-2022; Chairman, Joint Economic Committee; Chairman, Joint Committee on Taxation; and Author, H.R. 1 - Tax Cuts & Jobs Act of 2017

Chairman Smith & Ranking Member Neal, Chairman Kelly & Ranking Member Thompson and distinguished Members of the Subcommittee on Tax:

It is an honor to participate in this hearing before a committee I am immensely proud to have served on as a member, subcommittee chair, Ranking Member and as Chairman. I know well the important Constitutional role this Committee – the first and oldest committee in the U.S. Congress - plays as the originator of revenue-raising legislation to finance the federal government.

In my post-Congress life I serve as the strategic advisor to the Alliance for Competitive Taxation (ACT) formed in 2013 to promote U.S. jobs and investment and sustain rising incomes for American families through the establishment of a globally competitive tax system that promotes America's economic growth. ACT is comprised of tax directors from 49 leading American businesses representing a broad range of U.S. industries that employ more than 3 million workers who produce goods and services for customers around the world.

I also serve as a senior consultant with the global law firm Akin where I work on economic issues such as tax, trade, energy and health care. I serve in a volunteer role on the non-profit boards of the highly-respected American Action Forum that provides data-driven insight into economic, domestic, and fiscal policy issues "to promote innovative, free-market solutions to build a stronger, more prosperous future" and the

Tax Foundation, the world's leading nonpartisan tax policy nonprofit whose mission is to “improve lives through tax policies that lead to greater economic growth and opportunity.”

I am not a registered lobbyist. My views today are my own.

We undertook tax reform in 2017 because America’s tax code was horribly outdated - burdened with one of the highest corporate tax rates in the developed world and an uncompetitive international tax code that was a relic of the Kennedy Administration.

As a result, for a decade before tax reform America’s economic growth was slow, averaging a mere 1.5% a year, paychecks were essentially flat for the same period, and nearly every other month a U.S. company was moving its headquarters overseas, often accompanied by manufacturing, research, investment and intellectual property which left thousands of American workers and their communities behind – all driven away by an obsolete tax code.

America deserved better. Through policy work over eight years, with more than 40 congressional hearings, bipartisan working groups, several comprehensive drafts and countless policy meetings, the House Ways & Means Committee pursued the reform of the America’s outdated tax code in preparation for a president willing to lead on this once-in-a-generation challenge.

In 2017 this Committee set out to create a tax code built for growth – the growth of jobs, paychecks and the U.S. economy. We developed a code to leapfrog America to the most competitive economy in the world, to position us as the premium destination for investment and innovation, and to ensure that America’s businesses and workers could compete and win anywhere in the world - especially here at home. And when they succeeded in foreign markets, to enable them to bring their profits home to be invested in the U.S.

The Tax Cuts & Jobs Act, led and signed by President Trump, achieved its goals and remain a boon for American workers.

TCJA spurred business investment in innovation, technologies, software, equipment and facilities. It also restored U.S. corporations' international competitiveness by reducing the corporate tax, a stealth levy on workers' wages. In the first and most important step we lowered the corporate rate to 21% from 35, then replaced the outdated world-wide system of taxation with a territorial system, pioneered the creation of the first global minimum tax, established safeguards against exporting business income to low-tax states and importing deductions to domestic returns, and created crucial incentives to spur U.S. investment and innovation here at home.

By modernizing America's international tax code Congress set off an economic boom, drawing more investment, research and intellectual property back to the U.S. Each dollar of corporate-tax reduction has been estimated to increase economic production in the U.S. by 44 cents. The TCJA stimulated U.S. investment by 20 percent among companies experiencing the average tax change.

Research and development increased, and thanks to modernization of the international tax provisions, many companies repatriated their intellectual property to America and both developed and kept new IP within the U.S. Payments to U.S. corporations for the use of IP more than doubled from $190 billion in 2017 to $386 billion in 2021.

Within America's multinational enterprises employment, capital expenditures, total sales and R & D spending all grew faster within the United States than the respective levels abroad – leading to increases in the U.S. share of these activities relative to pretax reform. That increased share of U.S. activity represents 1 million more employees, $30 billion more in capital expenditures, $117 billion more in sales and $11.9 billion more R & D in the U.S. in 2022 compared to its share in 2017.

In the most striking example of the tax reform's success, there have been no major tax-driven corporate "inversions" from America to overseas since the enactment of TCJA – none - keeping jobs and revenue here in the U.S.

Research by Biden Treasury economists find the dollar value of American purchases of foreign companies increased by 19 percent after TCJA, and foreign acquisition of U.S. firms fell by a stunning 38 per cent.   Led by the corporate rate cut plus the first-of-itskind foreign minimum tax that raised revenue while also removing the tax barrier to bringing overseas earnings back home, strong incentives for new U.S. investment and innovation, and by allowing businesses to immediately write off the cost of new equipment, machinery and software, the TCJA succeeded in increasing American firms' competitiveness and workers' well-being.

As this Committee has repeatedly reported, TCJA reforms have been the wind at American workers' backs for years. The 9 percent increase in inflation-adjusted earnings between Jan. 1, 2018, and Dec. 31, 2020, was the fastest growth since the government began publishing data in 1979.

In just 2018 and 209, real median household income increased by $6,160 – more than in the previous 10 years combined. Unemployment rates for African Americans, Hispanics and those with less than a high school education fell to the lowest rates seen since the data series was first reported. From 2017 to 2019 total poverty and child poverty fell at the fastest rates since the 1960's. More than 6 million people were lifted out of poverty, dropping the poverty rate to 10.5 percent, the lowest level in U.S. history.

Income and wealth inequality fell after TCJA, as real wages for the bottom 10 percent grew nearly twice as fast as the top 10 percent and real wealth of the bottom 50 percent of households rose three times faster than that of the top 1 percent.

But those benefits to American workers and families were at risk if Congress did not act in 2025 to make the 2017 tax reforms permanent. This year Republicans in Congress beat all expectations by quickly delivering to the President tax policy that locked in the pro-growth provisions of the TCJA, fully restored incentives for innovation, competitiveness and investment in the U.S., and made thoughtful improvements in international taxes to ensure American businesses can continue to compete and win in the global marketplace.

I can't overstate the importance of achieving permanence and preserving the competitive corporate rate to the growth of job, paychecks, the economy and America's international competitiveness. And to succeed in this by early summer is an impressive achievement by any measure.

Both for the short and the long-term, the Working Families Tax Cut is proving to be a success: It's already spurring investment, keeping jobs in the United States and positioning America to lead in innovation and exports for decades to come.

The bill was designed to ensure America continues to be the best place in the world to build and invest. We're seeing businesses of all size acting on the new incentives built into the law to expand their operations in the United States and hiring American workers.

Consider research and development, the lifeblood of our innovation economy.

The new law restores immediate expensing for U.S. R&D. Already this portion of the law is bearing fruit. Since the law's signing, multiple startups announced plans to hire staff in the U.S. instead of abroad. Staffing firms report a 15 to 20 percent jump in demand for U.S. data science and AI roles since July. And job postings for R&D positions surged on ZipRecruiter, reaching two-thirds of last year's quarterly total in just five weeks. These are important developments that will keep high-value innovation jobs in America.

Manufacturers, too, are benefiting. The law allows businesses to immediately deduct the cost of building new manufacturing facilities and strengthens credits for domestic semiconductor production. Many industry leaders rightly applauded this as crucial to reshoring supply chains and securing America's industrial base.

Companies selling "Made in America" good and services around the world are discovering new reasons to expand here at home. Eliminating the pending tax rate increases in the GILTI, BEAT and FDII provisions and replacing them with permanent revised rates protects the U.S. tax base while providing U.S. companies competing globally with certainty as they plan new investment decisions.

Modifying the FDII expense allocation rules encourage businesses to conduct research in the U.S. leading to new breakthrough technologies, keep the valuable IP associated with those technologies here in the U.S., and expanding U.S. manufacturing operations to serve their global customers. In addition, Congress removed the provision that inadvertently penalized companies for investing in tangible property here in the U.S. Now, thanks to these changes businesses are encouraged to make the U.S. their global hub for developing and owning their IP, as well as for manufacturing and other business activities utilizing their IP – as the original TCJA intended.

Congress modified the expense allocation rules for GILTI (now renamed NCTI) and reduced the foreign tax credit “haircut” from 20 percent to 10 percent. These changes remove the double taxation and damage to the competitive position of U.S. companies which made it harder for them to grow jobs here at home as well as to compete and win globally.

In short, the 2025 tax reform law overhauled how export-related income is taxed, broadening and making permanent a key TCJA deduction. Now, not only do long-time users of the provision stand to see larger benefits, but many capital-intensive manufacturers that had been excluded now qualify for the benefit. The result is a stronger incentive to locate production, intellectual property and profits in the United States.

As reported recently in the Wall Street Journal, the law “will make the U.S. more competitive in artificial intelligence and accelerate investments because it is more attractive to spend on network architecture”, said one CFO, allowing America “to lead in the most consequential technological revolution of our time.”

Main Street businesses are also responding positively to the permanency of the 20 percent tax deduction for pass-throughs, with small business optimism returning for business conditions and expansion.

These are all encouraging signs that should be welcomed by both political parties. And while immediate attention focuses on the benefits of low taxes on families and new tax cuts for individual workers and seniors, Congress’s commitment to ensuring America’s economic growth, innovation and competitiveness over the long-term are the most consequential benefits of the bill.

In closing, is there more that can be done by Congress and the Trump Administration to make American businesses more competitive and drive more investment within the U.S.?

Absolutely, starting with the leadership of this Committee – notably Chairman Smith, and Representatives Estes and Hern – the Senate Finance Committee and President Trump to challenge the misguided OECD Pillar 2 project. Had it been left to its conclusion Pillar 2 would have given foreign countries first claim over vital parts of the U.S. tax base, damaged the global competitiveness of U.S. companies, weakened important bi-partisan U.S. tax incentives, and undermined Congress's authority to write tax policy to advance the interests of America.

Fortunately, through the leadership of Treasury Secretary Bessent, the United States appears to be close to finalizing an agreement that will allow U.S. tax rules to apply to U.S. companies in lieu of the Pillar 2 rules. This 'side by side' approach should protect U.S. sovereignty while recognizing that America pioneered the first global minimum tax through the GILTI regime in the TCJA which has proven to robustly prevent erosion of our tax base.

However, this 'side by side' agreement is only as good as the commitment of other countries to follow through on their promises and adopt the necessary changes to their laws to implement the agreement in a timely manner. In this regard I encourage this Committee to continue to remain focused on developments at the OECD. Other countries should have no doubt that the U.S. Congress is prepared to take action to protect the interests of the United States and to protect U.S. taxpayers from the inappropriate application of extraterritorial taxation by foreign countries.

I would be happy to visit further with the Committee regarding other issues related to American competitiveness such as Digital Services Taxes (DST's), other global tax risks, and in regulatory areas such as international tax that a strong focus and clarification by Treasury could help promote the certainty and stability that Congress sought to achieve in the recent tax bill.

Thank you again for inviting me to testify today.