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THE NEED TO MAKE PERMANENT THE TRUMP TAX CUTS FOR WORKING FAMILIES

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED NINETEENTH CONGRESS

FIRST SESSION

JANUARY 14, 2025

Serial No. 119–FC01

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59–656 WASHINGTON : 2025

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PUBLIC SUBMISSIONS FOR THE RECORD

United States House Committee on
Ways & Means
CHAIRMAN JASON SMITH

FOR IMMEDIATE RELEASE | CONTACT: 202-225-3625
January 7, 2025
No. FC-01

Chairman Smith Announces Hearing on The Need to Make Permanent the Trump Tax Cuts for Working Families

House Committee on Ways and Means Chairman Jason Smith (MO-08) announced today that the Committee will hold a hearing on the significance of making permanent the Trump Tax Cuts for America's working families. The hearing will take place **immediately following the Committee's Organizational Meeting, to be held on Tuesday, January 14, 2025, at 10:00 AM 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 the invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

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

Please ATTACH your submission as a Microsoft Word document in compliance with the formatting requirements listed below, **by the close of business on Tuesday, January 28, 2025**. For questions, or if you encounter technical problems, please call (202) 225-3625.

FORMATTING REQUIREMENTS:

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

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

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

ACCOMMODATIONS:

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

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

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THE NEED TO MAKE PERMANENT THE TRUMP TAX CUTS FOR WORKING FAMILIES

TUESDAY, JANUARY 14, 2025

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

The committee met, pursuant to call, at 10:29 a.m., in Room 1100, Longworth House Office Building, Hon. Jason Smith [chairman of the committee] presiding.

Chairman SMITH. The committee will come to order. As of today, we have only 142 legislative days before taxes will go up for every single American if Congress fails to act. One year from now, the paychecks of every working American will look a lot different, as on average, their taxes will go up 22 percent.

During the first Trump presidency, the tax cuts were the rocket fuel that propelled America out of the stagnation of the Obama years. By every conceivable measure, American workers and the economy were better off. Americans earned bigger paychecks, unemployment for every group was at historic lows, and poverty dropped to its lowest level in American history.

Buying a home was an achievable part of the American Dream, not just a dream never to become reality. Low-income taxpayers were helped more than those at the top. American earners under $100,000 received a 16 percent tax cut, while the amount of taxes paid by the top one percent, in fact, increased.

Small business optimism hit record highs. American corporations stopped shifting their headquarters, jobs, and tax revenues overseas. The economy soared, creating five million new jobs.

In the two years after the 2017 tax cuts, the economy grew a full percentage point faster than the Congressional Budget Office projected. In over 10 years, that equals $3 trillion in new revenue. Even though we lower taxes, tax revenue went up. In fact, we have already seen $1.6 trillion in higher revenues than what CBO projected.

Americans are demanding we restore prosperity and build upon the success of President Trump's economic policies that gave the American people the best economy in my lifetime. However, that effort is at risk if we do not make the 2017 tax cuts permanent.

If Congress fails to act, the average family of four will end up paying the equivalent of nine weeks of groceries in higher taxes. After four years of sticker shock at the grocery store, that is the last thing families need. Forty million parents will have their Child Tax Credit slashed in half. Two million family farmers will see the Death Tax exemption slashed in half. Ninety-one percent of all taxpayers will see their guaranteed deduction slashed in half. Twenty-six million small businesses will be hit with a 43.4 percent top tax rate, more than 20 points higher than what businesses pay in Communist China.

Today as we speak, businesses are making decisions about where they are going to invest higher and grow this year and in the years to come. And they are making those decisions based on the taxes they expect to pay. And uncertainty is an unnecessary weight on our job creators and our family farmers who will have to start calling accountants and estate planners to figure out how they might navigate higher taxes.

If we want to continue President Trump's legacy of a strong economy, Congress must act swiftly to make the tax cuts permanent. Americans don't have the luxury of waiting. Many have been waiting for years for relief.

Before us is the opportunity to permanently remove the uncertainty and anxiety that dampened business expansion, job creation, and economic growth. Making the 2017 tax cuts permanent is key to unlocking a second economic boom in a second Trump presidency.

We would see $284 billion in new GDP growth from a boom in manufacturing; $150 billion in new small business GDP growth from small businesses expanding, hiring new employees and investing in their community; $50 billion in opportunity zone investments to revitalize the poorest neighborhoods in this country; over one million new small business jobs each year just for making the small business deduction permanent. And just this morning, before this hearing, the National Association of Manufacturers released a new study revealing that six million jobs would be saved, including 1.1 million manufacturing jobs by extending the Trump tax cuts.

We must not leave families and small businesses waiting for Congress to do the right thing and provide tax relief at the 11th hour. We must make the Trump tax cuts permanent as soon as possible.

I am glad we are joined by our witnesses—Americans whose lives were improved by the 2017 tax cuts—and look forward to hearing their stories.

I am pleased to recognize the ranking member, Mr. Neal, for his opening statement.

Mr. NEAL. Thank you, Chairman. I came to the committee because I believe in the Tax Code as an engine for change. Let's be clear, I have been a pro-growth, pro-prosperity, but pro-fair shot member of this committee, which is exactly what the American people are asking us to do right now.

Recently, the Financial Times and the Economist Magazine said that the American economy was the envy of the world. I was struck by the hearing title, quote, "The Need to Extend Trump's Tax Cuts for Working Families," when we know that most of these cuts went to people at the very top.

Indeed, the top 2 percent. The American people are living under this tax plan, and they need relief from it. The American people need lower costs. Our Republican colleagues are looking to come to the aid of the strongest and wealthiest among us once again.

Last week, Treasury released a new report confirming that if this exercise was actually about lowering costs for working families, Republicans wouldn't be running their 2017 playbook back to the tune of $1.8 trillion of borrowed money. I don't understand the logic of suggesting that we are going to attack the national debt and simultaneously, add $4 trillion to it by a tax cut proposal.

A reminder that we have the opportunity here to address the national debt and tax relief for middle-class Americans and people at the lower end of the scale, but that was not what was entertained.

So we are talking now about adding $4.6 trillion to the deficit as part of their mandate. We can lower this cost by making up the difference by extending premium tax credits in the Democratic-expanded Child Tax Credit initiative. We can put more money directly into the pockets of those who need it, which has been proven time and again that parents who received our monthly payments spent the money on necessities. Child poverty was cut in half, and a recent study found parents actually cut back on cigarette use, likely because of the decreased stress from the security of having more relief.

Our colleagues are charging ahead on this policy because it graduates from a concept of a plan to empty action. Cutting taxes for corporations and billionaires on the backs of people that really need help.

We are all looking forward to seeing how the proposals will play out as to how the initiatives will be embraced to cut many important social programs while we cut taxes on the Republican side for the wealthiest among us. They are guiding this agenda behind what they are calling a clear mandate. I ask this morning, What mandate?

The smallest popular vote margin of a quarter century, the fourth narrowest by percentage since 1960, losing seats in the House of Representatives. The only mandated agenda we should be focused on is one that the American people deserve and the one they want, working together to make their lives more affordable.

The American people deserve better than these tax cuts being extended without any questions being asked. They deserve a worker-centered agenda that delivers relief and gives them, as I noted earlier, a fair shot. They need peace of mind in caring for themselves and indeed their loved ones. And Democrats are going to continue to fight for that, not a cash grab that will be discussed as we proceed this morning.

With that, I yield back my time.

Chairman SMITH. Thank you, Ranking Member Neal.

I will now introduce our witnesses that are with us today. The first one, Michelle Gallagher is a partner at Adamy Valuation and Gallagher, Flintoff and Klein. We have Margaret Marple is a mother from Lynchburg, Virginia. And we have Alison Couch, is the owner of Ignite Accounting and Business Advisors. And we have Courtney Silver as president of Ketchie Incorporated. And Brendan Duke, a senior for economic policy at the Center for American Progress.

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

We will start. Ms. Gallagher, you may begin when you are ready.

STATEMENT OF MICHELLE GALLAGHER, PARTNER, ADAMY VALUATION AND GALLAGHER, FLINTOFF AND KLEIN

Ms. GALLAGHER. Chairman Smith, Ranking Member Neal, and the distinguished members of this committee, thank you for the opportunity to provide testimony today on the importance of permanently extending provisions of the Tax Cuts and Jobs Act, TCJA. My name is Michelle Gallagher. I am a CPA from the great State of Michigan with 35 years of experience working with businesses of all sizes, working families, and multigenerational family enterprises. I have seen firsthand how the provisions of the TCJA have provided critical support to the businesses, farmers, and working families that form the backbone of our economy.

To start, I want to strongly encourage Congress to make addressing the permanency of TCJA your top priority. Taxpayers and their advisors are desperately seeking certainty and predictability so they can plan for the future. Without clarity, businesses and farmers are likely to delay or forego investment which could stall economic growth and depress job creation. Congress cannot risk waiting until later this year to address these important tax provisions when it is simply too late for taxpayers to react.

The 199A deduction has been critical for businesses organized as sole proprietors, partnerships, LLCs, and S-corporations, which represent nearly 99 percent of my business clients and the vast majority of businesses in Michigan and nationwide. They also employ most of the country's workers.

199A helped many small-business clients stay competitive with large corporations on wages and hiring when inflation was skyrocketing. And during post-COVID economic rebound, many of my clients increased their investments in equipment to make use of the 199A deduction, as well as the last full years of bonus depreciation.

If the 199A deduction expires, the taxes on pass-through businesses will go up sharply, while C-corporations and publicly-traded companies will continue to enjoy their lower 21 percent TCJA permanent corporate rate. This simply is just not fair to the Main Street businesses and farmers of our country. 199A should be permanently extended period.

Full bonus depreciation under the TCJA has also been a game changer for my business clients. Immediate deductions have freed up capital for investments in state-of-the-art equipment, resulting in increased efficiency, production, and job creation.

Lower marginal tax rates for nearly all taxpayers have bolstered the financial health of businesses and farmers and provided relief for working families. When marginal rates are higher, families must tighten their belts, and businesses face greater financial strain at the expense of growth opportunities. When marginal rates are lower, working families have more take-home pay, and they can invest more in their families and communities. If the marginal rates are not permanently extended, nearly every American worker will go home with a smaller paycheck, starting in just 11 short months.

The doubling of the standard deduction has simplified tax filing for millions of Americans and provided substantial tax savings for middle-class families. In addition to these tax savings, the simplicity has saved taxpayers valuable time and enabled them to focus on running their businesses, farms, and households instead of navigating complex tax filings.

The expanded Child Tax Credit under TCJA has been a lifeline for working families and has even had a direct impact on my own family. My brother, who works as a public schoolteacher, relies on this Child Tax Credit to help provide for his wife and seven children between the ages of four and 19. His modest salary is stretched thin, and the Child Tax Credit has been essential to covering their family expenses. For families like this, the extended Child Tax Credit is not just helpful, it is indispensable and must be retained.

The estate tax presents a constant source of worry and financial burden for many family businesses and farmers that I work with. Many business owners and family farmers may appear wealthy on paper, but almost always lack the cash or liquidity to pay estate taxes. I have seen this lead to family businesses closing or being gobbled up by multinational corporations because they realize they cannot afford to pay the debt tax.

Additionally, compliance costs related to the estate tax amount to over $18 billion annually according to the Tax Foundation. A figure that actually exceeds the annual estate tax revenue collected. That is right. More money is spent annually complying with the tax than the government collects in the tax itself.

If the estate tax is not addressed this year, the current exemption will be cut in half, doubling or tripling the amount of unexpected families forced to pay this death tax. Congress should pull the plug on the death tax for good. No grieving family has to deal with this unfair double tax.

Small businesses and farms are the heartbeat of their communities, creating jobs and fostering local economic growth. As someone who has worked closely with businesses, farmers, and working families for 35 years, I have seen the tangible benefits of the TCJA firsthand. I urge Congress to permanently and swiftly extend these provisions to provide certainty to America's small businesses, farmers, and families. Thank you for the opportunity to share my perspective. I look forward to our discussion here today.

[The statement of Ms. Gallagher follows:]

WRITTEN TESTIMONY OF MICHELLE GALLAGHER CPA/ABV/CFF BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS

PARTNER, GALLAGHER, FLINTOFF & KLEIN

PARTNER, ADAMY VALUATION

ADVISORY BOARD MEMBER, FAMILY BUSINESS COALITION

ADVISOR, S-CORP ASSOCIATION

HEARING: THE NEED TO MAKE PERMANENT THE TRUMP TAX CUTS FOR WORKING FAMILES

January 14th, 2024

Chairman Smith, Ranking Member Neal, and distinguished members of the committee, thank you for the opportunity to provide testimony on the importance of permanently extending provisions of the Tax Cuts and Jobs Act (TCJA) benefiting working families and privately-owned businesses. As a Certified Public Accountant with over 35 years of experience working with individuals, small businesses, and multigenerational family enterprises, I have seen firsthand how the provisions of the TCJA have provided critical support to the businesses and families that form the backbone of our economy.

The TCJA provided several key provisions that have benefited all of my business and individual clients, including the 20% deduction for qualified business income under Section 199A, full bonus depreciation, lower marginal tax rates across the board, doubling the standard deduction, the expanded child tax credit, and the increased estate tax exemption. These provisions have not only encouraged growth and investment but also provided a lifeline for small businesses and working families navigating economic uncertainties.

As Congress currently debates how to move forward legislatively this year, making TCJA provisions permanent should be priority number one. Business owners, family enterprises, working families and their advisors, are desperately seeking certainty and predictability related to tax policies right now. Frequent or last-minute changes to the tax code create tremendous uncertainty, making it difficult for taxpayers to plan for the future. Without clarity, businesses and families are likely to delay or forgo investments like hiring more workers, increasing salaries, upgrading business equipment, purchasing a first home, or opening a new college savings account for their children which could stall economic growth and depress job creation. Congress needs to act quickly and swiftly and should avoid at all costs waiting until the fourth quarter to address these important tax provisions when it’s simply too late for businesses and families to react.

Section 199A: The 20% Deduction for Qualified Business Income

The 199A deduction allows for a 20% deduction of Qualified Business Income for businesses that are considered pass-through entities, meaning the business income is passed through to the personal tax return of the owner(s) and they pay personal income tax at their marginal tax rates on such income. The 199A deduction was established in conjunction with the lower corporate rate that was also created under TCJA, however the lower corporate rate under TCJA was made permanent, while 199A and a number of other provisions affecting pass-through businesses were not.

It should also be noted that not all business owners qualify for the 199A deduction. A number of guardrails and limitations apply which ensure business owners are investing in employees and capital expenditures. Plus, there are additional limitations for high-income taxpayers, so it is not something that only benefits the rich, in fact it is significantly harder for them to qualify.

199A has been critical for my clients organized as sole-proprietors, partnerships, LLC's and S-corporations, which represent nearly 99% of my business clients. As a group, pass-through businesses represent the vast majority of businesses in Michigan and nationwide. They also employ most of the country's workers. In short, 199A plays an instrumental role in providing relief to the vast majority of main street businesses across the USA.

Section 199A was designed to help private businesses in three important aspects:

- Establish rough parity between the pass-through tax rates and the new, lower corporate rate;
- Generate economic growth by allowing these businesses to retain and reinvest more of their earnings; and
- Avoid broad tax hikes by offsetting the many revenue raisers included in the TCJA.

These last two points are worth highlighting. Pass-through businesses are the foundation of the economy in my community and most others across the country. The 199A deduction allows businesses to reinvest more of their earnings back into those communities. It is used to create jobs, pay for health insurance, upgrade equipment and computer systems, buy new facilities, and expand product lines.

I have seen first-hand the benefits of 199A from many of my clients. In particular, 199A was extremely beneficial in 2021-2022 when inflation was skyrocketing and good employees were hard to find (and keep). 199A allowed my clients to stay competitive with larger corporations on wages and hire more employees at a higher cost than they had seen in decades. They were able to do this knowing it would contribute to their 199A qualifications and they would receive a direct benefit for their investment. In addition, during the post-Covid economic rebound, many of my clients significantly increased their investments in equipment, computer systems, and infrastructure to make use of 199A and the last years of full-bonus depreciation.

If the 199A deduction were allowed to expire this year, my clients would face higher tax burdens, leaving them with fewer resources to innovate, compete, and grow. This tax hike is, relative to the pre-TCJA rules, a real tax hike. That is because the TCJA included revenue raisers like the SALT deduction cap, the cap on interest expense deductions, net operating loss limitations, research and experimental (R&E) amortization, and excess loss limitations. All of these affect pass-through businesses and many of them will remain in the Tax Code next year and beyond. If the 199A deduction expires, the taxes on my clients will go up sharply, while C-corporation owners and publicly-traded companies will continue to operate at the lower 21% TCJA corporate rate. This simply is just not fair. This will also cause many businesses to reorganize as C-corporations which will create unnecessary administrative and operational burdens and hurt our main street businesses in the long-run.

Family businesses organize as pass-throughs because it is a better fit and allows them more flexibility. The C-corporation rules may work fine for large or public companies, but they handicap most family businesses. An annual double tax applies to businesses who pay dividends and whose owners pay taxes.

That's the family business. Converting to C-corporation simply won't work – absent the 199A deduction, the family business ends up paying more either way.

It should be noted that raising taxes on any US business in this current economic environment, including family businesses organized as C-corporations, would hurt job growth and the economy. Instead, Congress should focus on providing parity with respect to the tax treatment of C-Corporations and pass-throughs, beginning with making the 199A deduction and other individual provisions permanent.

Bottom line: Permanently extending the 199A deduction is critical to maintaining the vitality of main street businesses, the workers they employ, and the communities they serve.

Full Bonus Depreciation

The restoration of full bonus depreciation under the TCJA has been a game-changer for my business clients of all sizes. This provision allows businesses to immediately deduct the full cost of qualifying capital investments, such as machinery, equipment, computers, and vehicles, instead of spreading the deduction over multiple years.

Immediate deductions have reduced tax liabilities and freed up capital for investments in state-of-the-art equipment and computer systems, resulting in increased efficiency, production capacity, revenue growth, and job creation. Without this provision, businesses would face less incentive to invest in the equipment needed to remain competitive. Under TCJA, allowable bonus depreciation was 100% through 2022 and phased out from 80% in 2023 to 0% in 2027. Phasing out full bonus depreciation as currently scheduled would significantly hurt businesses by increasing upfront costs and discouraging timely investments. Many small businesses depend on the financial flexibility this provision provides to upgrade essential equipment and infrastructure critical for growth and survival.

Restoring full bonus depreciation permanently ensures that businesses can continue to make critical investments that drive growth, efficiency, and innovation. Phasing out this provision would jeopardize the ability of businesses to remain agile in a rapidly evolving economic landscape.

Lower Marginal Tax Rates Across the Board

Lower marginal tax rates across the board are beneficial to all taxpayers. Not only do they help bolster the financial health of individual businesses, but they also provide relief for working families. When marginal tax rates are higher, small businesses—many of which operate on slim profit margins—face greater financial strain, often at the expense of growth opportunities.

In addition, lower marginal tax rates incentivize entrepreneurial risk-taking. Small business owners often encounter unpredictable market conditions and must make difficult decisions about whether to expand, innovate, or cut back. By reducing the tax burden, lower marginal rates improve the financial feasibility of taking calculated risks, such as launching new products or entering competitive markets. Higher marginal tax rates discourage risk-taking and stifle the competitive spirit that drives small business success. Maintaining the lower rates enacted by TCJA is essential to ensuring a thriving small business sector that continues to fuel economic growth and job creation. In combination with the 199A deduction, lower marginal rates have helped support small business growth and have increased take home pay for workers. All taxpayers benefit from lower marginal rates and when working families have more tax home pay, they are able to invest more in their families and communities. Ask any working household, and they will tell you that every penny of savings matters when raising a family. I would like to draw special attention to the urgency of addressing this TCJA provision because it will impact the first paycheck workers receive in 2026 when their tax withholdings are adjusted. If the marginal rates are not permanently extended, every American worker will go home with a smaller paycheck starting in January 2026.

Lower marginal rates are beneficial to all taxpayers including small business owners and working families. Current rates should be permanently extended.

Simplification of Personal Taxes: Doubling the Standard Deduction & Increased AMT Exemptions

Doubling the standard deduction and increased AMT exemptions through TCJA made filing personal tax returns significantly easier for nearly all of my clients. Because of the SALT deduction limitations in conjunction with the increased AMT exemptions, even most of my high net worth and high-income taxpayers now take the standard deduction and no longer itemize.

Doubling the Standard Deduction: The doubling of the standard deduction has simplified tax filing for millions of Americans and provided substantial tax savings for middle-class families. This provision has been especially beneficial for my clients, many of whom are small business owners juggling the demands of running their operations and managing household finances. Not having to track itemized deduction expenses has significantly simplified their tax filings and personal record keeping needs.

The simplicity of the increased standard deduction has not only saved middle class families tax dollars, it has also saved countless individuals and small businesses valuable time that would otherwise be spent digging through a box full of receipts to itemize their deductions. My clients have expressed relief at no longer needing to track and compile extensive records for itemized deductions, enabling them to focus on running their operations and households instead of navigating complex tax filings.

Increased AMT Exemptions: The alternative minimum tax (AMT) is a complex tax computation that, before TCJA, ran parallel to both individual and corporate income taxes, with the taxpayer paying the higher of the two calculations. The AMT is particularly burdensome for individuals with small businesses, because they often do not know whether they will be affected until they file their taxes, which is far too late, forcing them to maintain a reserve that cannot be used to invest in their businesses in real time. TCJA permanently repealed the corporate AMT and significantly increased the AMT income exemption amount for individuals, but the individual provisions were not made permanent. In 2017, before TCJA, over 5 million taxpayers were subject to AMT compared to just 200,000 in 2018 after TCJA was enacted. The Congressional Budget Office (CBO) projects that if TCJA expires after 2025, 7.2 million taxpayers will be subject to the AMT starting in 2026, representing about 4% of all taxpayers. If the individual provisions of TCJA are allowed to expire, it will create a significant burden for American taxpayers at all levels, and potentially more so on those with high SALT (State and Local Tax) deductions, as these are a major component of the AMT calculation.

So, for those pushing to eliminate the SALT limitation provisions of TCJA, I warn you that you cannot consider changes to SALT without a keen eye on the AMT provisions that could completely negate such changes in SALT deductions.

Permanently extending the increased standard deduction and AMT exemptions will continue to provide tax savings to hardworking Americans and reduce the complexity of the tax system for countless households and tax professionals.

Expanded Child Tax Credit

The expanded child tax credit (CTC) has been a lifeline for working families, including many of my personal friends and family. TCJA doubled the pre-2017 CTC from $1,000 to $2,000 per child but those changes expire at the end of this year. The expanded child tax credit provides much-needed relief, helping these families cover essential costs such as childcare, education, and healthcare.

This provision has also had a direct impact on my own family. My brother, who works as a public-school teacher, relies on the child tax credit to help provide for his seven children between the ages of 4 and 19. His modest salary is stretched thin by the demands of supporting a large family, and the tax credit has been essential in covering necessities like general household expenses, childcare, school supplies, extracurricular activities, and healthcare expenses. For families like his, the expanded child tax credit is not just helpful—it is indispensable.

By permanently extending the child tax credit, Congress can continue to support hardworking families and ensure that the benefits of economic growth reach all Americans.

Increased Estate Tax Exemption

The estate tax presents a constant source of worry and a financial burden for family businesses that I work with. The time, energy, and financial strain is imposed both annually in estate planning costs and then again upon the death of a business owner.

Business owners pay taxes on the growth and success of their business their entire lives and sacrifice a great deal to pass a business to the next generation. Any small business owner will tell you that passing on a family business is difficult enough without having to worry about a 40% tax at death. Illiquid businesses that operate on small margins like manufacturers, distributors, and family farmers may appear wealthy on paper but almost always lack the cash or liquidity to pay 40% of their business value to the IRS. Successful businesses invest back into their business using their profits to hire more employees and invest in equipment and infrastructure, making these businesses highly illiquid. Many family businesses and farms cannot cover their estate tax liability within the time period they are allowed, and they are often forced to downsize their operations, sell off parts of the business, fire workers, or close their doors for good.

One figure that does not show up in the IRS's statistics is the number of family businesses forced into fire sale situations because of the estate tax. In the accounting industry, my colleagues and I have seen countless family businesses essentially gobbled up by private equity or larger multinational corporations because the family recognizes they cannot afford to pay the tax at death. Ironically, in this way, the estate tax is actually leading to a concentration of wealth, by taking businesses out of the hands of local trusted members of communities and transferring those businesses into the hands of larger corporations. When this happens, business decisions as well as decisions about community investment are relegated to the c-suites of large multinational corporations. The private equity market is also having a big impact in today's business transition environment.

In recent years, I have observed a number of baby boomer clients reaching the age where they need to start planning for their looming estate tax bill or develop an exit strategy for their business. The private equity market is currently relentless in its quest for growth, so many family businesses are falling victim to their big dollar price tags and attractive promises. Several of my clients have weighed the cost/benefit of keeping their business in the family or selling out to private equity or multinational corporations, and unfortunately a majority have opted for the latter specifically to avoid a future estate tax burden on their heirs. In these instances, I have seen jobs lost and communities severely impacted. With so many baby boomers reaching this time in their lives, this problem will inevitably continue, further driving consolidation. As a result, in the long run, the estate tax revenue to the government will dwindle away.

Additionally, according to the Tax Foundation, compliance costs related to the estate tax amount to over $18 billion annually—a figure that exceeds the annual estate tax revenue collected by the federal government. That's right, more money is spent annually complying with the tax than the government collects in estate tax revenue. This fact highlights the gross inefficiency of the estate tax as a revenue raising tool and underscores the burden it places on businesses and families.

While the increased exemption under TCJA has certainly been helpful to my clients and family businesses across the country, the estate tax continues to threaten successful private businesses. If the estate tax is not addressed this year, the current exemption will be cut in half, doubling or tripling the number of families hit by the death tax. Successful family businesses that compete with publicly traded multinationals are put at a significant competitive disadvantage because of the estate tax. With respect to ensuring parity in the tax code, there is no corporate equivalent to the estate tax, which forces family businesses to pay a 40% tax at the turn of every generation, while publicly traded corporations effectively self-perpetuate. Essentially, a family must buy their business back from the government at a 40% cost, in addition to the taxes they paid on the growth and success of the business all along. This double tax is crushing to any family business, no matter the size.

I am an advocate for permanently eliminating the estate tax and all the obstacles it creates for family businesses. Taxing any grieving family is wrong, especially when hardworking employees could lose their jobs and communities could suffer as a result. Families should not be penalized for building businesses that span generations and providing jobs in their communities, especially when they have been paying taxes on their success along the way.

If the estate tax is not addressed this year, the current exemption will be cut in half which will double or triple the number of families forced to pay the tax. Congressman Feenstra and Senate Majority Leader Thune deserve credit for continuing to work towards repeal of this unfair and economically destructive tax. The Family Business Coalition, which I sit on the advisory board of, recently released a coalition letter with over 160 small business associations signed on in support of Representative Feenstra and Senator Thune's Death Tax Repeal Act. The estate tax is not just a tax on success—it is a tax on opportunity, continuity, and local economic stability. The expiration of the current estate tax exemption needs to be addressed immediately. Simply put, death should not be a taxable event.

The Value of Small Businesses to Their Communities

Small businesses are the heartbeat of their communities, creating jobs, fostering local economic growth, and contributing to the unique character of the neighborhoods they serve. Family and privately-owned and operated businesses often prioritize long-term relationships with their customers, employees, and suppliers, which helps build a sense of trust and belonging. These businesses sponsor local events, contribute to charities, and act as community hubs where neighbors come together. Unlike most multinational corporations, small businesses are deeply rooted in the communities they serve, and their success is intertwined with the well-being of their local areas.

When small and family-owned businesses are bought out by larger multinational corporations, communities lose more than just a storefront. Decision-making shifts from local owners who understand and care about their neighbors to distant corporate C-suite executives, whose priorities often center on maximizing shareholder profits at the expense of local jobs. This disconnect can result in layoffs, reduced local investment, and diminished community involvement. Losing these small businesses erodes the fabric of local economies and culture, leaving behind impersonal enterprises that fail to address the unique needs of the communities they occupy. Protecting small businesses is not just an economic imperative but a cultural one, essential to preserving the identity and vibrancy of communities across America.

Conclusion

The Tax Cuts and Jobs Act has been a lifeline for small businesses, multigenerational family enterprises, and working families. Provisions like the 199A deduction, full bonus depreciation, lower marginal tax rates, doubling the standard deduction, increasing the AMT exemption, the expanded the child tax credit, the increased estate tax exemption have enabled hard-working Americans to thrive, invest, and contribute to their communities.

As someone who works closely with these individuals and businesses, I have seen the tangible benefits of the TCJA and understand the risks of letting these provisions expire. I urge Congress to permanently extend these provisions quickly and swiftly as well as consider further reforms, such as the repeal of the estate tax, to support our main street businesses that are the backbone of our economy. Small businesses and family enterprises deserve a tax code that is fair and works for them, not against them.

Thank you for the opportunity to share my perspective. I look forward to the discussion here today.

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

STATEMENT OF MARGARET MARPLE, MOTHER, LYNCHBURG, VIRGINIA

Ms. MARPLE. Chairman Smith, Ranking Member Neal, members of the Ways and Means Committee, thank you for your invitation to testify today on the importance of the Child Tax Credit.

My name is Margaret Marple, and I am the mother of three children, all boys, ages 9, 2, and 1. Before I first became a mother in 2016, I did not know about the Child Tax Credit. I also did not know how challenging it would be to provide for my children. This challenge increased when I became a single mother in 2017 after experiencing a betrayal and divorce.

For 4 years, the Child Tax Credit served to lighten the load of providing for my son with one income and childcare expenses. It was especially helpful to me in 2018 after Congress passed the Tax Cuts and Jobs Act, doubling the Child Tax Credit to $2,000.

I remarried in 2020, and for 2 years, received the Child Tax Credit as a two-income household. My husband and I had two more children, and at the end of 2022, I decided to stop working to give my very young and active sons my full time and attention at home.

Last year, with only my husband's income supporting our family of five, we witnessed the Child Tax Credit making all the difference.

My husband and I both have college degrees. We have no school debt or credit card debt yet. Yet the majority of our money goes to covering the essential yet astronomical cost of medical care, groceries, and gas. It takes us over a year just to pay the hospital bill for simply giving birth to a child.

With an income of $75,000 and without the Child Tax Credit, last year we would have owed the government over $2,000. What a discouragement it would have been to have yet another financial burden placed on our shoulders after filing our taxes. However, because of the Child Tax Credit, we received back over $3,500.

At times, the money we have received from the Child Tax Credit has been the only money in our savings account. We are not looking for a handout. My husband and I understand that it is our job to provide for our children. What we want is an opportunity to thrive. We want to be able to save our hard-earned money for our children's future, so when they leave home, they are not burdens on society but burden-lifters.

This is what I know about being a hardworking mother today in America, whether single or married: I am raising children in a culture of giving up. At every turn, there is the temptation to give up on your marriage, on your children, on yourself. Just look at divorce rates, suicide rates, and abortion rates. People are giving up on children before they even come out of the womb. But all human life from conception to natural death is valuable.

As a mother, I am unwilling to give up on my children. Children indeed are the future of our country. And like millions of other young people, I am ready for America to be a place again where families can truly thrive. The Child Tax Credit promotes the flourishing of families. And when American families are strong, America is strong.

The Child Tax Credit is a simple yet significant way the Tax Code can communicate the value of hardworking parents trying to provide for their children under the current weight of high inflation and an unmanageable cost of living. The financial benefit of the Child Tax Credit lightens the load of the financial burden parents carry, but also serves to affirm and enforce the value parents hold.

We don't want to be rescued. We want to be valued. Parents need to hear from their government leaders. Don't give up. Your dedication and sacrifice remains valuable to this country. Without the Child Tax Credit, how else would the government show it supports the important social role of parents? Making the Child Tax Credit expansion within the Tax Cuts and Jobs Act permanent would assure parents like me that our value to this country will not be forgotten.

As parents persevere and as the government prioritizes financially what is truly important, I believe America's current culture of giving up will turn into a culture of life and strength.

Finally, I want to thank this committee for leading the way and passing the Bipartisan Tax Relief for American Families and Workers Act last year. That bill, if it had been signed into law, would have helped the Child Tax Credit reach working and growing families like mine. And updating the Child Tax Credit for inflation would have served to lighten the heavy load parents are already carrying as we work to provide for our families in this economy.

I hope you will consider parents like me when negotiating and crafting the upcoming tax package, and look for ways to further extend the 2017 Child Tax Credit expansion.

Congress has an opportunity this year to help American families flourish by making the TCJA's Child Tax Credit permanent, and consider further improvements as was done in the bipartisan tax package last year.

Thank you for the opportunity to testify on this important issue.

[The statement of Ms. Marple follows:]

Testimony before the House Ways and Means Committee
By Margaret Marple
To be presented before the House Ways and Means Committee on January 14, 2025 in the hearing on *The Need to Make Permanent the Trump Tax Cuts for Working Families*

Chairman Smith, Ranking Member Neal, and members of the Ways and Means Committee, thank you for your invitation to testify today on the importance of the Child Tax Credit.

My name is Margaret Marple, and I am the mother of three children, all boys, ages 9, 2, and 1. Before I first became a mother in 2016, I did not know about the Child Tax Credit. I also did not know how challenging it would be to provide for my children. This challenge increased when I became a single mother in 2017 after experiencing a betrayal and divorce. For four years, the Child Tax Credit served to lighten the load of providing for my son with one income and child-care expenses. It was especially helpful to me in 2018 after Congress passed the *Tax Cuts and Jobs Act*, doubling the Child Tax Credit to $2000. I remarried in 2020, and for two years received the Child Tax Credit as a two-income household. My husband and I had two more children, and at the end of 2022, I decided to stop working to give my very young and active sons my full time and attention at home. Last year, with only my husband's income supporting our family of five, we witnessed the Child Tax Credit making all the difference.

My husband and I both have college degrees. We have no school debt or credit card debt, yet the majority of our money goes to covering the essential yet astronomical costs of medical care, groceries, and gas. It takes us over a year just to pay the hospital bill for simply giving birth to a child. With an income of $75,000, and without the Child Tax Credit, last year we would have owed the government over $2000. What a discouragement it would've been to have yet another financial burden placed on our shoulders after filing our taxes. However, because of the Child Tax Credit, we received back over $3500. At times, the money we have received from the Child Tax Credit has been the only money in our savings account. We are not looking for a handout. My husband and I understand that it's our job to provide for our children. What we want is an opportunity to thrive. We want to be able to save our hard-earned money for our children's future, so when they leave home, they are not burdens on society, but burden-lifters!

This is what I know about being a hard-working mother today in America, whether single or married. I am raising children in a culture of giving up. At every turn, there is a temptation to give up. On your marriage, on your children, on yourself. Just look at divorce rates, suicide rates, and abortion rates. People are giving up on children before they even come out of the womb! But all human life, from conception to natural death, is valuable. As a mother, I am unwilling to give up on my children. Children indeed are the future of our country. And like millions of other young people, I am ready for America to be a place again where families can truly thrive. The Child Tax Credit promotes the flourishing of families. And when American families are strong, America is strong.

The Child Tax Credit is a simple yet significant way the tax code can communicate the value of hard-working parents trying to provide for their children under the current weight of high inflation and an unmanageable cost of living. The financial benefit of the Child Tax Credit lightens the load of the financial burden parents carry, but also serves to affirm and enforce the value parents hold. We don't want to be rescued, we want to be valued. Parents need to hear from their government leaders, *"Don't give up! Your dedication and sacrifice remains valuable to this country."* Without the Child Tax Credit, how else would the government show it supports the important social role of parents? Making the Child Tax Credit expansion within the *Tax Cuts and Jobs Act* permanent would assure parents like me that our value to this country will not be forgotten. As parents persevere and as the government prioritizes financially what's truly important, I believe America's current culture of giving up will turn into a culture of life and strength.

Finally, I want to thank this committee for leading the way and passing the bipartisan *Tax Relief for American Families and Workers Act* last year. That bill, if it had been signed into law, would have helped the Child Tax Credit reach working and growing families like mine, and updating the Child Tax Credit for inflation served to lighten the heavy load parents are already carrying as we work to provide for our families in this economy. I hope you will consider parents like me when negotiating and crafting the upcoming tax package, and look for ways to further extend the 2017 Child Tax Credit expansion.

Congress has an historic opportunity this year to help American families flourish by making the TCJA's Child Tax Credit permanent and consider further improvements as was done in the bipartisan tax package last year. Thank you for the opportunity to testify on this important issue.

Chairman SMITH. Thank you. Ms. Couch, it is great to have you back with our committee. I believe the last time we saw you was at a field hearing in Peachtree City, Georgia. So we are glad to have you back. You are now recognized.

STATEMENT OF ALISON COUCH, OWNER, IGNITE ACCOUNTING AND BUSINESS ADVISORS

Ms. COUCH. Thank you. Good morning, Chairman Smith, Ranking Member Neal, and members of the House Ways and Means Committee. My name is Alison Couch, and I am the president of Ignite Accounting and Business Advisors. Thank you for inviting me to your hearing today to provide real-world testimony on critical issues before you.

As many of you may remember, this is my second time that I have testified before this committee on the important issues being addressed today.

In April of 2023, I came before the Ways and Means Committee at a hearing in my home State of Georgia to discuss the challenges facing the small businesses that my team and I work with, as well as what your committee can do to support problems that they face.

During that hearing, I underscored the need for Congress to renew provisions of the Tax Cuts ad Jobs Act of 2017 that small businesses have become dependent on, particularly, the 20 percent small business deduction Section 199A, and work to reduce regulatory burdens on small businesses so that their limited resources are not consumed with meeting these onerous requirements. Today, my testimony will be much the same.

As we get closer to critical parts of the TCJA expiring at the end of this year, the clients that my team and I support still lack the certainty of whether or not many of the provisions that their businesses depend upon will be extended. These include the 20 percent small-business deduction and reduced rates for individual income tax bracket. Moreover, they are still faced with steep regulatory requirements imposed by taxing authorities that deplete much of their time and efforts.

For those new to the committee, I sit before you today with a perspective of true American small business owner. My own small business, Ignite Accounting and Business Advisors, is an accounting firm based in Columbia County, Georgia. My small, but mighty team services over 200 clients by providing bookkeeping, financial statement preparation, sales tax, payroll tax, property tax, and income tax services.

As I said in my previous testimony, my business is a small business that nurtures other small businesses, and a critical aspect of our work is providing financial advice to our clients, which can often include providing a listening ear and encouraging words. And that perspective is a crucial part of any testimony presented before you.

In my April 2023 testimony, I underscored the need for Congress to act to preserve the 20 percent small business deduction. In that testimony, I stated that the tax burden on small businesses was already incredibly heavy, and allowing this deduction to lapse when it has been in place for so many years will not feel like a sunset, but a tax increase.

Today, with this section of the Tax Code set to expire in less than one year, this remains true. And I urge Congress to act swiftly to renew it.

The small businesses that I work with have become dependent on having access to these funds, and they need the certainty provided by making the 20 percent small business deduction permanent.

My typical client generates $3 million or less in annual revenue, employs an average staff of 10 people, and depends on the small business deduction.

I have practiced public accounting for 21 years and can tell you without a doubt that the 20 percent small business deduction has been the single most beneficial tax deduction for small business owners. Moreover, this deduction is more far-reaching vertically and horizontally to small business owners when compared to other deductions.

For example, depreciation deductions require significant cash flow reduction or taking on debt, but Section 199A does not. This is true of small businesses nationwide. A recent EY study on the macroeconomic impact of Section 199A for small businesses found that 25.9 million small businesses nationwide utilized this deduction, and that it directly supports job creation in the small business sector.

As part of my testimony today, I would like to submit that report to the hearing record.

Another area of apprehension for small business clients is that if Congress does not act, the reduced tax rates for individual income tax brackets dollars established under TCJA will increase.

As members of this committee are aware, the 20 percent small business deduction is available to businesses that operate as pass-through entities like S-corporations and partnerships. This means that their business profits and the deduction flows from their business return onto their 1040 and nets there to be taxed as the owner's individual tax rate. In fact, 33 million small businesses in the United States are organized as pass-throughs.

As I stated in my testimony in April 2023, business income is different from business owners' income. I would like to stress that point yet again. Increase business income allows small business owners to reinvest in their businesses and employees. If Congress does not address the changes and the personal income tax bracket set to expire at the end of this year, small businesses structured as pass-throughs will be faced with a tax increase.

Finally, in my April 2023 testimony, I highlighted the issue of regulatory burdens imposed on small businesses by the IRS, particularly the thresholds on 1099 NEC and 1099–K forms. The threshold of 1099 NEC of $600 has not been adjusted in decades.

I would ask you to consider a one-time adjustment of this threshold to account for the impact of inflation over the years where no adjustment has been made, and then an annual adjustment thereafter.

On the other hand, while the threshold for 1099–K has been adjusting, it is moving in the wrong direction.

For the years 2023 and prior, payment apps in marketplaces have been required to send out forms to taxpayers who receive over $20,000 and have over 200 transactions.

For 2024, the threshold moves down to $5,000. And for 2025, $2,500. The intention is to further reduce it to $600 for the calendar year 2026 and thereafter.

For the years 2024 and after, 1099–K requirements based solely on dollar thresholds with no consideration for the numbers of transactions.

As the committee reviews the proposals to reduce burdens on small businesses, I urge your members to consider reversing the course on lowering the 1099–K amount and instead work to increase them.

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

[The statement of Ms. Couch follows:]

TESTIMONY BEFORE THE UNITED STATES CONGRESS
ON BEHALF OF THE

NATIONAL FEDERATION OF INDEPENDENT BUSINESS

NFIB™

Statement for the Record of Alison Couch
President of Ignite Accounting & Business Advisors

United States House of Representatives
Committee on Ways and Means

"Hearing on The Need to Make Permanent the Trump Tax Cuts for Working Families"

January 14, 2025

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

Good morning, Chairman Smith, Ranking Member Neal, and members of the House Ways and Means Committee. My name is Alison Couch, and I am the President of Ignite Accounting & Business Advisors. Thank you for inviting me to your hearing today to provide real world testimony on crucial issues before you.

As many of you may remember, this is the second time that I have testified before this Committee on the important issues being addressed today. In April of 2023, I came before the Ways & Means Committee at a hearing in my home state of Georgia to discuss the challenges facing the small businesses that my team and I work with, as well as what your committee can do to support the problems that they face.

During that hearing, I underscored the need for Congress to renew provisions of the Tax Cuts and Jobs Act of 2017 ("TCJA") that small businesses have become dependent upon, particularly the 20% Small Business Deduction ("Section 199A"), and work to reduce regulatory burdens on small businesses so that their limited resources are not consumed with meeting these onerous requirements.

Today, my testimony will be much the same. As we get closer to critical parts of the TCJA expiring at the end of this year, the clients that my team and I support still lack the certainty of whether or not many of the provisions that their businesses depend upon will be extended. These include the 20% Small Business Deduction and reduced rates for individual income brackets. Moreover, they are still faced with steep regulatory requirements imposed by taxing authorities that deplete much of their time and efforts.

For those new to the committee, I sit before you today with the perspective of true American small business owners. My own small business, Ignite Accounting & Business Advisors is an accounting firm based in Columbia County, Georgia. My small-but mighty-team services over 200 clients by providing bookkeeping, financial statement preparation, sales tax, payroll tax, property tax, and income tax services.

As I said in my previous testimony, my business is a small business that nurtures other small businesses, and a critical aspect of our work is providing financial advice to our clients, which can often include providing a listening ear and encouraging words, and that perspective is a crucial part of any testimony presented before you.

In my April 2023 testimony, I underscored the need for Congress to act to preserve the 20% Small Business Deduction. In that testimony, I stated that the tax burden on small businesses was already incredibly heavy and allowing this deduction to lapse when it has been in place for many years would not feel like a sunset, but like a tax increase. Today, with this section of the tax code set to expire in less than one year, this remains true, and I urge Congress to act swiftly to renew it. The small businesses that I work with have become dependent on having access to those funds, and they need the certainty provided by making the 20% Small Business deduction permanent.

My typical client generates $3 million or less in annual revenue, employs on average a staff of 10, and depends on the small business deduction. I have practiced public accounting for 21 years and can tell you without doubt that the 20% Small Business Deduction has been the single most beneficial tax deduction for small business owners. Moreover, this deduction is more far reaching, vertically and horizontally, to small business owners when compared to other deductions. For example, depreciation deductions require significant cash flow reduction or taking on debt, but Section 199A does not.

This is true of small businesses nationwide. A recent EY study on the macroeconomic impact of Section 199A for small businesses found that 25.9 million small businesses nationwide utilize this deduction and that it directly supports job creation in the small business sector.[1] As part of my testimony today, I would like to submit that report to the hearing record.

Another area of apprehension for my small business clients is that if Congress does not act, the reduced tax rates for individual income brackets established under the TCJA will increase. As members of this committee are aware, the 20% Small Business Deduction is available to businesses that operate as pass-through entities, like S-Corporations and Partnerships. This means that their business profit and this deduction flows from their business return onto their 1040 and nets there, to be taxed at the owners' individual tax rates. In fact, 33 million small businesses in the United States are organized as pass-throughs.[2]

As I stated in my testimony in April 2023, business income is different from a business owners' income. I would like to stress this point again. Increased business income allows small business owners to reinvest in their businesses and employees. If Congress does not address the changes in personal income brackets

[1] Brandon Pizzola, EY, *Macroeconomic Impacts of Permanently Extending the Section 199A Deduction on Small Businesses*, September 2024, NFIB.com/EYReport2024.
[2] *Id.*

set to expire at the end of this year, small businesses structured as pass-throughs will be faced with a tax increase.

Finally, in my April 2023 testimony, I highlighted the issue of regulatory burdens imposed on small businesses by the IRS, particularly the thresholds on 1099-NEC and 1099-K forms. The threshold for 1099-NEC of $600 has not been adjusted in decades. I would ask you to consider a one-time adjustment of this threshold to account for the impact of inflation over the years that no adjustment has been made, and then an annual adjustment thereafter. While the IRS adjusts almost every other aspect of reporting requirements, this one has remained the same, resulting in increased reporting requirements for small businesses.

On the other hand, while the threshold for 1099-K has been adjusting, the adjustments are moving in the wrong direction. For the years 2023 and prior, payment apps and marketplaces have been required to send out the form to taxpayers who receive over $20,000 and have over 200 transactions. For 2024, the threshold moved down to $5,000 and the IRS recently set the threshold for 2025 at $2,500. The intention is to further reduce it to $600 for the calendar year 2026 and thereafter. For the years 2024 and after, 1099-K requirements are based solely on dollar thresholds, with no consideration for the number of transactions. 1099-Ks offer a unique set of concerns, as many in the accounting industry predict much confusion between business payments for goods and services versus personal payments from family and friends.

As the Committee reviews the proposals to reduce burdens on small businesses, I urge your members to consider reversing the course on lowering the 1099-K threshold amounts, and instead work to increase them.

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

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

STATEMENT OF COURTNEY SILVER, PRESIDENT, KETCHIE INCORPORATED

Ms. SILVER. Good morning, Chairman Smith, Ranking Member Neal, and members of the committee. Thank you for inviting me to speak on my Congress Must Preserve the Tax Cuts and Jobs Act and how its policies ensure that manufacturing remains the driving force of the American economy.

My name is Courtney Silver, and I am President and owner of Ketchie, a third-generation precision machine shop located in Concord, North Carolina.

Since 1947, Ketchie has been a reliable part of the manufacturing supply chain. Because we invest in equipment, technology, and most importantly, people. I am honored to be with you today, as this hearing marks the beginning of a historic year for the committee.

Critical pro-growth provisions from tax reform have already expired, and more harmful changes are on the way at the end of this year. This means that every member of this committee has the opportunity to take real action that supports manufacturing in America. And the stakes couldn't be higher.

A new study released today by the National Association of Manufacturers shows that nearly 6 million American jobs are at risk, unless Congress preserves pro-manufacturing tax policies. America will also lose more than $500 billion in worker pay and more than $1 trillion in GDP. Manufacturing will bear the brunt of this economic devastation with more than 1 million manufacturing jobs at stake. This economic damage makes sense because the Tax Cuts and Jobs Act was revolutionary for manufacturers.

After it was signed into law, Ketchie experienced the best year in our seven-decade history. Over 2018 and 2019, we were able to invest more than $1 million in capital equipment and create new jobs within Ketchie. We upgraded our security, our HVAC systems, and invested in new technology on our shop floor. And, most importantly, we provided raises and bonuses to all our employees, because without them, our growth would not have been possible.

Ms. SILVER. Business boomed throughout our supply chain and demand for our parts soared. Our typically organized shop floor was covered in pallets of materials to keep up with our customers' orders.

Unfortunately, beginning in 2022, critical pro-growth provisions began to expire, such as immediate R&D expensing, enhanced interest deductibility, and full expensing for capital equipment purchases. And more harmful tax increases are on the way further threatening manufacturers like Ketchie. The loss of the pass-through deduction, increased individual rates, taxes, and changes to the estate tax will hurt my ability to grow and create jobs in Concord.

In addition, it is important to preserve the 21 percent corporate tax rate and new international tax policies, many of which impact Ketchie's customers and suppliers.

Manufacturers know the only way to succeed is to relentlessly focus on the future by pouring resources back into your team and equipment. The Tax Cuts and Jobs Act allowed me and so many others to do so. With 6 million jobs on the line, the time to act is now.

These policies are vital for our economy, but I also want to share how they are changing lives and opening doors to new opportunities. Tax reform enabled me to create Opportunity Knocks, an internship program that brings students in to shadow our team on the factory floor while earning school credit. Two of our recent graduates had little direction on what to pursue after high school. Thanks to our program they fell in love with manufacturing. They are now full-time apprentices and are able to provide for their families while also contributing to their community and working on a team they admire. Put simply, we are inspiring the next generation of manufacturers in America.

Congress has the opportunity to help support this important work by enacting permanent and consistent pro-growth tax policy.

Thank you. And I look forward to your questions.

[The statement of Ms. Silver follows:]

Testimony of Courtney Silver
President and Owner of Ketchie, Inc.
U.S. House of Representatives
Committee on Ways and Means
"The Need to Make Permanent the Trump Tax Cuts for Working Families"
January 14, 2025

Chairman Smith, Ranking Member Neal and distinguished members of the committee, thank you for holding today's important hearing focused on preserving the landmark, transformational Tax Cuts and Jobs Act.

My name is Courtney Silver, and I am president and owner of Ketchie, Inc., located in Concord, North Carolina. Ketchie is a third-generation, full-service precision machine shop that was established in 1947. We provide complex parts for large manufacturers across the country, ranging from the railroad industry to industrial clothing production machines to parts for motors used by the U.S. Navy and mining industry. Our mission is to support the entire U.S. manufacturing supply chain by delivering competitively priced, high-quality machined parts in a timely matter. We invest in machining equipment, technology, people and processes so that our customers have confidence in their supply chain and can focus on what they do best. Most importantly, we provide jobs to our local community and invest in the next generation of manufacturing workers in North Carolina. I know I am bias, but I truly believe there is no better way to serve humanity than through a small manufacturing business.

Today marks the beginning of a historic year for this committee. The looming expiration of crucial pro-manufacturing provisions of the Tax Cuts and Jobs Act hangs over our industry—and Congress has an opportunity to rise to this challenge by providing certainty to manufacturers and a competitive tax code for the American economy.

Congress and President Trump delivered on years of promises when they passed tax reform in 2017. In the years leading up to the TCJA, there was a bipartisan agreement that our tax code was broken. It had been decades since Congress had truly reformed vital provisions impacting families and businesses—and America's tax code had fallen behind on the world stage as a result. Investing and creating jobs in America was more expensive and less competitive than elsewhere in the world. But in this very room, members on both sides of the aisle worked together to solve the problem. You held dozens of hearings, created bipartisan working groups and accepted thousands of public comments on what the next generation of the tax code should look like. Policy solutions with strong bipartisan support—such as the need to lower our corporate tax rate, ensure fair treatment for small businesses, provide relief to families and update our international tax system—became the bedrock of what would become the Tax Cuts and Jobs Act.

Manufacturers spent years calling for Congress to fix our outdated tax code: our industry was facing significant headwinds, and we said that if Congress could give us the economic tools required to right the ship, we would do so. I am proud to say that manufacturers across the country kept our promises. In 2018, the year after tax reform was signed into law, manufacturing experienced the best year for job creation in 21 years and the best year for wage growth in 15 years. Manufacturers used the pro-growth provisions from tax reform to grow our businesses, purchase new capital equipment, create jobs, add new benefits for employees and invest in our communities. The evidence is clear: when manufacturing grows, the economy grows.

This was especially true for Ketchie. After tax reform was signed into law, we experienced our best year in Ketchie's seven-decade history. In 2018 and 2019, we invested more than $1 million into new equipment, which allowed us to keep up with the surge of demand from our customers in the railroad, heavy machinery and road construction equipment industries—who were likewise experiencing record years thanks to tax reform. We were able to expand our shop floor workforce by 20%, providing well-paying and fulfilling jobs to members of our community.

Manufacturers know that the best path to sustained success is to use your profits productively by pouring them back into your team. Ketchie made major capital investments using our savings from tax reform, such as new machining equipment and technology, advanced robotics, tooling, fixtures, HVAC systems for our facilities and new security and safety systems for our team members. Additionally, we were able to provide 100% of our team members, no matter how long they had been with the company, with pay raises and quarterly bonuses. We also expanded our team members' benefits, including enhanced 401(k) matching. Small and medium-sized manufacturers operate on extremely slim margins, so all of these changes—higher wages, investments, enhanced benefits and more—were thanks to tax reform. The TCJA also allowed Ketchie to have the cash flow and liquidity necessary to survive the unexpected years resulting from the pandemic.

Tax reform has also helped Ketchie give back to our community as we work to build the next generation of North Carolina manufacturers. In 2023, I created "Opportunity Knocks," an internship program for high school students that allows them to shadow experienced machinists in our factory while earning school credit. The local high school we partnered with consists of 70% minority students, and almost 100% come from economically disadvantaged situations. I would not have been able to establish this program or invest in the machinery and the team members necessary to make it a success without tax reform. By shadowing at Ketchie, students are learning valuable trade skills while also preparing for careers that will bring them fulfillment and pride. I am incredibly proud of what these students are accomplishing on a day-to-day basis—the benefits of the program are immediate and noticeable in these young adults. I have also loved getting to know them and learn about their lives and passions; in fact, one of our apprentices invited my family and members of the Ketchie team to his sister's quinceañera at the end of last year, which was a very special memory for all of us.

Congress now has the opportunity to support more stories like Ketchie's. As we are all well aware, critical tax reform provisions have begun to sunset, and more are set to expire at the end of 2025—putting our progress since 2017 at risk. I want to thank every member of this committee who voted to advance the *Tax Relief for American Families and Workers Act* almost one year ago to the day. That bill would have restored three incentives for innovation and investment: the ability to immediately deduct R&D expenses, enhanced interest deductibility on business loans and the ability to deduct the cost of capital investments in the year acquired. Unfortunately, that bill didn't make it over the finish line in the Senate—meaning crucial pro-growth policies remain lapsed. Making matters worse, more detrimental changes are on the way, including the expiration of the 20% pass-through deduction, an increase in individual income taxes, a reduction of the estate tax exemption threshold and changes to tax reform's international tax system.

These changes will increase costs and lead to greater uncertainty for manufacturers of all sizes. Chairman Smith has often talked about the need for certainty in our tax code, and I could not agree more. Manufacturers—and especially small manufacturers—face significant uncertainty on both the revenue and expense side of the equation. In recent memory, Ketchie has been forced to address increased costs arising from:

- A 7% increase in property and liability insurance;
- Increased expenses for items like coolant, tooling and travel;
- Recovering supply chains due to inflation and the pandemic; and
- Increased training expenses, including the cost of machinery and practice materials needed to train the next generation of manufacturers.

This last one is especially heartbreaking, as Ketchie is trying to play the long game and train those in the North Carolina community who want to experience the rewarding work and fulfilling careers that come with being part of the manufacturing workforce.

As I mentioned earlier, the members of this committee have a great opportunity ahead of them. The U.S. tax code impacts every single American. Congress should preserve the Tax Cuts and Jobs Act, ensuring that tax policy supports families and businesses instead of allowing their tax bills to rise at the end of this year. Extending tax reform will encourage increased investment, support job creation and provide much-needed certainty that we simply don't have right now with such significant tax increases hanging over our heads. More broadly, a stable, pro-growth tax code would ensure that manufacturers of all sizes—from start-ups and family-owned businesses to Fortune 500 companies and global leaders—have the tools we need to drive America's economy, both here at home and on the world stage, for decades to come. Simply put, the time is now for Congress to preserve the Tax Cuts and Jobs Act's pro-manufacturing reforms.

Economic Impact of the Expiration of Pro-Manufacturing Tax Policies

I am the immediate past chair of the National Association of Manufacturers' Small and Medium Manufacturers Group. Today, the NAM is releasing a new study showing the impact on the American economy and workers if Congress does not extend the Tax Cuts and Jobs Act.

The study examines the economic consequences of the expiration of the TCJA's pro-manufacturing provisions. Unsurprisingly, the economic fallout from the loss of these provisions is staggering. If Congress fails to act, **5.9 million jobs**, **$540 billion in employee compensation** and **$1.1 trillion in U.S. GDP** are on the line. The manufacturing sector is disproportionately impacted by these expirations. In our sector alone, **1.14 million manufacturing jobs** will be at risk, potentially impacting **$126 billion in manufacturing worker compensation** and **$284 billion in manufacturing output**.

The solution to prevent this economic devastation is simple: Congress must make permanent crucial pro-manufacturing tax provisions from the Tax Cuts and Jobs Act. Specifically, Congress should:

- Protect small businesses by:
    - Preserving the **pass-through deduction**;
    - Preventing **individual income tax** increases; and
    - Safeguarding family-owned businesses from the **estate tax**;
- Support innovation and investment by:
    - Restoring **immediate R&D expensing**;
    - Reviving **full expensing** for capital investments; and
    - Reinstating a pro-growth **interest deductibility** standard; and
- Enhance American competitiveness by:
    - Preserving the **FDII deduction**;
    - Preventing an increase in the minimum **GILTI rate**; and
    - Preventing the **BEAT rate** from increasing.

Additionally, though the **21% corporate tax rate** is not set to expire, Congress should remain vigilant against any calls to increase taxes on manufacturers by raising the corporate rate given its impact on businesses throughout our industry—including smaller companies like Ketchie that do not pay tax at the corporate rate but that rely on larger businesses in our supply chain that do.

Congress has the opportunity to preserve all of these vital provisions from the Trump tax cuts— and, in the process, to preserve nearly 6 million U.S. jobs.

Tax Reform's Pro-Manufacturing Policies

Pass-Through Deduction and Individual Income Tax Rates

Ketchie, like many small, family-owned businesses, is organized as an S-corporation. We are therefore eligible for a 20% deduction on our business income thanks to the Section 199A pass-through deduction created by the TCJA.

Pass-through owners see their business income reflected on their personal tax returns, and this deduction reduces the amount of pass-through income subject to tax, allowing us to reinvest. This provision is set to expire at the end of 2025. So are the individual income tax rates that dictate pass-through businesses' tax obligations. In combination, these changes will dramatically increase the tax burden on small manufacturers like Ketchie. This is a one-two punch for small business owners that will severely impact our ability to invest and grow. If Congress allows the pass-through deduction to expire and individual income tax rates to increase, pass-throughs' effective tax rates will increase by at least 10 percentage points—a drastic tax hike for small businesses across the country. Congress should instead make these provisions permanent so small businesses like Ketchie have the certainty we need to invest for the future.

Corporate Tax Rate

While Ketchie does not pay tax at the corporate income tax rate, many businesses in our supply chain certainly do—including many of our larger customers. These companies, and therefore the entire manufacturing supply chain, benefit from the 21% corporate tax rate enacted by the TCJA.

Prior to 2017, the U.S. corporate tax rate was 35%, which was the highest corporate tax rate in the OECD and the third highest in the entire world. The U.S. was an outlier among our global competitors, maintaining a corporate tax rate 15 points higher than the OECD average. When tax reform lowered the corporate tax rate to 21%, it unlocked America's manufacturing potential and made the United States a more attractive home for manufacturing investment. Unlike many of tax reform's pro-growth provisions, the corporate rate is not scheduled to change at the end of this year. But I want to make clear to the committee that increasing the corporate rate is not an option: maintaining or even lowering the 21% rate is critical given that the productivity it spurs from C-corporations in my supply chain directly impacts Ketchie's ability to grow.

Full Expensing

Like most manufacturers, Ketchie is a capital-intensive business. In the years following the TCJA, I was able to maintain greater levels of capital investment because tax reform reduced the cost of purchasing equipment and machinery by allowing full, immediate expensing for these purchases.

Unfortunately, full expensing began to phase out in 2023. When I testified before the Senate Finance Committee in March 2024—with first-year expensing at 60%, down from tax reform's 100%—I spoke on how the phase-down made purchasing a significant machine for my shop much more difficult. Now, the first-year expensing level has been further reduced to 40%, and the designated spot I'm holding on my shop floor for that machine remains just as empty just as it was a year ago. Such an expensive investment remains too risky for a small manufacturer, and its absence continues to limit my ability to meet customer demand. By not being able to invest in this machining technology, we risk falling behind our international competitors who are leveraging similar advancements to improve efficiency, precision and output. The decision directly impacts our ability to remain competitive in the market, as it limits our capacity to deliver higher-quality products and cost-effective solutions.

According to the Joint Committee on Taxation,[1] the manufacturing sector, and specifically small manufacturers, overwhelmingly utilize full expensing more than any other sector. Congress should make full expensing permanent, enabling manufacturers like Ketchie to invest, grow, compete and create highly skilled and high-paying jobs.

Interest Deductibility

At the beginning of 2022, the deduction for interest on business loans was reduced in a manner that disproportionately affects manufacturers. The maximum deduction allowed under Section 163(j) of

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

the tax code was narrowed from 30% of a company's earnings before interest, tax, depreciation and amortization (EBITDA) to 30% of earnings before interest and tax (EBIT). Excluding depreciation and amortization expenses from the interest deduction reduces the amount of interest businesses can deduct, making it more expensive for manufacturers to finance capital equipment purchases.

Ketchie is impacted by the change in the interest deductibility standard because many of our customers utilize debt financing for the projects that our parts are used in. The more restrictive standard makes it more expensive and riskier for our customers to finance large projects and buy and sell large pieces of capital equipment—ultimately threatening Ketchie's economic health and ability to grow. That's why I am hopeful that Congress will make the EBITDA standard for interest deductibility permanent and support the large-scale, job-creating projects that are so critical for manufacturing growth.

Immediate R&D Expensing

The ability for manufacturers to deduct R&D expenses is crucial for our investments in innovation. For decades, the tax code allowed manufacturers to immediately deduct 100% of R&D expenses in the year they incurred. In 2022, however, the tax code began requiring so-called "amortization" of these expenses, forcing manufacturers to recover only a small portion of the costs over several years.

This directly harms Ketchie, as it makes it much more costly for our customers and suppliers to invest in the R&D they need, impacting their business capacity with us. Ketchie delivers machining solutions to government and commercial customers in a wide range of industries, including rail, agriculture, textile, heavy machinery, industrial equipment and many specialized original equipment manufacturers. When they can't afford to innovate, we can't provide them with the parts they need to succeed.

Taxing manufacturers' investments in critical R&D expenditures means that we will have less funds to invest in workers and our future growth. The private sector accounts for more than 75% of total R&D spending,[2] with small businesses accounting for approximately $90 billion of all private-sector R&D investments.[3] Unfortunately, the U.S. is now one of just two developed countries in the world who require the amortization of R&D expenses. China, on the other hand, offers a "super deduction" on research spending—and they are not the only country offering better R&D incentives. Seventeen countries now provide a deduction exceeding 100% of eligible R&D expenses, making the United States a less attractive, less competitive place to conduct R&D. Congress should reverse this trend and return to permanent, immediate R&D expensing—restoring a policy that was the law of the land for more than 70 years and supporting manufacturers as we innovate for the future.

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

Estate Tax

Ketchie is a third-generation family-owned company, and we want to remain a linchpin of the Concord community for many generations to come. But the threat of the estate tax has a significant impact on our longevity.

I know firsthand the struggle that family-owned businesses face when a loved one passes away. When I lost my husband in 2014 to brain cancer, not only did I have to worry about keeping the business afloat, but I was so worried about a looming tax bill that might have forced us to halt production altogether.

In 2017, the TCJA increased the exemption threshold for the estate tax, allowing more of a family-owned business's assets to be passed on to the next generation without incurring a tax burden. This change was especially important for family-owned manufacturers because our companies consist largely of illiquid assets that would need to be sold or leveraged to satisfy the estate tax burden. However, the increased exemption is set to expire at the end of this year, which will expose more assets to taxation, threatening family-owned businesses' viability following the death of a loved one. Congress must protect family-owned businesses by preventing the scheduled reduction in the estate tax exemption threshold—or by repealing the estate tax altogether.

International Tax

The manufacturing supply chain spans the globe. American manufacturers are investing all around the world, bringing products to customers in foreign countries and stimulating the U.S. economy by expanding operations globally. Ketchie is just one part of this global supply chain, but we acutely feel the impacts of any supply chain disruptions. We saw this through a positive lens when Congress reduced the corporate tax rate from 35% to 21%, providing rocket fuel to the entire manufacturing supply chain. On the other hand, we experienced the negative supply chain impacts of the COVID-19 pandemic. In short, what happens to our customers and suppliers impacts us here at Ketchie.

I am concerned that the international tax changes scheduled for the end of 2025 could have an impact on us. While none of the TCJA's international provisions impact us directly, our larger customers with global operations could face significantly increased taxes if these changes are allowed to take effect. Without congressional action, the FDII deduction will decrease (reducing incentives for businesses to locate IP here in the U.S.), while both the GILTI and BEAT rates will increase (imposing higher taxes on globally engaged manufacturers). I am hopeful that Congress will prevent these tax increases on Ketchie's customers and supply chain partners—and thus prevent any downstream economic damage for small businesses like mine.

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I want to thank Chairman Smith and Ranking Member Neal for giving me the chance to testify today, and I want to commend all of you in advance for the hard work you will do this year to prevent damaging tax increases on manufacturers of all sizes—including small manufacturers like Ketchie. I am grateful to be with you today, but also for the opportunity to lead a team of people that make things with their hands, hearts and minds to produce parts that we all depend on in our daily lives.

Congress has the opportunity to usher in the next age of manufacturing growth, job creation and innovation, and I know you will rise to the challenge.

Chairman SMITH. Thank you.

Mr. Duke, you are now recognized.

STATEMENT OF BRENDAN DUKE, SENIOR DIRECTOR FOR ECONOMIC POLICY, CENTER FOR AMERICAN PROGRESS

Mr. DUKE. Thank you, Chair Smith, Ranking Member Neal, and members of the committee. My name is Brendan Duke, and I am senior director for economic policy at the Center For American Progress. I am honored to testify today about the 2017 tax law and the implications of the expiring provisions this year.

Let's start by remembering how we got here. Congressional Republicans and Donald Trump deeply wanted to cut corporate taxes in 2017. They also knew that just cutting taxes for corporations without providing tax cuts for families would have been a political disaster. And because they wanted to pass their tax bill on a party line vote, they could not increase taxes beyond the 10-year budget window.

This gave birth to the bill that passed. They made a big, permanent 40 percent cut to the corporate tax rate. Then they did a series of tax cuts for individuals heavily tilted to the wealthy that expire at the end of this year.

And here we are today at the beginning of the debate about what to do about them. What have we learned? First, the corporate rate cut, the centerpiece of the original bill, was a massive windfall for investors spurring a $1 trillion surge in stock buybacks, yet it failed to meaningfully increase investment, and none of that windfall trickled down to ordinary workers, and the recovery in housing investment after the Great Recession screeched to a halt after the bill passed.

CBO, in fact, projected that, quote, "residential investment is reduced throughout the entire period by crowding out," end quote. And now CBO says that extending the expiring individual provisions will strengthen the economy in the long run.

Given that the tax cuts didn't trickle down, we should then focus on their direct distributional impact, who got what. Any way you look at it, extending these expiring provisions will increase imminent equality, cutting taxes for rich people while giving pennies to everyone else. The average tax cut for the top 1 percent of households is more than 60 times larger than that of the middle 20 percent of households. And even these numbers are too rosy. We are talking about a bill that will add $4 trillion to deficits over 10 years. These tax cuts numbers include money we are borrowing that we will have to pay back one day in the form of tax increases or spending cuts.

One financing mechanism Trump has floated is a giant across-the-board tax on all imported goods. A range of analyses, from progressive to conservative think tanks, assumes this would cost a typical family thousands of dollars by making a trip to the grocery store or pharmacy more expensive.

Alternatively, they can pursue cuts to vital programs. Tesla CEO, Elon Musk, a cohead of the new Department of Governmental Efficiency, has proposed $2 trillion in annual spending cuts. Taken literally, this would cut every program in the budget on average by roughly one-third, including Medicare, Social Security, food safety inspection, cancer and stroke research, and nutrition for newborns.

Finally, the Trump administration and Congress could find the easiest way to offset tax cuts is to just not offset them. That is what we did last time. But there is no free lunch here. The tax cuts will likely be paid for eventually in the form of spending cuts or tax increases down the line, and in the meantime continued or even higher deficits could be continued or even higher interest rates. That makes housing, student loans, and credit card debt less affordable for working people. We shouldn't ask middle class families trying to buy their first home to shoulder the burden of financing tax cuts for millionaires.

This is an especially poor choice when the economy is strong and unemployment is low like it is today. Higher interest rates can be a useful tool for getting a depressed economy to full employment, but today they just mean higher interest rates. The very real danger of cuts to programs that working and middle class families rely on and higher interest rates is why Congress must offset any tax cuts they extend in a revenue neutral manner. And simply changing accounting conventions to prevent extending tax cuts that have no cost does not remove the burden that extending these taxes will place on Federal and eventually on families' finances.

The good news is that Congress can cut the costs of extending the tax cuts by simply refusing to extend them for the top 2 percent of households making over $400,000. The Treasury Department released analysis last week showing that that would cut the cost of extending the expiring individual provisions from $4.2 trillion to $1.8 trillion. In other words, we are talking about a $2.4 trillion tax hit exclusively for the top 2 percent of households.

It is worth noting that $2.4 trillion is also the total amount of cuts to Medicaid and the Affordable Care Act in Budget chair Jody Arrington's proposed list of offsets that came out last week. These healthcare cuts are necessary. They are entirely about making room for a tax cut exclusively for the top 2 percent of households. Not extending tax cuts for the top 2 percent also makes the cost of offsetting remaining tax cuts easier and makes room for Congress to take real steps to bring down the cost of living by extending the enhanced Affordable Care Act tax credits while approving the Earned Income and Child Tax Credits.

The American Rescue Plan expansion of the CTC represents the gold standard, but I would like to commend Chair Smith for his work last year on a bipartisan compromise on CTC. It would have made a real difference for working class kids whose parents do hard work as home health aids, construction workers, and waiters. Preventing tax increases on working and middle class families next year is not a reason to cut taxes for the wealthy. Cuttings taxes for the wealthy is a choice Congress may make this year, but it is a choice. Given that working and middle class families will end up paying the price, letting the tax cuts for the wealthy expire is clearly the correct choice.

Thank you.

[The statement of Mr. Duke follows:]

Brendan Duke
Senior Director for Economic Policy, Center for American Progress
Testimony Before the House Ways and Means Committee
Hearing on "The Need to Make Permanent the Trump Tax Cuts for Working Families"
January 14, 2025

Thank you, Chair Smith, Ranking Member Neal, and members of the Committee.

My name is Brendan Duke, and I am Senior Director for Economic Policy at the Center for American Progress. The Center for American Progress is an independent, nonpartisan policy institute that is dedicated to improving the lives of all Americans through bold, progressive ideas, as well as strong leadership and concerted action.

I'm honored to submit this testimony about the 2017 tax law and the tax choices facing Congress this year around extending it. I will make the following points:

- The 2017 tax law was a giant tax cut for corporations and wealthy business owners. Congressional Republicans recognized the political peril of cutting taxes for businesses without cutting them for families. The result was temporary tax cuts for families that will be expiring at the end of this year combined with a permanent tax cut for corporations.

- Those temporary tax cuts are heavily tilted to the top 1 percent: the average tax cut for the top 1 percent of households ($60,300) is more than 90 times larger than that for the middle 20 percent ($660). In fact, the $60,000 average tax cut for the top 1 percent is roughly equal to the average annual after-tax income of a household in the middle 20 percent.

- The authors of the 2017 tax law justified putting hundreds of billions of dollars of tax cuts to the wealthy and corporations on the nation's credit card by saying the ensuing economic growth, investment, and wage gains would be worth it. But economic growth and business investment were flat, housing investment cratered, and the corporate tax cut's paltry wage gains went entirely to high earners. In fact, the economic benefits of the expiring individual and estate tax provisions are so small that the Congressional Budget Office projects that extending them will *shrink* the economy in the long run.

- Tax cuts aren't free, particularly when the economy is strong like it is today. Extending the 2017 tax law without raising taxes on the wealthy will raise families' costs in the long run. Any honest analysis of deficit-financed tax cuts must include an assumption of how they are paid for. Paying for the tax cuts with enormous, across-the-board taxes on imported goods like President-elect Trump has proposed would leave low- and middle-income families with a net tax increase. Relying on current or future spending cuts to pay for them would make food and health care less affordable and force families to pay more for housing, credit card debt, and student loans.

- There is no requirement that if Congress cuts middle-class taxes, it must cut rich people's taxes too. Tax cuts for high-income Americans are a policy choice. A new Treasury Department analysis found that letting the tax cuts for Americans making over $400,000–roughly the top 2 percent–expire would cut the cost of extending the tax cuts from $4.2 trillion to $1.8 trillion.[1] This would make the task of offsetting the cost of extending the other tax cuts far more feasible while leaving room for investments that will cut families' costs like extending the enhanced premium tax credits and improving the Earned Income and Child Tax Credits.

Members of Congress should reject any approach to the 2017 tax law that raises working- and middle-class families' costs to pay for tax cuts for the wealthy.

The main purpose of the 2017 tax law was cutting taxes for corporations, which failed to trickle down to ordinary workers

The centerpiece of the 2017 tax law was a massive cut in the corporate tax rate from 35 percent to 21 percent, which was the law's main permanent tax cut, along with changes to how multinational corporations' profits are taxed.

The first Trump administration made a series of claims about what the corporate tax cut would do for growth and ordinary workers. Treasury Secretary Stephen Mnuchin claimed that the tax package would generate so much economic growth that it would pay for itself.[2] The Trump White House's Council of Economic Advisers estimated that a cut in the corporate tax rate from 35 percent to 20 percent would lead to such a surge in investment and productivity that it would boost the pre-tax wage income of the average family by $4,000 "very conservatively."[3]

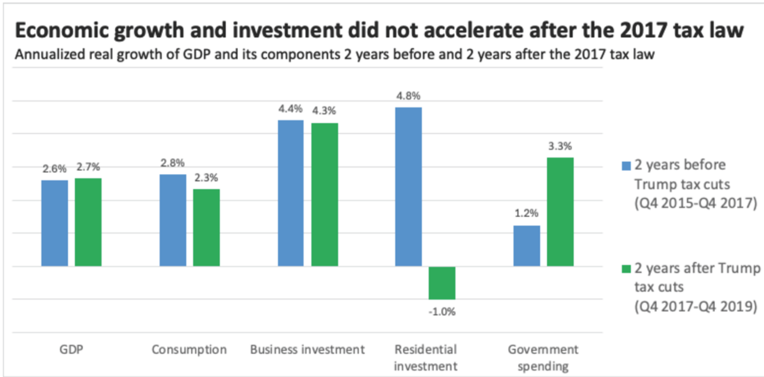
Yet, there was no noticeable overall increase in GDP or business investment growth in the years after the tax cut relative to the years before the tax cut.[4] In fact, business investment was flat while residential investment cratered–the only reason economic growth held steady after the tax cut was an increase in government spending. A surge in investment was the *entire* theory by which the corporate tax cut was supposed to trickle down to workers, but the surge was absent from aggregate economic data.

1 Ibid.

2 Alan Rappeport, "Ahead of Vote, Promised Treasury Analysis of Tax Bill Proves Elusive," New York Times, November 30, 2017, https://www.nytimes.com/2017/11/30/us/politics/treasury-analysis-tax-bill.html;

3 Brooks Jackson, "Trump's Dubious $4,000 Claim," FactCheck.org, October 23, 2017, https://www.factcheck.org/2017/10/trumps-dubious-4000-claim/

4 Jason Furman, "Prepared Testimony for the Hearing "The Disappearing Corporate Income Tax"," February 11, 2020, https://www.congress.gov/116/meeting/house/110494/witnesses/HHRG-116-WM00-Wstate-FurmanJ-20200211.pdf



Source: Center for American Progress analysis of U.S. Bureau of Economic Analysis data. Numbers differ from previous versions because of subsequent revisions to GDP data.

Mainstream projections of the effect of the law on GDP growth from the Congressional Budget Office, the Joint Committee on Taxation, Goldman Sachs, and others estimated that the law would cumulatively raise real GDP by less than 0.7 percent over the decade. This amounts to a less than 0.07 percentage point increase in the annual growth rate.[5] This is about a tenth of the increase in real GDP required for the law to pay for itself like Secretary Mnuchin claimed it would.

Careful analysis of its effects on investment have been consistent with these projections: investment at firms receiving larger tax cuts rose somewhat relative to those with smaller tax cuts, but the effects are on the low end of the academic literature and suggest the law came nowhere close to paying for itself as proponents claimed it would.[6] The analysis also does not account for the possibility that the law redirected investment from firms with smaller tax cuts to firms with larger tax cuts.

Additionally, analysis of the effect of the law on investment typically ignores its effect on housing investment. CBO projected the law would reduce housing investment since its provisions are not favorable toward housing and “residential investment is reduced throughout the entire period by crowding out.”[7] Inflation-adjusted housing investment today is actually lower than it was before the law passed and *far* lower than where it would be if it had stuck to its pre-2018 trend.[8]

The overall average wage gains spurred by the corporate rate cut are exceedingly modest and, most importantly, none of them went to the bottom 90 percent of workers at firms receiving a tax cut.[9] Instead, highly paid workers and executives received all of the wage gains resulting from the corporate

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[5] For a compilation of estimates, see U.S. Congressional Budget Office, "The Budget and Economic Outlook: 2018 to 2028," April 2018, https://www.cbo.gov/system/files/2019-04/53651-outlook-2.pdf

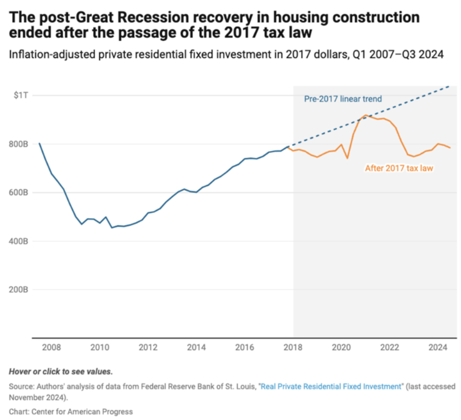
[6] Gabriel Chodorow-Reich et al, "Tax Policy and Investment in a Global Economy," July 5, 2024, https://scholar.harvard.edu/sites/scholar.harvard.edu/files/chodorow-reich/files/tcja.pdf

[7] U.S. Congressional Budget Office, "The Budget and Economic Outlook: 2018 to 2028," April 9, 2018, https://www.cbo.gov/publication/53651

[8] Federal Reserve Economic Database, "Real Private Residential Fixed Investment," https://fred.stlouisfed.org/series/PRFIC1

[9] Patrick Kennedy and others, "The Efficiency-Equity Tradeoff of the Corporate Income Tax: Evidence from the Tax Cuts and Jobs Act," March 21, 2024, https://patrick-kennedy.github.io/files/TCJA_KDLM_2024.pdf

rate cut. The wage gains were the mechanism by which a direct corporate tax cut to investors was supposed to trickle down to ordinary workers, but again the evidence shows that this did not occur.



The cut in the corporate tax rate did successfully generate a burst of stock buybacks with a record $1 trillion of buybacks announced by the end of 2018.[10] Detailed work by the International Monetary Fund found that "only about 20 percent of the incremental cash outflow post-TCJA went towards capital expenditure or R&D while the rest went towards share buybacks, dividends, and other activities."[11]

The corporate rate cut was, of course, permanent and is not up for extension this year. But the roughly $4 trillion of expiring individual and estate tax provisions that could be extended would do little for growth. A recent CBO analysis suggests that extending them would shrink the economy in the long run as the ensuing debt, deficits, and higher interest rates would overwhelm any positive effects on labor supply and investment.[12]

The Trump tax cuts provided small benefits to most families while providing enormous tax cuts to the wealthy

Given that the overall economic and wage benefits of the Trump tax cuts were paltry, the direct tax cuts and how they were distributed becomes the key question for evaluating them.

The tax cuts added to a decades-long trend of growing income inequality by giving larger tax cuts as a share of income to the top 10 percent of Americans than to other groups. The law's permanent tax provisions–a cut in the corporate tax rate coupled with raising taxes across the board by slowing the growth rate at which tax provisions are adjusted for inflation–provided essentially no benefits to households outside of the top 1 percent and even reduced the incomes of the bottom 40 percent of Americans. In particular, the change to how tax provisions are adjusted for inflation reduced the value of the Earned Income Tax Credit–the nation's second largest anti-poverty program–over time.[13]

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[10] Jane G. Gravelle and Donald J. Marples, "The Economic Effects of the 2017 Tax Revision: Preliminary Observations," Congressional Research Service, June 7, 2019, https://crsreports.congress.gov/product/pdf/R/R45736

[11] Emanuel Kopp and others, "U.S. Investment Since the Tax Cuts and Jobs Act of 2017" (Washington: International Monetary Fund, 2019), available at https://www.imf.org/en/Publications/WP/Issues/2019/05/31/U-S-46942.

[12] Congressional Budget Office, "How the Expiring Individual Income Tax Provisions in the 2017 Tax Act Affect CBO's Economic Forecast," December 2024, https://www.cbo.gov/system/files/2024-12/60986-Expiring-Provisions-2017-Tax-Act.pdf

[13] Chuck Marr, "Instead of Boosting Working-Family Tax Credit, GOP Tax Bill Erodes It Over Time," Center on Budget and Policy Priorities, May 4, 2018, https://www.cbpp.org/blog/instead-of-boosting-working-family-tax-credit-gop-tax-bill-erodes-it-over-time

The provisions that expire at the end of 2025 have been framed as the "middle-class" portion of the 2017 tax law because of increases to the Child Tax Credit and the standard deduction. But even this portion of the law is tilted to high-income Americans. Extending them would:

- Give the top 1 percent of households an average tax cut of $60,300, amounting to a 3.9 percent increase in their after-tax incomes.
- Give the middle 20 percent an average tax cut of $660, amounting to about a 1.1 percent increase in their after-tax incomes.
- Give the bottom 20 percent an average tax cut of $130, amounting to just a 0.8 percent increase in their after-tax income.[14]

These expiring provisions are tilted to high-income households for two reasons. First, high-income households fully benefit from tax cuts in the lower brackets while lower income families receive partial benefits at best. Second, other expiring provisions heavily or exclusively benefit high-income people including the pass-through deduction, the cut to the Alternative Minimum Tax (AMT) and the estate tax.

Tax cuts are not free and working families will pay the price

The 2017 tax law was a large, deficit-financed tax cut and arguments that it benefited the majority of Americans rely on the same flawed logic that would suggest eliminating all taxes would raise their incomes too. The purpose of the tax code is to raise revenue to fund the government and tax cuts today will mean tax increases or spending cuts either immediately or in later years.

Congress will face a roughly $4 trillion challenge in figuring out how to offset the cost of extending the expiring provisions of the 2017 tax law and even more if policymakers want to enact several other business tax cuts related to the law such as restoring bonus depreciation.

Taxes on imported goods

The incoming Trump administration has indicated a key way it plans to offset the cost of the tax cuts: an up to 20 percent tax on all imported goods, along with a 60 percent tax on all imported goods from China.[15] A range of think tanks, spanning left to right, have estimated that these would cost families up to $6,000 annually.[16] Each of these think tank's estimates suggest they would entirely offset the tax cut low- and middle-income families receive from extending the expiring tax cuts.[17] Several analyses show

[14] Tax Policy Center, "T24-0037 - Make Certain Individual Income, Payroll, and Estate Tax Provisions in the 2017 Tax Act Permanent, by ECI Percentile, 2027," July 8, 2024, https://taxpolicycenter.org/model-estimates/make-certain-provisions-2017-tax-act-permanent-july-2024/t24-0037-make-certain

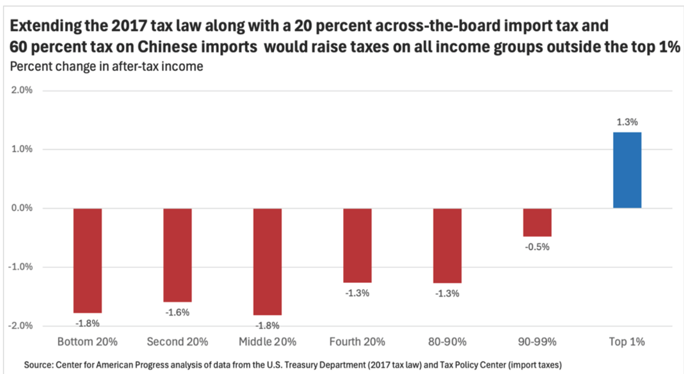
[15] Jeff Stein, "Trump, in North Carolina speech, signals openness to expanding tariff plans," The Washington Post, August 14, 2024, https://www.washingtonpost.com/politics/2024/08/14/trump-rally-speech-north-carolina-economy-jd-vance

[16] For a roundup of different estimates, see Bryan Riley, "Tarifflation" Threatens American Households," National Taxpayers Union, November 4, 2024, https://www.ntu.org/publications/detail/tarifflation-threatens-american-households.

[17] For example see Steve Wamhoff et al, "A Distributional Analysis of Donald Trump's Tax Plan," Institute for Taxation and Economic Policy, October 7, 2024, https://itep.org/a-distributional-analysis-of-donald-trumps-tax-plan-2024/

they would add to consumer prices and generate a one-time burst of inflation, adding 1 to 3 percentage points to the inflation rate.[18]

The reason taxes on imports should only be used strategically for trade objectives and not as a source of revenue is that they are one of the most regressive types of taxes.[19] For example, Treasury assumes the bottom 90 percent only pay about 20 percent of individual income taxes and about 30 percent of corporate taxes, but more than half of taxes on imported goods. The only thing more regressive than raising taxes on imported goods is using them to offset regressive tax cuts like the 2017 tax law.



The combination of extending the 2017 tax law's expiring provisions and the up to 20 percent tax on imported goods Trump has proposed (60 percent on Chinese goods) would raise taxes on the bottom 99 percent of Americans. The top 1 percent would get a net tax cut of $20,060 while the middle 20 percent would get a net tax increase of $1,100.

It is unclear whether these across-the-board import taxes would be included in tax legislation or whether the Trump administration would use executive authority to enact them. Regardless, they should be considered as part of the distribution of a tax package since congressional Republicans may claim them as a way to offset the cost of tax legislation.[20]

Spending cuts

Another way some congressional Republicans may attempt to pay for their proposed tax cuts is cutting programs low- and middle-income Americans rely on. One version of this occurred during the first

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[18] Ernie Tedeschi, "Fiscal, Macroeconomic, and Price Estimates of Tariffs Under Both Non-Retaliation and Retaliation Scenarios," The Budget Lab, October 16, 2024 https://budgetlab.yale.edu/research/fiscal-macroeconomic-and-price-estimates-tariffs-under-both-non-retaliation-and-retaliation; Mike Zaccardi, November 14, 2024, https://x.com/MikeZaccardi/status/1857103453970911470/photo/1; "Trump's Tariffs Plan would Raise Prices for Americans, Model Shows," Bloomberg, April 3, 2024, https://www.bloomberg.com/news/articles/2024-04-03/trump-60-tariff-on-china-10-elsewhere-to-raise-us-inflation-model

[19] Clausing and Lovely, 2024.

[20] Richard Rubin, "Republicans' First Tax-Cut Challenge: How Much Red Ink Can They Live With?," The Wall Street Journal, November 11, 2024, https://www.wsj.com/politics/republican-tax-cuts-congress-7b0eb428

Trump term, when House Republicans passed a bill repealing the Affordable Care Act while cutting taxes for the highest income Americans.

Now, Tesla CEO Elon Musk–the new co-head of Trump's proposed Department of Government Efficiency–is suggesting up to $2 trillion in cuts to annual government spending, which could offset the fiscal impact of a tax package.[21] Taken literally, this would cut every program in the budget on average by roughly one-third, including Medicare, Social Security, food safety inspection, cancer and stroke research, and nutrition for newborns. Protecting Medicare and Social Security would make the math more difficult for the rest of the budget, cutting all other government functions by more than half.

In particular, a tax package should not cut clean energy and manufacturing tax incentives, which are onshoring the production and labor needed for clean energy and technology deployment. These investments are critical to ensuring the continued competitiveness of American high-tech industries in the 21st century. Rolling back energy and manufacturing tax incentives would leave American firms ill-equipped to compete in the global market and would likely contribute to their decline domestically and abroad, with one report estimating that repeal would cut more than $50 billion in annual exports.[22] The incentives ensure the long-term economic strength of America's manufacturing industry in the face of rapidly intensifying global competition, especially from China. Cutting these investments would also raise families' costs: cuts to clean energy tax credit investments, for example, would spike their monthly energy bills by an average of 10 percent and states like Texas would see a 22 percent increase.[23]

Particularly perverse is the idea of cutting investments in the IRS as a way to "pay for" the tax cuts when the main effect would be higher deficits. Reversing more than a decade of disinvestment, the Inflation Reduction Act provided $80 billion to the IRS, primarily dedicated to increased enforcement of tax law. House Republican leadership, after threatening to default on the nation's debt, negotiated a $22 billion cut to this funding over two years.[24] The bulk of the IRS funding is dedicated to hiring more staff for stepped-up enforcement of existing tax law to ensure that people pay the taxes they already legally owe and the Biden Administration has focused these resources on auditing the wealthy and corporations. This funding is extremely effective and pays for itself multiple times over: The CBO estimates that every $1 cut to IRS funding will raise the deficit by $2.50; other estimates suggest that every $1 cut could increase the deficit by as much as $11.46.[25]

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[21] Tony Romm, "Musk's plan to cut $2 trillion in U.S. spending could bring economic turmoil," The Washington Post, October 29, 2024, https://www.washingtonpost.com/business/2024/10/29/elon-musk-2-trillion-budget-cuts-trump-election/

[22] Bentley Allan and Tim Sahay, "Trump's proposed clean energy retreat: US costs and global rewards" (Baltimore: Net Zero Industrial Policy Lab, 2024), available at https://static1.squarespace.com/static/64ca7e081e376c26a5319f0b/t/672c397142465d519ce5515a/1730951538390/NZIPL-PS1_Trump_Retreat.pdf.

[23] Aurora Energy Research, "Removal of Technology-Neutral Clean Energy Tax Credits Could Cost Upwards of $336 Billion In Investment, Increase Electricity Bills 10% For Consumers," January 6, 2025, https://auroraer.com/media/reform-to-clean-energy-tax-credits/

[24] Bobby Kogan and Jean Ross, "The Schumer-Johnson Budget Deal, Explained," Center for American Progress, February 6, 2024, available at https://www.americanprogress.org/article/the-schumer-johnson-budget-deal-explained/ ; Fiscal Responsibility Act of 2023, Public Law 5, 118th Cong., 1st sess. (June 3, 2023), available at https://www.congress.gov/bill/118th-congress/house-bill/3746/text.

[25] U.S. Congressional Budget Office, "CBO's Estimate of Discretionary Spending Under the Continuing Appropriations and Other Matters Act, 2025," September 6, 2024, available at https://www.cbo.gov/system/files/2024-09/CBO%27s_CR.pdf; William C. Boning and others, "A Welfare Analysis of Tax Audits Across the Income Distribution" (Washington: National Bureau of Economic Research, 2023), available at https://www.nber.org/papers/w31376.

Deficits

It is, of course, possible that the Trump administration and some congressional Republicans could find the easiest way to offset the tax cuts is not to offset them–this was the same strategy that supporters of the tax cuts employed in 2017. But there is no free lunch here: The tax cuts will likely be paid for eventually in the form of spending cuts or tax increases down the line. Even just last year, House Republicans cited rising debt as a reason to threaten defaulting on the nation's debt if their demands to cut discretionary spending were not met only a few years after enacting the Trump tax cuts.[26]

Extending the Trump tax cuts without offsets will exacerbate our long-run fiscal imbalance. The 30-year fiscal gap–the average amount of primary deficit reduction required to stabilize the debt-to-GDP ratio–is equal to 2.1 percent of GDP, which is the equivalent of $7.6 trillion over 10 years, under current law.[27] Extending the 2017 tax cuts without offsets would raise that to 3.3 percent, pushing debt above 200 percent of GDP within 30 years.[28] In other words, extending the Trump tax cuts would increase our long-run fiscal imbalance by more than 50 percent.

It is, therefore, important to focus on the long-run distribution of the tax cuts including how they may plausibly be financed. In 2018, the Tax Policy Center provided an analysis of the 2017 tax law showing that the legislation would make most Americans worse off under an "equal dollar financing" assumption where the tax cuts were assumed to be paid for with equal-sized per household tax increases or spending cuts.[29] This is a generous assumption because more than 70 percent of non-interest federal spending is aid for individuals, and that spending is very progressive.[30] Equal-dollar financing is especially appropriate for the coming tax debate: More progressive financing assumptions essentially assume Congress will undo the across-the-board cuts to income tax rates it may actively choose to extend.

Extending the Trump tax cuts with equal-dollar financing would be an enormous burden for the bottom 80 percent of Americans. The middle 20 percent of households would experience a 2.3 percent reduction in their incomes and the bottom 20 percent of households would experience an 12.2 percent drop. The top 1 percent would see their net tax cuts barely reduced.

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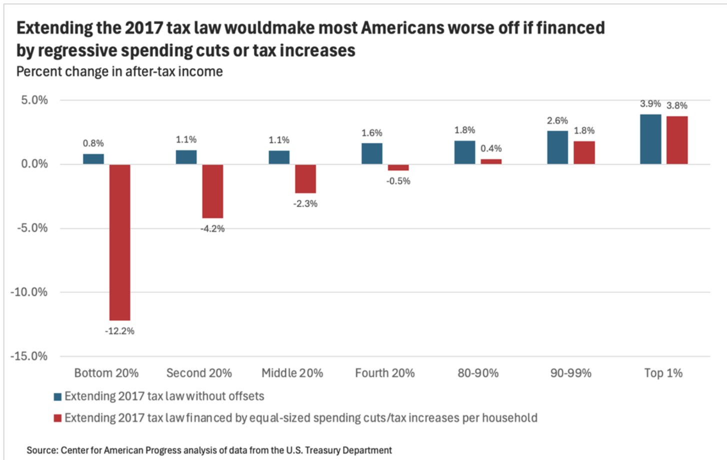
[26] Bobby Kogan's calculations from U.S. Office of Management and Budget, "Public Budget Database: Budget Authority,".

[27] Bobby Kogan and Jessica Vela, "Permanently Extending the Trump Tax Cuts Would Increase Upward Pressure on the Debt Ratio by More Than 50 Percent," Center for American Progress, June 5, 2024, https://www.americanprogress.org/article/permanently-extending-the-trump-tax-cuts-would-increase-upward-pressure-on-the-debt-ratio-by-more-than-50-percent/;

[28] Bobby Kogan and Jessica Vela, "Permanently Extending the Trump Tax Cuts Would Cost $4 Trillion Over the Next Decade," Center for American Progress, May 8, 2024, https://www.americanprogress.org/article/permanently-extending-the-trump-tax-cuts-would-cost-4-trillion-over-the-next-decade/

[29] William G. Gale, "Who Will Pay for the Tax Cuts and Jobs Act?," Tax Policy Center, January 2, 2018, https://taxpolicycenter.org/taxvox/who-will-pay-tax-cuts-and-jobs-act

[30] OMB Historical Table 3.2, OMB Historical Table 11.1



In the shorter run, the higher deficits will create their own burdens since higher government debt can also increase interest rates, which makes it less affordable to buy a home or a car, carry student loan or credit card debt, or start a business.[31] Elevated interest rates—which many consider part of the cost of living—over the past few years have been strongly unpopular among the public.[32] The effects of higher government debt on interest rates are both uncertain and modest, but the sheer scale of higher debt projections resulting from permanently extending the tax cuts means that the impact could be sizable. Policymakers should not ask middle-income Americans trying to buy their first home to shoulder the burden of financing tax cuts tilted to the wealthy.

The effect of deficits on families' cost of living and danger of cuts to programs that low- and middle-income families rely on–including Social Security and Medicare eventually–highlights why Congress must offset any tax cuts they extend in a revenue-neutral manner. This also means rejecting attempts to pretend that extending the expiring provisions has no cost, otherwise known as a "current policy baseline." This type of baseline undermines good budgetary practice and is logically inconsistent; under that type of analysis, the failure to renew the 2021 $1,400 American Rescue Plan rebate checks in 2022 amounted to a $5,600 tax increase in 2022 for a family of four. Simply changing the accounting convention does not remove the burden that extending these tax cuts will place on federal–and eventually on families'–finances.

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[31] Christopher Gust and Arsenios Skaperdas, "Government Debt, Limited Foresight, and Longer-term Interest Rates" (Washington: Federal Reserve Board, 2024), available at https://www.federalreserve.gov/econres/feds/files/2024027pap.pdf.

[32] Marijn A. Bolhuis and others, "The Cost of Money is Part of the Cost of Living: New Evidence on the Consumer Sentiment Anomaly" (Cambridge, MA: National Bureau of Economic Research, 2024), available at https://www.nber.org/papers/w32163; Alberto Binetti, Francesco Nuzzi, and Stefanie Stantcheva, "People's Understanding of Inflation" (Cambridge, MA: National Bureau of Economic Research, 2024), available at https://www.nber.org/papers/w32497.

Extending tax cuts for high-income households is a choice–the wrong choice

Members of Congress may worry that, despite these substantial drawbacks, they nevertheless must extend all of the 2017 tax cuts because they want to avoid raising taxes on low- and middle-income families. The good news is that the regressivity of the original bill means that extending the tax cuts for low- and middle-income families is much less expensive than extending all of them. The Treasury Department released an analysis last week showing that a policy that allowed the tax cuts for the 2 percent of households making over $400,000 to expire would cut $2.4 trillion from the $4.2 trillion cost of extending the expiring individual and estate tax provisions.

The task of offsetting that remaining $1.8 trillion cost is achievable given that the FY2025 Biden-Harris budget contained about $5 trillion of tax increases on the wealthy and corporations such as raising the corporate tax rate to 28 percent and requiring wealthy business owners to pay Medicare taxes like their workers do. These are far better ways to offset the cost of extending the portions of the tax law that don't go to high-income households than making a trip to the grocery store more expensive through across-the-board taxes on imported goods or cutting millions of Americans' health insurance.

This also raises the question of opportunity costs: Congress can make wiser investments to bring down families' costs instead of a $2.4 trillion tax cut exclusively for households making over $400,000.

In particular, Congress should renew the Inflation Reduction Act's enhanced premium tax credits (PTCs), which increase the financial help available to people who buy health insurance on their own through the Affordable Care Act (ACA) marketplaces by making those credits more generous and expanding eligibility to even more middle-class families. The enhanced tax credits have been an enormous policy success, saving the average enrollee an estimated $700 in 2024 and nearly doubling the number of people signed up for marketplace plans in 2024 as compared with 2021.[33] A record-high 24 million people selected marketplace plans this year, with especially high enrollment in the deep South.

Additionally, that lower cost of extension would give Congress more latitude to improve the Earned Income Tax Credit for childless adults and the Child Tax Credit. The American Rescue Plan's temporary expansion of these credits represents the gold standard of how we can improve them, but last year's bipartisan compromise on the Child Tax credit shepherded by Chair Smith and passed under Speaker Johnson would have been a significant step forward, eventually lifting 500,000 children out of poverty. These children's parents work as home health aides, janitors, and construction workers–hard, important work that pays too little for them to receive the full Child Tax Credit under current policy.

What the Treasury analysis shows is that preventing tax increases on low- and middle-income families next year is *not* a reason to cut taxes for high-income households. Cutting taxes for the wealthy is a choice Congress may make this year, but it is a choice. Given that we know low- and middle-income households will pay the price regardless of how Congress and the incoming Trump administration decide to finance them–taxes on imported goods, cuts to Americans' health care, or deficits–letting the tax cuts for high-income households expire is clearly the correct choice.

[33] Gideon Lukens and Elizabeth Zhang, "Premium Tax Credit Improvements Must Be Extended to Prevent Steep Rise in Health Care Costs" (Washington: Center on Budget and Policy Priorities, 2024), available at https://www.cbpp.org/research/health/premium-tax-credit-improvements-must-be-extended-to-prevent-steep-rise-in-health.

Chairman SMITH. Thank you for your testimony.

We will start with Ms. Gallagher. I will ask the first question.

Ms. Gallagher, one of the major reasons to extend the 2017 Trump tax cuts as soon as possible is to give America workers, families, farmers, and small businesses certainty in the long run.

Small businesses are facing a 43.4 percent tax rate if the 199A small business deduction, as I refer to it, expires. This looming threat impacts decisions they are making today about whether to invest, grow, hire. The same is true for the two million family farmers facing a potential increase in their death tax.

If Congress doesn't act soon, family-owned farms and main street businesses will have to start calling estate planners and accountants to figure out how they navigate the potential increases in taxes.

So can you speak to how this uncertainty drives decisionmaking today among America's families, farmers, small businesses?

Ms. GALLAGHER. Yes. Thank you, Chairman.

My phone has been ringing off the hook since last August with the pending election of families and business owners and the uncertainty of where this tax change may go. We have been running meetings and scenarios with our clients for months now trying to plan for the future.

Many successful businesses do their forecasting out not just 1 year, which is just the year we are in now, but the most successful ones plan out three years, five years, 10 years out. Especially when they are looking at investing, whether it is investing into more employees or more equipment, that takes capital, and it takes time to accumulate that capital to be able to afford it.

And so it is imperative as an advisor to these folks to be able to help them navigate these tax policies. I have been around 35 tax seasons, and I have experienced last-minute tax changes by our government, and it is extremely frustrating, not only on the taxpayers, but, frankly and selfishly, the advisors as well.

So I can't encourage you enough to do this swiftly and quickly to help our businesses and our farmers make some decisions.

Chairman SMITH. Thank you.

Ms. Marple, we have talked about how working families have watched prices rise by over 20 percent over the past several years or how wages have fallen three percent since President Biden took office. The last thing families need is to see Washington slashing their Child Tax Credit in half. 40 million families would be impacted.

And as a mother, can you share what it would mean for families if Congress failed to act and allowed the CTC to be cut in half? And how would shrinking the CTC to just $1,000 impact a couple's thinking about starting a family or growing their family?

Ms. MARPLE. Thank you, Chairman Smith, and thank you to this committee for holding this important hearing.

My family and working families like mine know the financial benefit of the Child Tax Credit lightens the load of the financial burden parents carry but also serves to affirm and enforce the value parents hold. Slashing the Child Tax Credit in half or by any amount for that matter would only increase the challenges parents face to raise their children in this economy, and it would communicate that the government does not value parents.

Congress has a historic opportunity this year to help American families flourish by making the TCJA's Child Tax Credit permanent and by considering further improvements as was done in the bipartisan tax package this committee passed last year.

Chairman SMITH. The 2017 Trump tax cuts revived American manufacturing. We saw 20 percent growth in investment here at home thanks to policies like 100 percent immediate expensing that incentivized American manufacturers to buy new equipment and expand their operations. Stronger manufacturing at home not only contributes to our economic security but our national security as well, helping secure supply chains and make us less dependent on hostile nations like China. Unfortunately, incentives for American manufacturing have already started to go away as what was testified, Ms. Silver.

Ms. Silver, as a small business manufacturer, how has that affected your business planning? And what would it mean for you if Congress were to restore the 100 percent immediate expensing?

Ms. SILVER. Thank you for the question, Chairman Smith.

Yeah, full expensing has impacted me greatly. I have an area on my shop floor that is empty. And, you know, I have hit the pause button. I have put that capital equipment purchase on hold because of these expired tax provisions. It changes the return on investment calculation for me. The business decision feels more risky, irresponsible. And it impacts the creation of jobs.

It impacts my competitiveness. I am at risk of falling behind my international competitors. My international competitors are investing in similar advancements that increase their productivity, increase their throughput. And so, yeah, this affects my ability to be competitive.

And my customers are large manufacturers across this country, and they really need three things from me, and it is high quality precision machine parts, delivered on time, at a competitive price. For me to be able to do that, I have to make investments in our people. I have to make investments in our process and equipment technology.

Chairman SMITH. Thank you.

Looking beyond current policy, how would businesses like yours respond to new incentives for domestic manufacturing, such as a quicker cost recovery for investments made in new facilities and other policies that further lower the tax burden on those who produce here in the U.S. as President Trump suggested?

Ms. SILVER. It would make us more competitive. We would grow. We would thrive. We would be able to innovate more, take risks. It would really drive us, and it would drive the whole manufacturing supply chain.

It is tough to face an uncertain Tax Code that is changing. We are a passthrough organization, and so I pay taxes at the individual rate. So I feel like when those rates are being debated and changed, it feels like you are debating the future of my company. And a lot of times that passthrough income is not liquid. It is tied up in receivables, inventory, work in process.

And so any policy that Congress can enact that is permanent, that is consistent, predictable will help us greatly to be able to continue to support the whole manufacturing supply chain in our country.

Chairman SMITH. Thank you, Ms. Silver.

Mr. Duke, I was just curious, in regards to the income tax rates and the tax provisions that affect people making less than $400,000 a year, is that something that you would support making permanent for the people under $400,000 per year?

Mr. DUKE. If we could find a way to offset the cost by raising taxes on the wealthy people. Deficit financed tax cuts aren't a good idea right now.

Chairman SMITH. Thank you.

I recognize the ranking member for questions.

Mr. NEAL. Thank you, Mr. Chairman. I want to thank our panelists as well. It is always an opportunity for instruction and to hear sometimes competing perspectives.

So, Ms. Gallagher, are you aware of the fact that in TCJA that the Republican Party borrowed $2.3 trillion for the tax cut?

Ms. GALLAGER. Thank you for your question, Congressman Neal.

I am not in tune with the extent of any numbers or statistics to that level for today's testimony. I am well aware there are plenty of tradeoffs in all negotiations and all tax policies that we encounter. And so I am not familiar with the exact numbers. I am sorry.

Mr. NEAL. So let me follow-up with that and ask the following question. Are you aware of the fact that their intention here is to ignore what is known as the baseline here? So that means they are going to ignore the $2.3 trillion that they borrowed and erase it.

Now, just professionally, would you advise your client to ignore their credit card debt or their mortgage debt or their property debt and take on more debt if they couldn't sustain it and then complain about the debt they already have?

Ms. GALLAGHER. Well, again, I would say that, first of all, I am not aware about the intention of the baseline argument for us here today. There are many factors that go into decisions when I help my clients make decisions about taking on debt. In particular, with my clients, not necessarily speaking of the Federal Government, sometimes debt is okay and it needs to be incurred. And so I would just comment that it is not always a negative.

Mr. NEAL. Fair enough. But would you tell your client to ignore the debt that they have?

Ms. GALLAGHER. No.

Mr. NEAL. Thank you.

Ms. Marple, I appreciate your comments. They were really well done.

So, were you able, I hope, to have taken advantage of the child credit expansion that the pandemic relief packages offered?

Ms. MARPLE. Thank you, Congressman.

I am here today to talk about the current 2017 expansion, which has made a huge difference for my family since 2018, and is going to expire in December if Congress does not act. I would refer you to the tax experts on this panel who can speak to you about the other policies.

Mr. NEAL. No, fair enough. But I assume because of electronic deposit you were able to receive the enhanced child credit during the pandemic?

Ms. MARPLE. I was able to receive that, yes.

Mr. NEAL. Thank you, thank you.

So, Ms. Silver, were you able to take advantage of any of the pandemic relief packages for investment in equipment or some new opportunities within your business? And I have a huge precision manufacturing constituency, so I hear the arguments you are making.

Ms. SILVER. Yes, I was.

Mr. NEAL. You were.

Okay. Did that add to the national debt?

Ms. SILVER. I am sure it did.

Mr. NEAL. Thank you.

Mr. Duke, so the proposal here today, based on the statistical data that we have heard, is that last year, or as the proposal goes forward here, a taxpayer who made a million dollars last year, they are going to receive a tax cut of $78,717. This is not according to the Democratic National Committee. This is according to the Joint Committee on Taxation which we all have the highest regard for.

So, a taxpayer who made under $50,000 is going to get $273. Do you want to expand on that?

Mr. DUKE. Sure. So we know that the tax package is progressive. We know that the tax cuts for high-income households are just much higher than they are for low-income households. It is true as a percentage of income too. We know that extending them is going to increase income and equality. And I think the Treasury analysis put out last week just really, you know, throws it out there, that we have a $4.2 trillion tax level, but you can really break it into two pieces. There is a $2.4 trillion tax cut for households making over $400K and a tax cut for low- and middle-income families and upper middle class families of $1.8 trillion.

Mr. NEAL. Sure. So, I am delighted that you were able to take advantage of the initiatives that we put out, very pleased. That is why the American economy as the economists pointed out and the financial times pointed out is the envy of the world. We rebounded so much more quickly than the rest of the world. However, it did add to the debt. We acknowledge that.

The plan here today that the Republicans are talking about is to ignore what they borrowed and proceed with more borrowing and then complain about the size of the national debt.

I yield back my time.

Chairman SMITH. Mr. Buchanan is recognized.

Mr. BUCHANAN. Thank you, Mr. Chairman.

I want to get one thing off the table a little bit. As chairman of the Florida Chamber, I can tell you we had 130,000 businesses. This is a while back there.

90, 95 percent were passthrough entities, and they are dealing with these potential tax rates. That is what scares a lot of people in our area. Most of the companies are 25 employees or less. I chair our local chamber, same thing, couple thousand businesses, 25 employees or less. Just like you have got, Ms. Silver. That is where we need to be focusing on.

The idea that you could have a tax rate of 43 percent and then many states add another 10 percent, it is over 50 percent tax rates throughout the country. That is why so many, frankly, I will just be candid, are moving to Florida—I hear it all the time—or moving to Texas because they don't mind paying a little bit more, but they are not going to pay 50 percent plus rates. So I want to say that.

The TCJA was rocket fuel for the American economy. Businesses grew rapidly. America families paid less taxes, and government revenues increased through the economic growth. Allowing the legislation to expire would raise the taxes on over 200 million folks from that standpoint.

The point I want to make, the big point I want to make is I introduced H.R. 137, TCJA Permanency Act that would make the law permanent.

And, Ms. Silver, you touched a little bit on expensing or depreciation, but a lot of people don't realize—to me it is kind of a timing thing. We had bonus depreciation. We got 50 percent plus 10. But it makes such a huge difference having that ability to deduct that even though it is a timing type issue.

Is that your thought on it?

Ms. SILVER. Absolutely. It is—as a small business—well, there are small businesses that have long-term contracts, but in my business we typically don't. So there is a lot of uncertainty as you look forward in your business and think about your strategy.

So, yeah, absolutely being able to deduct that full investment——

Mr. BUCHANAN. How many employees do you have?

Ms. SILVER. Twenty.

Mr. BUCHANAN. Yeah. And that is my point. Most of America, it is not the gigantic corporations. Yeah, they are out there in a big way, you know, in terms of a few numbers with a lot of employees or the billionaires, and I am not defending any of that, but I am defending people like yourself. Startups and people that are entrepreneurial, have it all on the line every day, need to make a payroll, this is where I look at it from these tax advantages.

Ms. Gallagher, what are your thoughts, I don't know if you touched much on 199A. I can just tell you in our area it is huge. It is a big issue, so I was looking at it. I have got 82,000 businesses in my district alone, 82,020, that might be subject—not all of them, but some of them to the 43 percent bracket. But what is your thought on the 199A?

Ms. GALLAGHER. My thought on 199A is it needs to be extended, period. It has been a lifeline for our passthrough businesses which I just testified are 99 percent of my business clients. They are sole proprietors. They are partnerships, S corporations, all passthrough entities that can benefit from the 199A deduction.

So I would say if—the other important thing about 199A is it gives our small businesses and passthroughs parity to the C corporations and the publicly-traded companies. Their TCJA lower rate of 21 percent was made permanent, where as the 199A was not. And I just think it is unfair to our main street businesses and our farmers to have this expire and, to your earlier point, pay upwards of potentially 50 percent in taxes when C corporations are going to be at 21 percent. In fact, we will see a number of our pass-through entities contacting their lawyers and accountants to become C corporations. That is what business owners do.

Mr. BUCHANAN. I am short on time, but that is one of the biggest issues is where is the fairness. I started out a C corporation 40 years ago. Now, we are passthrough entities my kids run. But, you know, we are not going to go back to C corps if that becomes the reality. We don't want to, but that is where we are being driven to potentially.

Ms. GALLAGHER. Exactly.

Mr. BUCHANAN. But, again, I just want to thank all of our panelists for input. Thank you.

I yield back.

Chairman SMITH. Thank you.

Mr. Doggett.

Mr. DOGGETT. Thank you, Mr. Chairman, and thanks to our witnesses.

I am for a dramatic increase in corporate taxes. We have to increase taxes on the wealthy. For getting our guys' taxes cut, we have got to cut spending, which they are going to resist. Where does the tax revenue come from? Corporations and the wealthy. And when they start squealing, we have a conversation. We are all partners in this. Everybody is going to take a little pain.

Those are not my words. They are not a message from the Progressive Caucus but rather the recent comments of Steve Bannon, sometime Trump advisor and about as MAGA as you can get. He reiterated them this very morning.

This committee has got to decide will it maintain its tradition allegiance to the plutocrats or help working families. Some of them are represented here on today's panel. It is encouraging that for the first time we see at least some elements of the Republican Party that recognize tax reality, that you just can't cut revenue without adding to the national debt, and you cannot just pour some magical dust on it and calling it the changing of a line and ignore what you have done.

Spiraling Republican—spiraling national debt has been something that some members of this committee have previously said was a national security crisis. Well, it is a crisis just as much if you do it through more tax breaks, more largesse for the billionaire class, for the multinational corporations that are paying a tax rate today that is a fraction of that paid by main street businesses and by most Americans.

And there is further trouble for working families in the plans that Republicans are advancing. Only last week President-elect Trump told Americans that on food we can expect, quote, some pretty drastic price reductions. I think all of us would wish him well on that and eagerly await his fulfilling his promise oft repeated to slower drastically the price of food.

Most economists, however, are concerned that his policies will have exactly the opposite effect. Indeed the minutes of the last Federal Reserve meeting suggest that we may already be paying higher interest rates because of their concern that Trump will stoke inflation. This is especially true regarding his declaration that, quote, the most beautiful word in the dictionary is tariff, and it is my favorite word. Well, in Texas, a Trump grocery tariff tax, which he can impose as soon as next Monday, will likely increase grocery prices on most every vegetable and most fruits that we buy.

Overall Republican eagerness for a trade war that no one will win, beginning with the imposition of multiple Trump tariff taxes, a regressive form of taxation, and the resulting retaliation by other countries and Republican reliance on tariff taxes to offset their tax breaks for the super wealthy will continue to shift the tax burden to some of the very type of businesses that are represented on this panel.

Indeed, one recent study found that if the tax breaks were combined with the tariff increase that the impact would be that 80 percent of Americans would be in worse condition. And let's not forget that the last time retaliation occurred from Trump tax tariffs that farmers had to be paid billions of dollars in welfare because of their lost foreign markets.

Now, the impact of the 2017 Trump tax scam was to add about $2 trillion to our deficit, and now it is proposed that we add another $4 or $5 trillion. The effect on Americans is that 7.8 percent was the tax rate paid by the top multinationals in one year. Last year the Pharma industry didn't as a group pay any tax whatsoever, but, meanwhile, a working mother with two children who is paid the average rate was paying a tax rate of 20 percent. That is not fair. And I am glad that Mr. Bannon recognized it. I hope more of our Republicans will recognize that these large profitable corporations need to pay their fair share and so do the wealthiest few in our country.

The biggest loser of their plan overall will be our debt, but the impact that that has on the solvency of Social Security and Medicare and other investments is also very critical.

So as we move forward, we need to consider all of these impacts and look for a Tax Code that is more fair for working Americans and less gift to those at the top.

And I yield back.

Chairman SMITH. Mr. Smith.

Mr. SMITH of Nebraska. Thank you, Mr. Chairman. Certainly thank you to our entire panel here today. I think this hearing is very timely. It is important. I think it is always healthy to look back and see where we have been and where we need to go moving forward.

I am proud to say that the 2017 TCJA, Tax Cuts and Jobs Act, was a reflection and result of several years of thoughtful exchange and really diving deep into what we could do at the time to grow our economy, create more opportunity, create more fairness in the Tax Code I might add.

And it was interesting, I think one thing that is left out of the discussion today, especially as we heard some testimony earlier, is that even Barack Obama when he was President realized that we needed to be more competitive on the corporate side and proposed a reduction in the rate. Now, a different rate than we ended up at, but Barack Obama, hardly even a moderate President, suggested we needed to be more competitive. He saw the inversions that were taking place over and over and over again that I don't think a score has ever truly reflected the damaging aspects of an uncompetitive corporate tax rate.

Now, we can, you know, talk about this all we want and to characterize this in different ways, but the fact of the matter is we were in a bad spot as a country before TCJA. And, yes, had we only done corporate, that would not have been a good look. And as we hear here today again, the impacts of what we did for families was very positive, without going so far as President Biden did with pushing more money, so much money out there, calling it tax relief, but it was just pushing money out there that triggered inflation.

So I think it is incredibly important, and I believe we owe the American people a discussion, an exchange in sharing ideas and reflecting on reality that we would shape policy moving forward in a productive fashion. And when I say productive, I mean with this process, but Ms. Silver very accurately, I believe, and appropriately described—we sought out in 2017 on productivity for manufacturers such as Ms. Silver. Now, I think it was important that we were agnostic on size of a company so that everyone could benefit, but we knew that with increased productivity if a business would see advantages in the Tax Code to adding new equipment, as Ms. Silver articulated, that the end result would be good for the company on a micro basis, great for the company as a whole as more U.S. companies became more productive and more profitable.

Now, call me unreasonable, but I think profitability is a good thing. Profitability around this town is demonized so often. I think it is sad. And we owe the American people a better discussion than what we have been seeing way, way too often here.

But I just think it is important to note that the thoughtfulness that went into 2017—I think there is a greater understanding these days that what we did in 2017 was the right thing to do, especially given the factors to consider at the time. And now looking backward, I am proud to say we did the right thing.

Now, we want to prepare for the future. What do we need to do to be more competitive moving forward? Let's look at that, but let's not ignore the successes that we had.

Now, very briefly—sorry I have taken up so much time here. But, Ms. Gallagher, I want to give you more time to elaborate perhaps on, you know, the value of permanence, whether it is a state tax, whether it is 199A, the value of permanence and what that would look like perhaps to an individual business or even beyond.

Ms. GALLAGHER. Thank you, Congressman. And good to see you. I came to your tax team meeting this summer——

Mr. SMITH of Nebraska. Yes, thank you.

Ms. GALLAGHER [continuing]. And talked to you and your folks on this.

So permanency, certainty, and predictability is key for our small businesses and farmers. How can you plan without it? I was thinking of an analogy I could give you, but I know you all are very busy people. So imagine, if you will, getting your schedule the morning of your day, not having any idea where you are going, who you are seeing, what you were supposed to say, what you were supposed to do until that morning. That is how I see this permanency and the need to do this swiftly for our taxpayers. They are in the dark. And I think certainty and predictability so they can plan is key. It could stunt economic growth and job creation without it.

Mr. SMITH of Nebraska. Okay. Thank you.

Thank you. I yield back.

Chairman SMITH. Thank you.

Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman. Thank you for having the hearing and thank you to all of the witnesses.

Before I comment, I just want to make one point about Mr. Neal's comments regarding the fires in California. I think it is really important to remember that we are the Congress of the United States of America, not red, blue, or otherwise. If there is a natural disaster or a horrific situation such as the people in southern California are experiencing, as Members of the Congress of the United States of America, we need to be all in to provide help irrespective of where those people happen to reside.

So, Mr. Neal, thank you for bringing that up.

You know, we are going to hear a lot today—we already have, and I am sure we will for the rest of the year—on how the Trump tax cuts delivered for working families. Let's be clear. The ones who benefitted the most from these tax cuts were the rich, the very rich. Working families received pennies compared to the billionaires.

And that is not the only misleading claim my colleagues on the other side have made about the 2017 tax bill. They claim to be champions of fiscal responsibility. Well, it was their tax bill that added $1.5 trillion to our national debt. Every economist, even the Republican ones, say tax cuts don't pay for themselves.

Extending the TCJA would add almost $5 trillion to our debt over the next 10 years. And if you add all of President-elect Trump's list of tax cut promises, that number jumps up to about $16 trillion.

The Trump tax cuts did not deliver for the middle class. A taxpayer earning a million dollars or more received a tax cut almost 300 times greater than a taxpayer making $50,000 a year. The fact is it was a Democrat legislation that delivered results for—economic results for the middle class.

For example, the CHIPS and Science Act, the Inflation Reduction Act all contributed to increased domestic manufacturing. It wasn't the tax cuts. Since the IRA was signed into law, companies have announced over $130 billion worth of investment in clean energy and electric vehicle manufacturing. My friends on the other side of the aisle should go back home and see for themselves because 85 percent of the IRA investments in new projects have gone to Republican congressional districts.

And the 2007 tax bill raised costs for millions of our constituents—2017 tax bill for our constituents by capping the State and local tax deduction, about an $8,000 a year tax increase to people in my district.

Mr. Duke, Republicans claim that the TCJA is responsible for increased domestic manufacturing. Let's take EV manufacturing, for example. What have been the benefits of the EV credit? And what would happen if the Republicans repeal that?

Mr. DUKE. So this isn't just an economic issue. This is a geostrategic issue. The strong industrial policy that, you know, the Inflation Reduction Act EV credits are an example of are positioning U.S. automakers to catch up and lead in global manufacturing excellence. Firms have invested more than $81 billion in domestic EV and battery manufacturing since it passed, and it is helping close the investment gap with China, making the U.S. EV industry the most invested in EV industry on a per country basis. These are the vehicles of the future. We can't let China, you know, dominate that market.

Mr. THOMPSON. Thank you very much.

Ms. Silver, you were the past chair of the National Association of Manufacturers. You refer to that in your testimony. Do you agree with Mr. Duke on the importance of the EV tax credit and the section 45X of our manufacturing sector?

Ms. SILVER. I can't answer that question, but I certainly can follow up with you. I don't know about the EV tax credit to speak to it.

Mr. THOMPSON. And the advanced manufacturing productions credit?

Ms. SILVER. I can follow up with you after this for sure.

Mr. THOMPSON. Okay. Thank you.

Ms. Gallagher, you talked a lot about farmers, and you talked about certainty and predictability. Would you agree that if we really want certainty and predictability and we really cared about our farmers, we would take this tariff discussion off the table now?

Ms. GALLAGHER. Thank you for that question.

I have not looked at how any tariffs would impact our farming community, so I am not——

Mr. THOMPSON. Well, we have experience what they did last time, and you heard from Mr. Doggett how we had to bail out farmers because of those tariffs.

Ms. GALLAGHER. I know that my farming clients have benefitted greatly from the TCJA provisions, specifically on the 199A full bonus and lower marginal rates, and the increased estate exemption has been a major benefit for my farming clients.

Mr. THOMPSON. Thank you.

Yield back.

Chairman SMITH. Mr. Kelly.

Mr. KELLY. Thank you, Chairman. Thank you all for being here and taking a day out of your lives to come and talk to people who have never really been in the private sector.

I am an automobile dealer, second generation. My son is now running the store my mother and father started in 1953 with absolutely nothing, a one-car showroom and about six service bays and worked their tails off 7 days a week to make it profitable.

I love people who have to make payroll. There have been several times when we were doing TCJA to begin with and Chairman Brady was talking about it one day, I said, "Actually, Chairman, there is two times in my life I have paid absolutely no tax." And he looked at me and said, "Mike, how did you get away with that?" I said, "We lost money that year."

Isn't it bizarre that we talk about where would the revenue come from? Well, we take a certain percentage out of people's profits, with the exception you can lose money and still be held responsible for real estate taxes, wage taxes, every other single tax that every single American pays every single day. And we come here today and talk about the benefits of TCJA. Was it really true? Well, yes, it was because we actually garnered more revenue with TCJA than we had ever seen before. And I can remember being there the day that vote was taken. It was the wealthy, the wealthy, the wealthy, they never get taxed their fair share.

And all the sudden we did TCJA, and all of these wonderful, wonderful people who left America because America was being too tough with them came home. They hired people. They made investments. Certainty is absolutely the most important part of any business.

I wish in the business I was in that there was certainty as to who it is that is going to be able to buy a car or truck from us tomorrow.

A friend of mine by the name of Leonard Pintell, who is the mayor of our town, he said, Mike, you know what I would love to see? I would love to see that it was required that you have to actually survive in the private sector before you can go into public office. It would be paid on commission only, and you lost your job at least once.

All of these wonderful talks that we have going back and forth about who benefits, who loses, who is paying it, I will tell you who pays it. Companies that are profitable. Why do these companies that left America come back? Because of TCJA. Why did they leave to begin with? It is not because they didn't love America. They just got to the point they knew America didn't love them anymore. We would tax them out of existence and complain for them just like the little hen. Right? Hey, hen, lay. And no golden eggs. They quit coming. And we said, What happened? The hen couldn't lay them anymore.

We go through all of these different things and what we are going to do and what we are not going to do and how difficult it is. I have got to tell you, please, please, give me a break. Give me a break.

Ms. Silver, I read your testimony. First of all, you have been through an incredible life. The loss of your husband, I can't imagine what that was like to go through. Ms. Marple raising children, Ms. Gallagher working with people, Ms. Couch working with people. Look, do you know that in this entity, in government, do you know that during the height of COVID–19 we didn't miss one payday? I wish I could have said that about the dealership. We lost a lot of paydays. We lost a lot of paydays.

But when you come down to TCJA and what were the benefits of it and where do we hurt people and who did we go after and all the rest of this back and forth, listen, all of you, was life better under TCJA? When we made that change, when we did that tax change in 2017, did America start to blossom again? Did the people seem to come back to America? Did we start paying more taxes because we had people making money and businesses being profitable?

I mean, Ms. Silver, I know a lot of people that do what you do. This is a tough, tough business. But all of you, if you would just please weigh in. I get so tired of people talking about tax revenue who never had a worry about making a profit in order to pay taxes. If you can all—and I know you all have given your testimony today, and you took a day out of your life to come here.

But, Ms. Silver, I really was reading what you were saying because I have so many people back home that do what you do and how tough it is. It is no bed of roses. You compete against a lot of people. So please share more because I thought your testimony was incredible.

And all of you, thank you so much.

Ms. Marple, congratulations. It sounds to me like you are raising a wonderful family.

Ms. SILVER. Well, thank you for your comments, Congressman. I can throw some color on this as far as how complex this is.

Mr. KELLY. Please do.

Ms. SILVER. So to take raw material and to transform it into a useful object that we all benefit from is extremely tough. There is a whole lot that has to go into that. We have to make—like I said earlier, have to make investments in our people, processes, and machining technology. And you are right, there are definitely years where you don't make a profit. But if you take this piece of paper, okay, and you slice this—let's say you slice this 20 times in width. If you take one of those strands of 20, that is the tolerance that we are holding on dimensions on parts that we manufacture. That is two-tenths. You can't see that with the human eye. This is not me buying equipment, pressing a button, and a widget comes out. This is a ton of small businesses, like you said, in your district.

And so we need pro-growth tax policies that are permanent, that are consistent, that are predictable to help us be able to grow because our manufacturing supply chain in our country needs us. They need us to grow. They need us here.

Mr. KELLY. Yeah. Well, you know what, I appreciate your testimony. I think the rest of the world keeps hoping that America will raise its tax rates again because then they will see this group of people who were staying in America come back over and start their business with them. But if we make it impossible to be profitable here, people will leave. They did it before. They will do it again. We have looked at the greatest tax revenues we have ever had.

This is not a Trump issue with me. It is not a red issue or a blue issue, as my friend Mr. Thompson said. These are red, white, and blue issues. If it is not for America, I don't care about anybody else in the world. If America is strong, the world is strong, then America is safe.

Thank you all so much for being here.

Chairman, thanks for having this. And let's go TCJA part II and watch America rise again.

Chairman SMITH. Thank you.

Mr. Larson.

Mr. LARSON. Thank you, Mr. Chairman.

I thought you were going to say let's go, Notre Dame. You missed your opportunity there, but——

Chairman SMITH. I left that out, yes. Go Irish.

Mr. LARSON. Yeah, right.

But thank you, Mr. Chairman, for this hearing. And I want to associate myself with the remarks of Mr. Neal and my colleagues. The witnesses have been outstanding. And when you listen to your testimony, I think you can see that there is a desire here on both sides of the aisle to help, but that help all comes down to fairness at the end of the day.

And the quandary that Mr. Neal presented I think is one that this committee needs to sort through and have the conversation on. And the other thing that he talked about is that you just can't ignore the obvious and what is in front of you. And from my perspective as a ranking member on the Social Security Committee, we can't ignore the obvious. Do you know the last time that we extended Social Security benefits in the United States? Anyone want to venture a guess?

It is not a fair question to you. It was 1971. Richard Nixon was President of the United States. Could any of your businesses or households survive if the last time the responsibility, which is that of the United States Congress and this committee, to adjust Social Security, including the unfair policies of taxing your Social Security when you retire? I think the American people rightly no longer—we cannot ignore these issues. 70 million Americans rely on Social Security. And with 10,000 baby boomers a day becoming eligible for Social Security, that is an additional 3.65 Americans becoming eligible every year. And we haven't extended benefits in over 50 years? That is an outrage.

And when you look at its impact on people, more than 5 million Americans getting below poverty level checks, for about 35 million Americans in total, the only benefit they have is their Social Security that they paid into—this is an earned benefit—and the responsibility is that of the United States Congress.

I am looking forward to working with Mr. Estes, and I believe my colleagues on the other side of the aisle care as deeply about this issue as we do, but we can't ignore it. Everybody cares about the national debt. Everybody knows that we are going to have to raise the debt ceiling, and we know that we have work in front of us.

And yet when we talk about the fairness, where you see the disagreement is when you see all the money going in one direction and not even using capitalism's greatest tool for equity, Social Security, make sure that that is the great leveler, including tax breaks for people on Social Security, including what parents get and what children get, what surviving spouses get.

This is why these are important programs in a democracy and why this committee, as the chairman started out today, talking about our importance and significance, no greater number than 70 million Americans that need a program addressed that hasn't been touched by Congress to enhance it in over—now going on 54 years.

I yield back.

Mr. KUSTOFF [presiding]. The gentleman yields.

Mr. Schweikert is recognized for 5 minutes.

Mr. SCHWEIKERT. Thank you, Mr. Chairman.

And for all of our members here, what we are doing actually is incredibly serious. Your country borrows about $70,000 every second. The expected additional revenues from taxing everyone more with the expirations at the end of the year would be about $15,700 a second.

The scale of these numbers are terrifying. But as you'll notice when you hear the left and then the right going back and forth, we seem to cherry pick comments over and over that mathematically don't actually walk through the complexity. The fact of the matter is today's tax system is the most progressive ever.

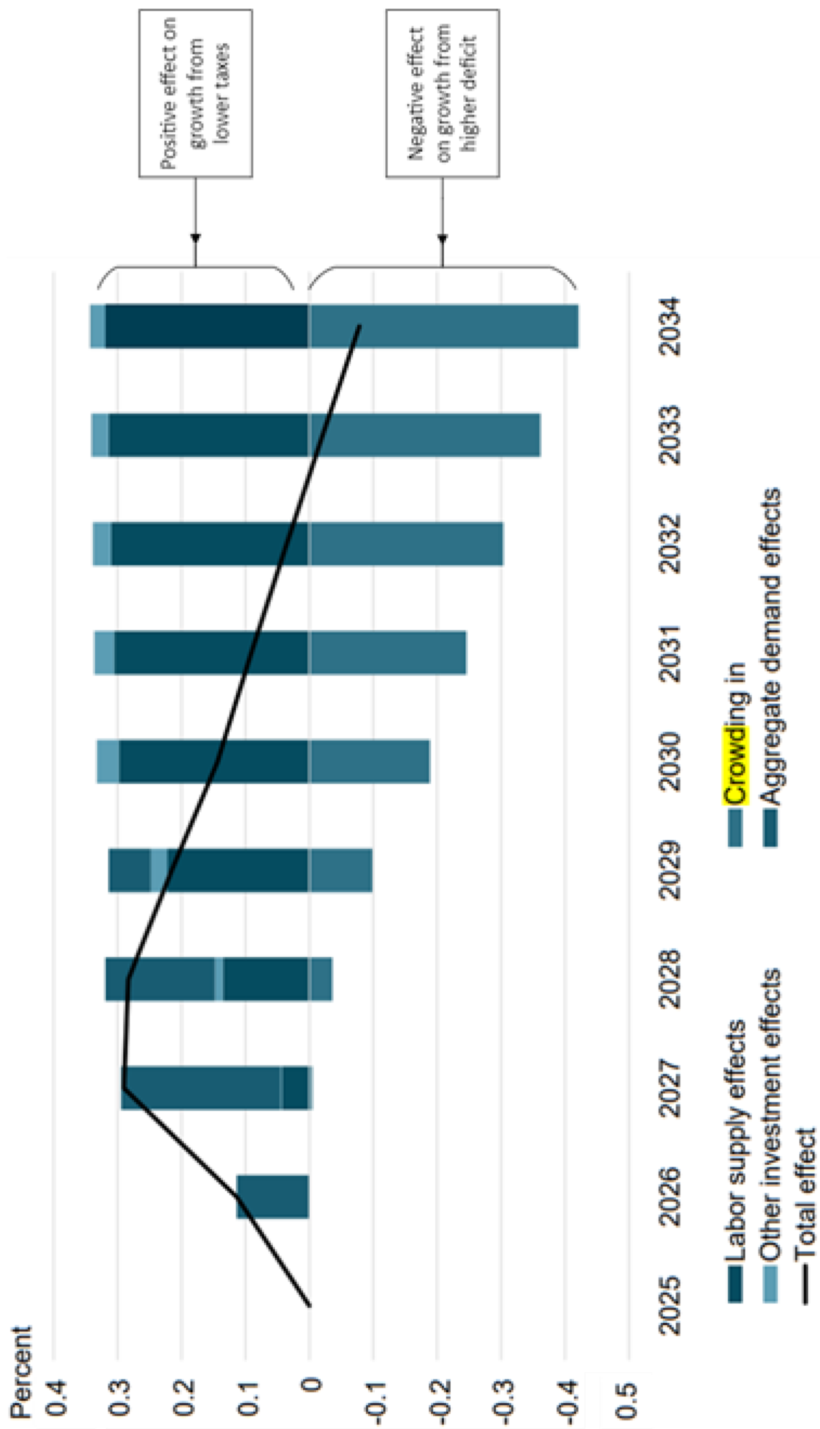
The rich pay a higher percentage of federal income taxes. Now, did they get benefits? Of course. The fact of the matter is how many did we remove completely from paying federal income taxes? And they still have payroll taxes.

And also, Mr. Chairman, for submission to the record I would like to actually put in a series of documents that show the best estimates are almost 70 percent of the corporate income tax benefits actually go to the worker. And vice versa, if you raise corporate taxes, it is about 70 percent is the mean come out of the workers' wage growth.

And I am sure you were waiting all with baited breath on the report from CBO last night. I hope that was a UC.

Mr. KUSTOFF. Without objection, so ordered.

[The information follows:]



Positive effect on growth from lower taxes
Negative effect on growth from higher deficit
Percent
0.4
0.3
0.2
0.1
0
-0.1
-0.2
-0.3
-0.4
0.5
2025
2026
2027
2028
2029
2030
2031
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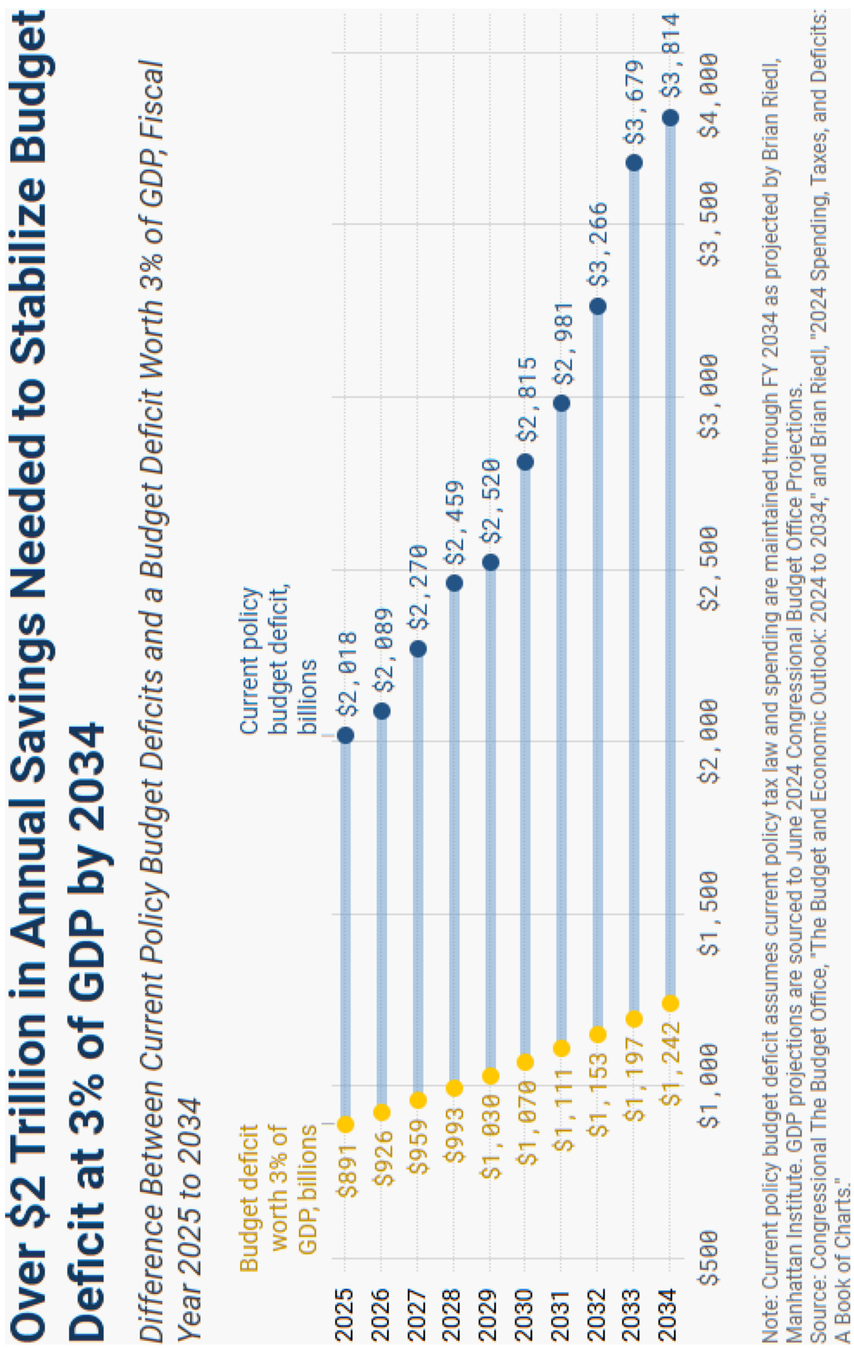
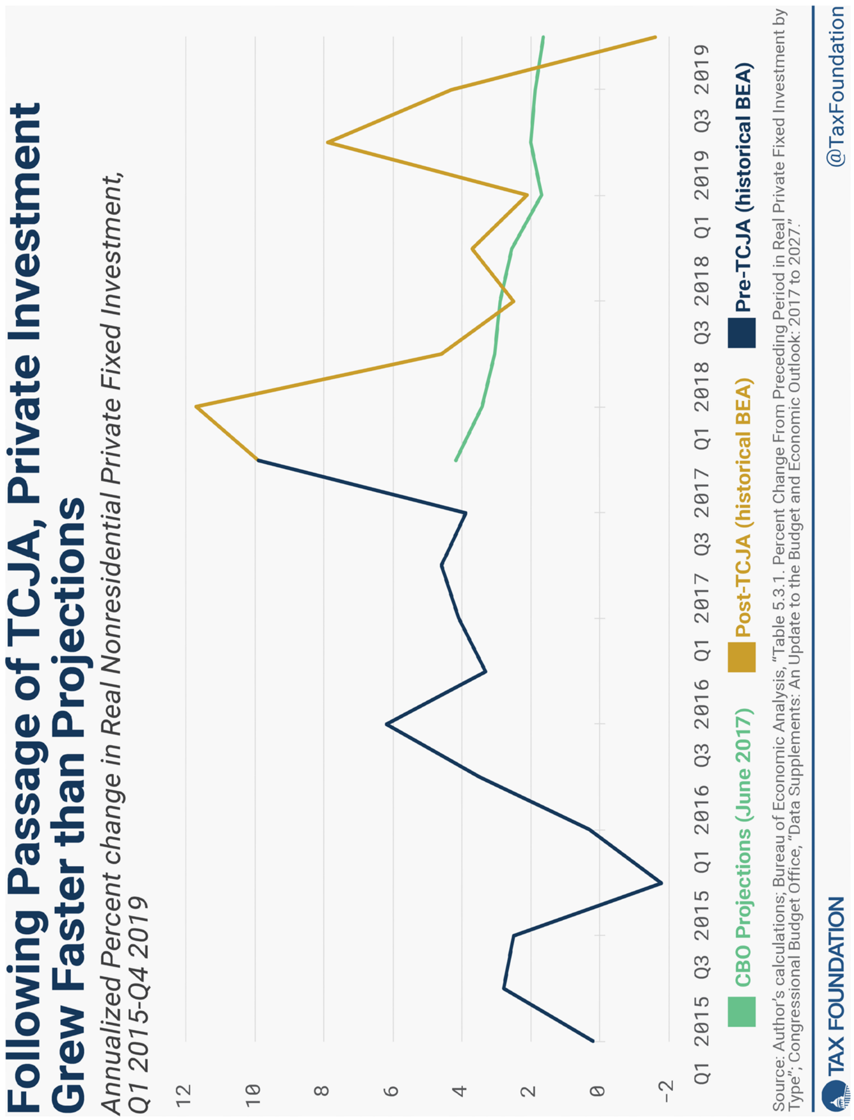
Other investment effects
Total effect
Crowding in
Aggregate demand effects



Over $2 Trillion in Annual Savings Needed to Stabilize Budget Deficit at 3% of GDP by 2034
Difference Between Current Policy Budget Deficits and a Budget Deficit Worth 3% of GDP, Fiscal Year 2025 to 2034
Budget deficit worth 3% of GDP, billions
Current policy budget deficit, billions
2025
2026
2027
2028
2029
2030
2031
2032
2033
2034
$891
$926
$959
$993
$1,030
$1,070
$1,111
$1,153
$1,197
$1,242
$2,018
$2,089
$2,270
$2,459
$2,520
$2,815
$2,981
$3,266
$3,679
$3,814
$500
$1,000
$1,500
$2,000
$2,500
$3,000
$3,500
$4,000
Note: Current policy budget deficit assumes current policy tax law and spending are maintained through FY 2034 as projected by Brian Riedl, Manhattan Institute. GDP projections are sourced to June 2024 Congressional Budget Office Projections.
Source: Congressional The Budget Office, "The Budget and Economic Outlook: 2024 to 2034," and Brian Riedl, "2024 Spending, Taxes, and Deficits: A Book of Charts."


Following Passage of TCJA, Private Investment Grew Faster than Projections
Annualized Percent change in Real Nonresidential Private Fixed Investment, Q1 2015-Q4 2019
12
10
8
6
4
2
0
-2
Q1 2015
Q3 2015
Q1 2016
Q3 2016
Q1 2017
Q3 2017
Q1 2018
Q3 2018
Q1 2019
Q3 2019
CBO Projections (June 2017)
Post-TCJA (historical BEA)
Pre-TCJA (historical BEA)
Source: Author's calculations; Bureau of Economic Analysis, "Table 5.3.1. Percent Change From Preceding Period in Real Private Fixed Investment by Type"; Congressional Budget Office, "Data Supplements: An Update to the Budget and Economic Outlook: 2017 to 2027."
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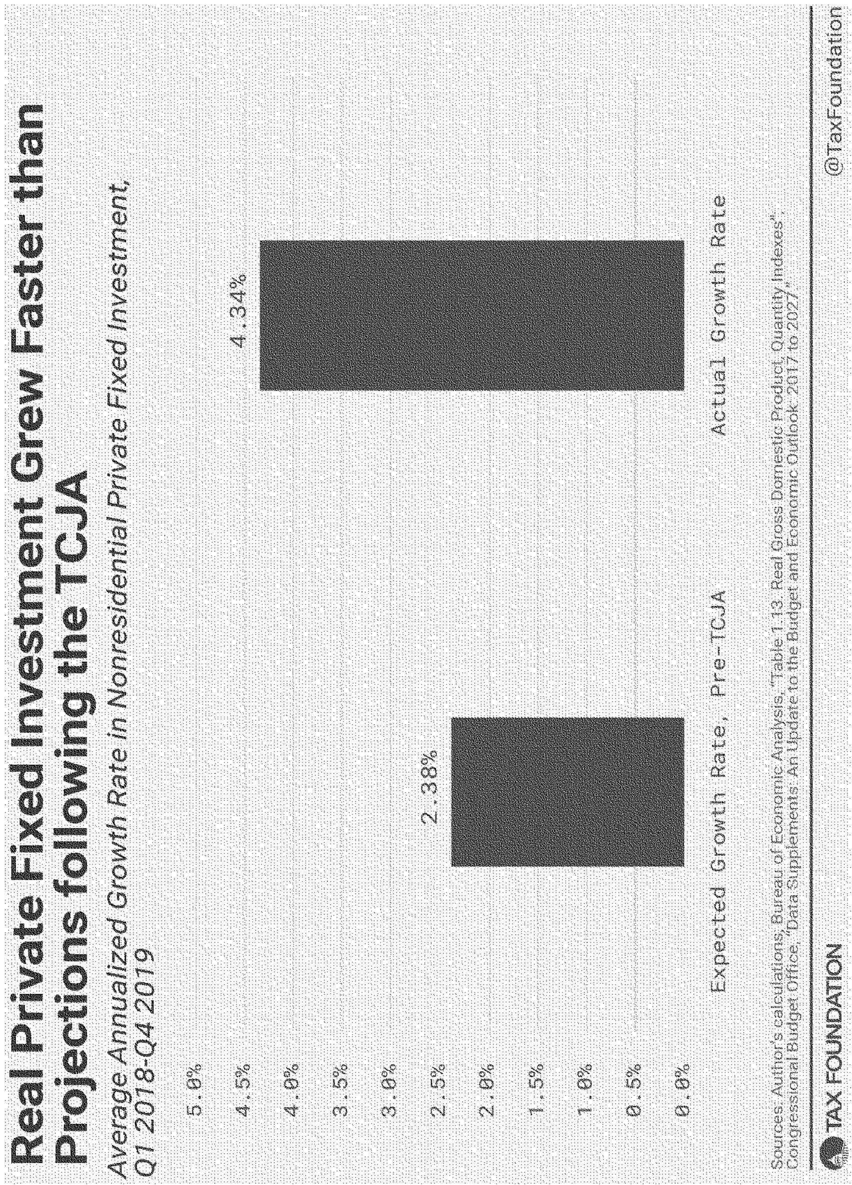
Real Private Fixed Investment Grew Faster than Projections following the TCJA
Average Annualized Growth Rate in Nonresidential Private Fixed Investment, Q1 2018-Q4 2019
5.0%
4.5%
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
2.38%
4.34%
Expected Growth Rate, Pre-TCJA
Actual Growth Rate
Sources: Author's calculations; Bureau of Economic Analysis, "Table 1.1.3. Real Gross Domestic Product, Quantity Indexes"; Congressional Budget Office, "Data Supplements: An Update to the Budget and Economic Outlook: 2017 to 2027."
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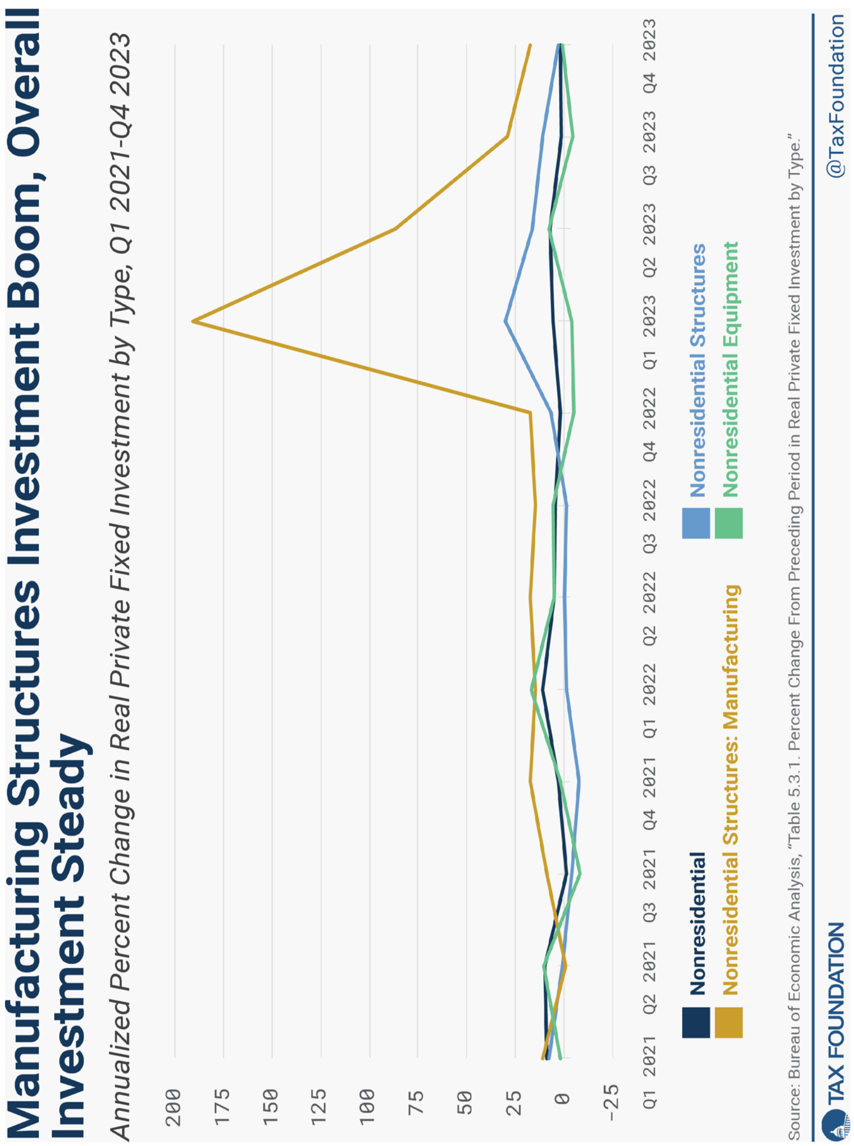
Manufacturing Structures Investment Boom, Overall Investment Steady
Annualized Percent Change in Real Private Fixed Investment by Type, Q1 2021-Q4 2023
200
175
150
125
100
75
50
25
0
-25
Q1 2021
Q2 2021
Q3 2021
Q4 2021
Q1 2022
Q2 2022
Q3 2022
Q4 2022
Q1 2023
Q2 2023
Q3 2023
Q4 2023
Nonresidential
Nonresidential Structures
Nonresidential Structures: Manufacturing
Nonresidential Equipment
Source: Bureau of Economic Analysis, "Table 5.3.1. Percent Change From Preceding Period in Real Private Fixed Investment by Type."
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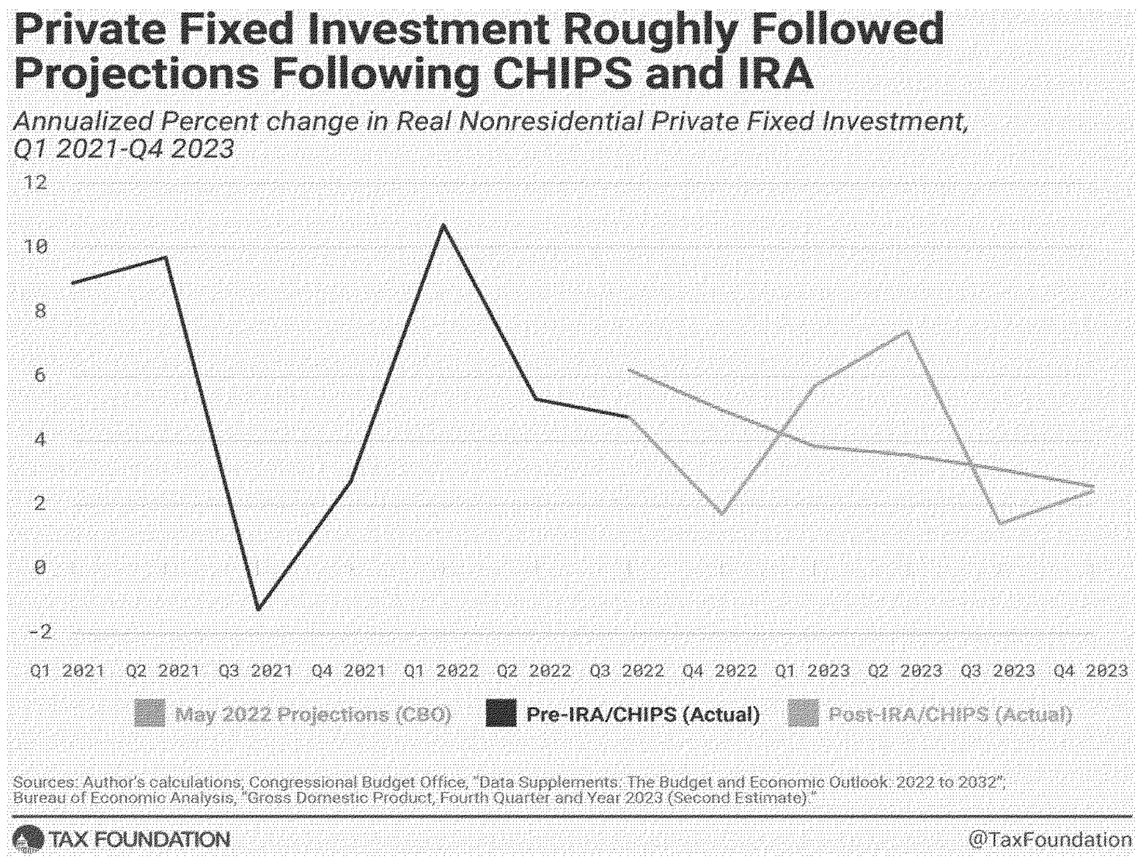
Private Fixed Investment Roughly Followed Projections Following CHIPS and IRA
Annualized Percent change in Real Nonresidential Private Fixed Investment, Q1 2021-Q4 2023
12
10
8
6
4
2
0
-2
Q1 2021
Q2 2021
Q3 2021
Q4 2021
Q1 2022
Q2 2022
Q3 2022
Q4 2022
Q1 2023
Q2 2023
Q3 2023
Q4 2023
May 2022 Projections (CBO)
Pre-IRA/CHIPS (Actual)
Post-IRA/CHIPS (Actual)
Sources: Author's calculations; Congressional Budget Office, "Data Supplements: The Budget and Economic Outlook: 2022 to 2032"; Bureau of Economic Analysis, "Gross Domestic Product, Fourth Quarter and Year 2023 (Second Estimate)."
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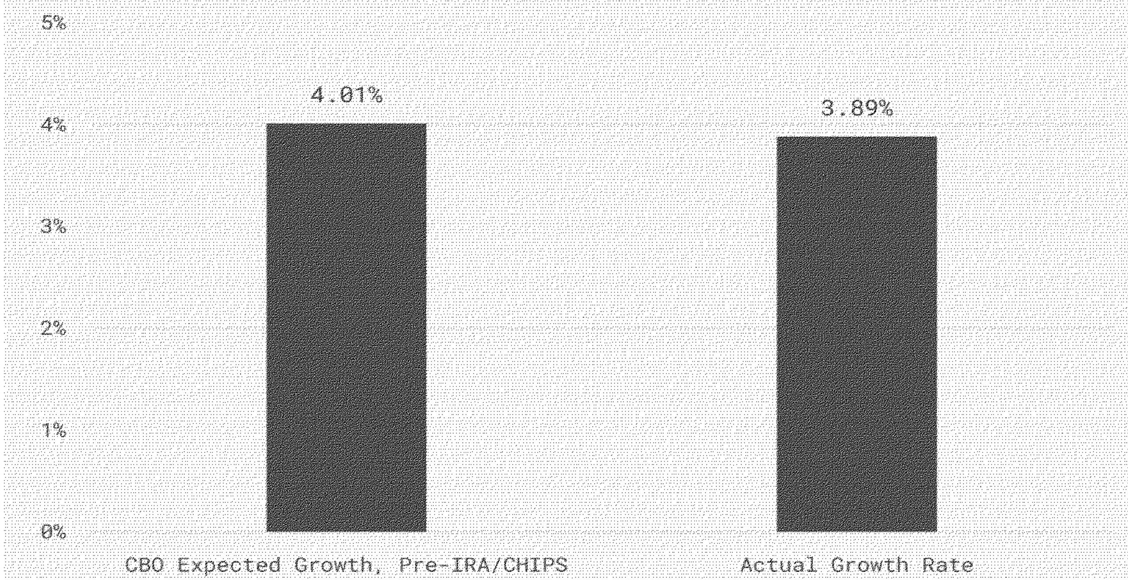
Private Fixed Investment Slightly Underperformed Projections Following CHIPS and IRA

Average Growth Rate in Real Gross Nonresidential Private Fixed Investment, Q3 2022-Q4 2023



Sources: Author's calculations; Congressional Budget Office, "Data Supplements: The Budget and Economic Outlook: 2022 to 2032"; Bureau of Economic Analysis, "Gross Domestic Product, Fourth Quarter and Year 2023 (Second Estimate)."

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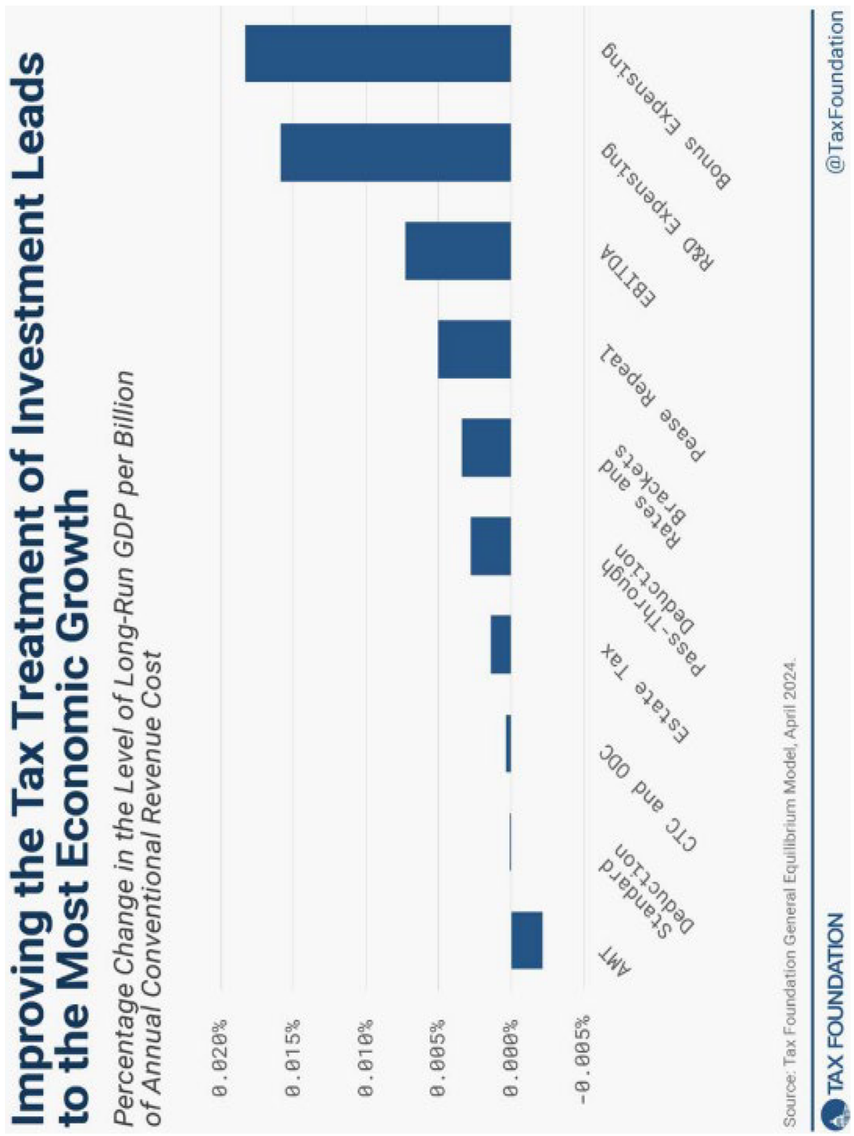

Improving the Tax Treatment of Investment Leads to the Most Economic Growth
Percentage Change in the Level of Long-Run GDP per Billion of Annual Conventional Revenue Cost
0.020%
0.015%
0.010%
0.005%
0.000%
-0.005%
Bonus Expensing
R&D Expensing
EBITDA
Pease Repeal
Rates and Brackets
Pass-Through Deduction
Estate Tax
CTC and ODC
Standard Deduction
AMT
Source: Tax Foundation General Equilibrium Model, April 2024.
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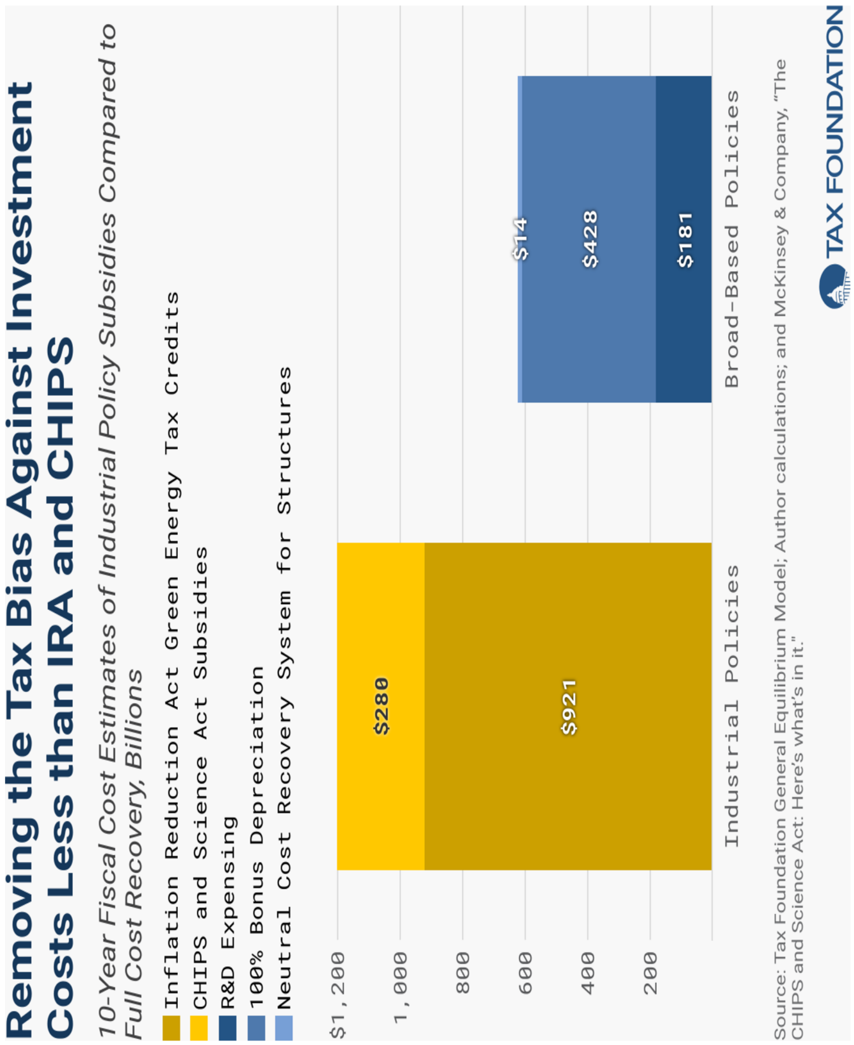
Removing the Tax Bias Against Investment Costs Less than IRA and CHIPS
10-Year Fiscal Cost Estimates of Industrial Policy Subsidies Compared to Full Cost Recovery, Billions
Inflation Reduction Act Green Energy Tax Credits
CHIPS and Science Act Subsidies
R&D Expensing
100% Bonus Depreciation
Neutral Cost Recovery System for Structures
$1,200
1,000
800
600
400
200
$280
$921
$14
$428
$181
Industrial Policies
Broad-Based Policies
Source: Tax Foundation General Equilibrium Model; Author calculations; and McKinsey & Company, "The CHIPS and Science Act: Here's what's in it."
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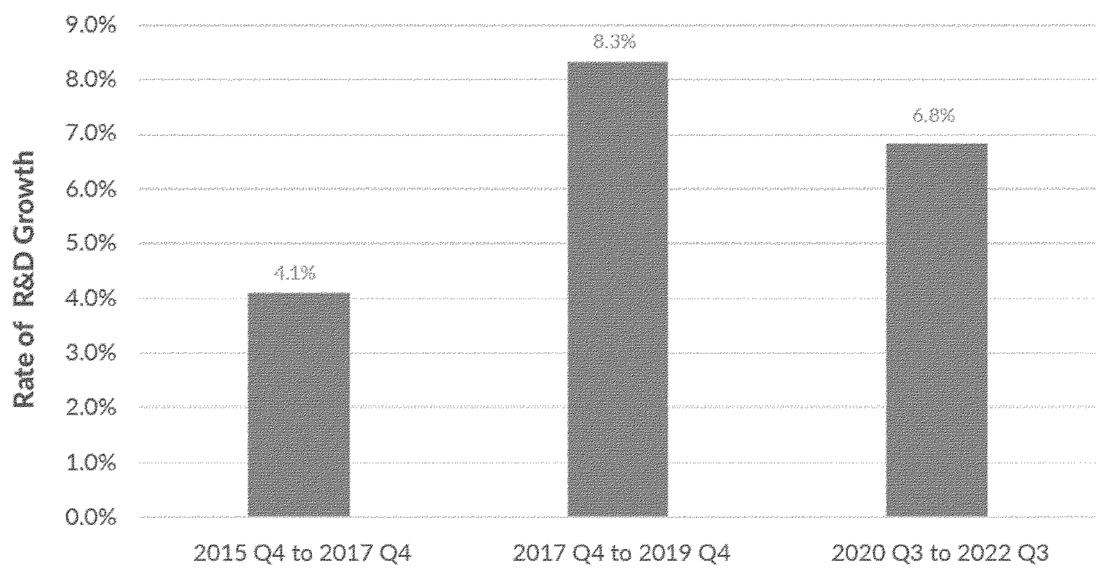
Business R&D Grew Faster After the Tax Cuts and Jobs Act of 2017

Annual Growth Rate of R&D Before and After TCJA



Source: Author's calculations, Bureau of Economic Analysis, "Table 5.3.3: Real Private Fixed Investment by Type, Quantity Indexes," National Income and Production Accounts, Last Revised on Nov. 30, 2022.

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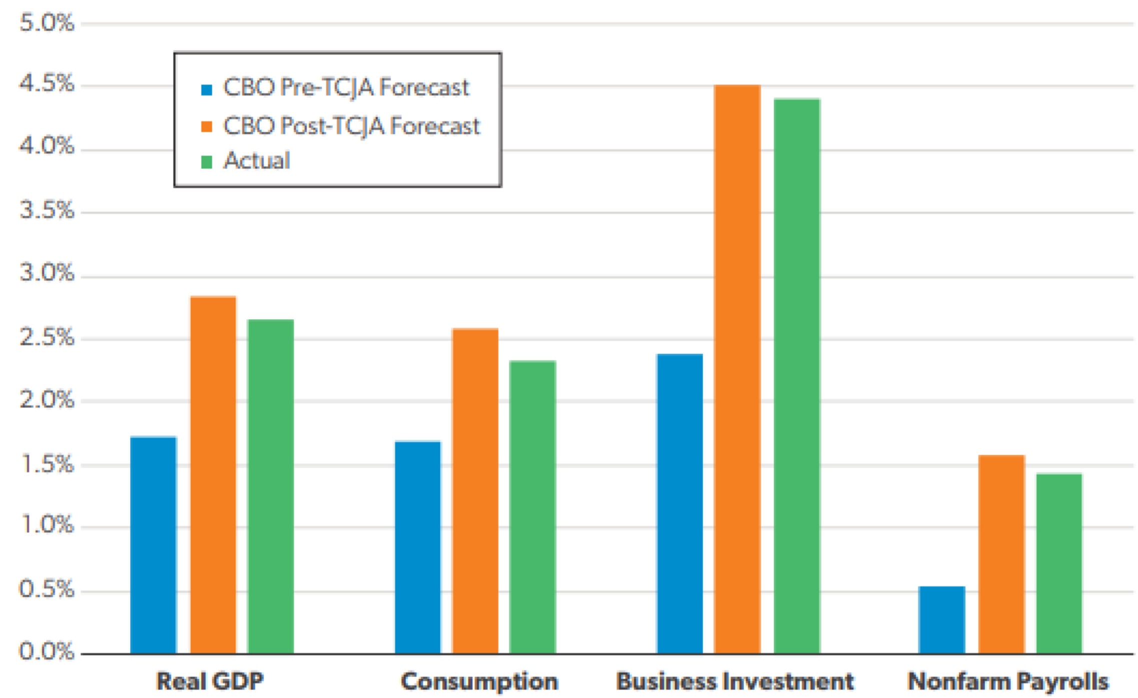
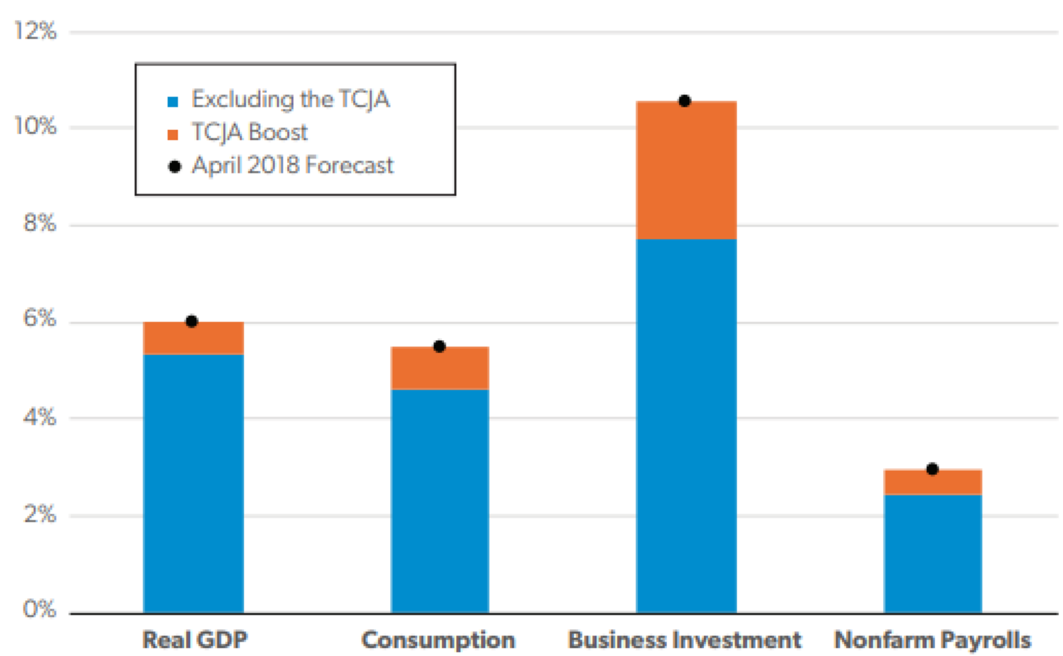
Figure 1. Average Growth Rates by Forecast Vintage, 2018 Q1–2019 Q4

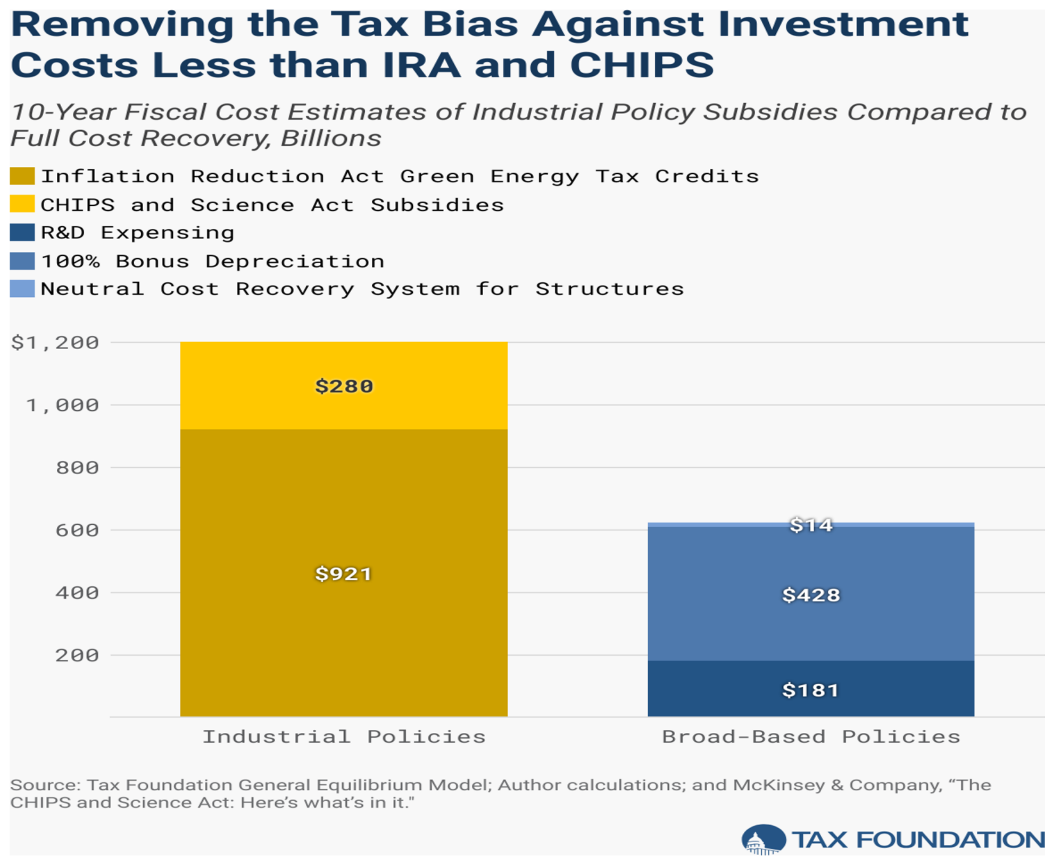


Source: Authors' calculations using the Congressional Budget Office's June 2017 baseline and April 2018 baseline, Bureau of Economic Analysis data, and Bureau of Labor Statistics data.

Figure 2. Decomposition of Growth in Key Macroeconomic Variables from 2017 to 2019 in CBO's April 2018 Baseline



Source: Authors' calculations using Congressional Budget Office, "The Budget and Economic Outlook: 2018 to 2028," April 9, 2018, https://www.cbo.gov/publication/53651.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Working Paper Series
Congressional Budget Office
Washington, D.C.

International Burdens of the Corporate Income Tax

William C. Randolph (email: william.randolph@cbo.gov)
Congressional Budget Office
Washington, D.C.

August, 2006
2006-09

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Abstract[1]

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

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

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

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

I. Introduction

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

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

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

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

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

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

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

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

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

Gravelle and Smetters (2006) construct a computable general equilibrium model in which the world is divided into two countries with four productive sectors in each country. The domestic economy is divided into corporate and noncorporate sectors, like the original Harberger (1962) model, but each sector is further subdivided into a subsector that produces internationally tradeable goods and a sub-sector that produces goods that are not traded between countries. Like Mutti and Grubert (1985), Gravelle and Smetters allow for the possibility that capital is not perfectly mobile internationally, and for the possibility that foreign and domestic tradable goods are imperfect substitutes in consumption.[5]

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

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

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

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

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

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

When goods are produced in both corporate tradable goods subsectors of the Harberger (1995) model, the domestic and foreign wages are determined fully by the effects that the tax has on production costs within the first subsector. In the domestic economy, the corporate tax drives a wedge into the cost of production in the corporate sectors. Because the domestic economy cannot affect the world price of output in the first sector, the domestic wage must decrease in order to offset the increased corporate cost of capital.

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

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

This study examines corporate tax incidence both alone and in comparison to several replacement taxes: a general tax on the income from capital in all domestic sectors, a domestic wage tax, a tax on the worldwide capital income of the domestic owners of capital, and a uniform domestic tax on personal income or consumption. The model is also used to examine the international burdens of the corporate income tax under alternative assumptions: about whether the country is a net international borrower or net international lender, about the relative capital intensities of production in the corporate tradable sectors, about the size of the domestic economy relative to the rest of the world, and about the degree of international capital mobility. A later section also examines how the tax burdens are affected when many countries impose corporate income taxes and may engage in international tax competition. An appendix further examines Harberger (1995), Harberger (2006), and Gravelle and Smetters.

II. The Model

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

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

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

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

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

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

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

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

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

III. The Corporate Income Tax

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

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

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

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

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

$$\hat{p}_1^f = 0 = \theta_{L1}\hat{w}^f + \theta_{K1}\hat{r} \quad \text{(1b)}$$

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

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

$$\hat{w}^f = -\frac{\theta_{K1}}{\theta_{L1}}\hat{r} \quad \text{(2b)}$$

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

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

$$\text{(3)}\quad \begin{aligned} &\text{(a)} && \hat{K}_C^d - \hat{L}_C^d = \sigma_C^d \cdot [\hat{w}^d - \hat{r} - (1+\hat{r})\tau_c] \\ &\text{(b)} && \hat{K}_N^d - \hat{L}_N^d = \sigma_N^d \cdot (\hat{w}^d - \hat{r}) \\ &\text{(c)} && \hat{K}^f - \hat{L}^f = \sigma^f \cdot (\hat{w}^f - \hat{r}) \end{aligned}$$

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

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

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

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

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

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

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

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

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

[12] When the domestic corporate sector makes up the entire domestic economy and the tax rate is very small, equation (4) is the same as a relationship derived by Bradford (1978) and Kotlikoff and Summers (1986). That variant is discussed in a later section of this study.

[13] In derivation of (4), the equilibrium conditions are met through changes in the capital allocations alone. The model implies that the labor demands do not change in response to the tax.

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

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

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

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

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

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

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

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

(7)
(a) $$\hat{p}_i^d = \theta_{Li}\hat{w}^d + \theta_{Ki}\cdot[\hat{r} + (1+\hat{r})\tau_c]$$
(b) $$\hat{p}_i^f = \theta_{Li}\hat{w}^f + \theta_{Ki}\hat{r}$$
$i = 2,3$

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

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

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

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

IV. Tax Burdens

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

$$\text{(14)} \qquad \hat{r}_g = -\tau_g \cdot \frac{K^d}{K + K^d \tau_g}$$

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

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

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

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

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

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

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

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

VI. Personal Taxes on Domestic Residents

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

VII. A Numerical Application

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

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

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

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

Economic Responses to the Corporate Income Tax

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

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

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

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

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

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

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

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

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

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

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

Burdens of the Corporate Income Tax

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

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

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

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

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

Economic Responses to the General Replacement Tax

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

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

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

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

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

Burdens of the General Replacement Tax

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

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

Differential Burdens of Other Taxes

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

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

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

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

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

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

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

Infinitesimal Corporate Tax Rate

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

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

Aggregate International Spillover Effects

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Relative Size of the Domestic Economy

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

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

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

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

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

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

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

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

Capital Mobility

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

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

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

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

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

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

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

Tax Competition

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

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

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

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

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

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

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

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

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

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

Although the average labor share of the burden is small in the countries that are not tax havens, that burden can be much larger when it is measured at the margin for a country deciding whether to impose a corporate income tax. For a small country that is not a tax haven, domestic labor's benefit from eliminating its own corporate tax would equal 102 percent of its domestic revenue from the tax: the difference between the average burden of 12.3 percent within the countries that are not tax havens and the average per capita benefit of 89.7 percent within the tax-haven countries. From a distributional perspective, it makes little difference whether that small country is the only country to have a corporate income tax or is just one among many countries that tax corporate income, as long as countries can choose their tax policies independently. That is also true for larger countries. For example, in a country that is not a tax haven and that produces 20 percent of world output, domestic labor's burden at the margin would equal 82.6 percent (12.3 percent +70.3 percent) of the domestic corporate tax revenue.

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

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

VIII. Conclusions

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

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

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

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

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

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

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

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

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

Appendix: Other Studies

Harberger

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

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

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

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

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

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

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

[40] Under the assumptions in Table A1, the domestic consumer's burden is -95.8 percent of the revenue, while the foreign consumer's burden is -0.04 percent of the revenue.

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

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

According to Equation (14), the 100 percent share assumption made by Harberger (1995, 2006) would be true for a small general tax on capital imposed on all domestic sectors. Under the general replacement tax (not shown in Table A2) imposed in the large economy, worldwide capital income falls by 101.6 percent of the revenue regardless of whether the sources and uses are combined in the measure of tax burden. The worldwide excess burden from that tax is 1.6 percent of the revenue.

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

Gravelle and Smetters

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

[41] Gravelle and Smetters, Table 2.

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

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

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

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

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

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

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

When the demand substitution elasticity is low for outputs of the corporate tradable sector, each country has some potential market power in international trade, even though competition is perfect at the level of the individual firm. In part, the domestic corporate tax can act like a domestic tariff on exports from the corporate sector. Under either the corporate tax or such a tariff, the domestic national income is increased at the expense of a decrease in the foreign national income. Domestic capital owners still earn roughly the same nominal return under the corporate tax as when the demand substitution elasticity is higher, but they must pay higher consumer prices, so the domestic capital owners' burden is higher when the substitution elasticity is lower. Domestic labor's burden is decreased by the rise in domestic national income when the substitution elasticity is low. When the output demand substitution and capital mobility are perfect, foreign residents overall do not bear any burden of the tax. However, when the output demand substitution elasticity is only 1, the Gravelle and Smetters model predicts that the tariff-like effect allows the domestic economy to export about half of the total burden of its corporate income tax to foreigners.

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

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

Table 1: Initial Assumptions

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

Source: Based on Gravelle and Smetters (2006).

Table 2: Economic Changes under Corporate and General Taxes

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

Table 3: Burdens of the Corporate Income Tax

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

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

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

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

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

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

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

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

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

[a] Total burdens divided by total domestic revenue

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

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

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

Table A1: Shares Consistent with Harberger (1995)

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

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

Table A2: Reconciliation with Harberger (1995)

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

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TAX FOUNDATION

SPECIAL REPORT
No. 238
Oct. 2017

Labor Bears Much of the Cost of the Corporate Tax

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Key Findings

- Early analysis of the distribution of the corporate income tax relied on theoretical models and thought experiments. These hypothetical models assumed certain quantities of capital, market conditions, and investor behavior. The most important assumption in these models is how open the U.S. economy is to trade and the movement of capital. Open economy models concluded that nearly all the burden of the corporate tax falls on labor.

- Over the last few decades, economists have used empirical studies to estimate the degree to which the corporate tax falls on labor and capital, in part by noting an inverse correlation between corporate taxes and wages and employment. These studies appear to show that labor bears between 50 percent and 100 percent of the burden of the corporate income tax, with 70 percent or higher the most likely outcome.

- More recently, some analysts have suggested that "super-normal" returns due to monopoly rents or successful risk-taking impact the distribution of the corporate tax burden. Activity associated with rents is assumed to be insensitive to tax, limiting the amount of the tax that may be shifted to labor. U.S. Treasury and Tax Policy Center tax models adopt this approach, and assign most of the corporate tax to capital rather than labor (roughly an 80-20 split toward capital).

- There appear to be serious errors in both theory and measurement in the super-normal returns work. Replicating Treasury's methodology, we find it overstates the amount of super-normal returns being earned by businesses by two or three times. Correcting for the overstatement, and assuming such returns determine incidence, implies a business tax incidence that is roughly split 50-50 between capital and labor, more in line with the empirical literature.

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- More importantly, we take issue with the use of super-normal returns as a guide to incidence. Pure economic (monopoly) rent is unaffected by taxes, but is uncommon. The super-normal methodology also includes returns to business activity outside the monopoly area, such as quasi-rents and other transitory earnings due to imperfect competition or risk premiums. These earnings in non-monopoly sectors of the economy are clearly sensitive to tax, and taxes on returns in these sectors fall heavily on labor, and not, as asserted, only on capital.

Introduction

President Donald J. Trump (R) and congressional tax writers are working on a major overhaul of the federal tax code. If they adhere to the proposals outlined in the jointly produced Unified "Framework," one of the central elements of the plan will be a reduction in the federal corporate income tax rate from the current level of 35 percent—the highest[1] federally imposed corporate tax rate in the industrialized world—to 20 percent, which would put the U.S. rate below the global average.

U.S. Treasury Secretary Steven Mnuchin and Kevin Hassett, Chairman of the President's Council of Economic Advisers, have asserted that cutting the corporate income tax will largely benefit American workers in the form of higher wages and employment. Indeed, Mnuchin has said that as much as 70 percent of the economic cost of the corporate tax is borne by workers. Critics have challenged these statements, arguing that a majority of any corporate tax cut would simply end up being a windfall for shareholders or the owners of capital.

"Who bears the burden of corporate tax?" is therefore a question that will play a large part in the design and acceptance of any tax reform proposal. If the burden of the tax is assumed to be shouldered mainly by rich shareholders, Congress and the public may be disinclined to support a large cut in the tax rate. If the corporate tax is viewed as largely hurting wage growth and employment by denying workers the tools they need, it may be viewed more favorably.

This question of who bears the corporate tax has bedeviled economists for many decades. Early efforts to think the issue through were largely thought experiments, which reached different conclusions based on their assumptions about certain key factors related to the openness of the economy to trade and the movement of capital. Open economy models concluded that nearly all the burden of the corporate tax falls on labor. In recent decades, economists have become more adept at teasing out the real-world consequences of the tax by turning to real-world data. These studies appear to show that labor bears between 50 percent and 100 percent of the burden of the corporate income tax, with 70 percent or higher the most likely outcome.

More recently, some tax analysts have started considering how super-normal returns, or returns from rents or market power of companies, impact the distribution of the corporate income tax. Treasury and Tax Policy Center tax models adopt this approach, and assign most of the corporate tax to capital rather than labor (roughly an 80-20 split toward capital). There appear to be serious errors in both theory and measurement in the super-normal returns work. Measurement issues appear to overstate the amount of super-normal returns by two or three times. Correcting the overstatement implies a business tax incidence split roughly 50-50 between capital and labor, more in line with the empirical literature.

1 Kari Jahnsen and Kyle Pomerleau, "Corporate Income Tax Rates around the World, 2017," Tax Foundation, September 7, 2017, https://taxfoundation.org/corporate-income-tax-rates-around-the-world-2017/.

More importantly, we reject the whole theory of the use of super-normal returns as a guide to incidence. The method wrongly assumes that taxes on quasi-rents and other transitory earnings due to imperfect competition or risk premiums cannot be shifted to labor. Earnings in these sectors are clearly sensitive to tax. Taxes on returns in these sectors alter output, prices, and wages, and thus fall heavily on labor, and not, as asserted, only on capital. We conclude that the method and the findings based on it should be discarded.

The Old Thought Experiments: Some History of the Debate

Early analysis to determine the distribution of the corporate income tax relied on theoretical models and thought experiments. These hypothetical models assumed certain quantities of capital, market conditions, and investor behavior. The most important assumption in these models is how open the U.S. economy is. Differing assumptions about the U.S. economy's openness suggested two general outcomes.

These models suggested that labor will bear the bulk of the corporate tax if:

- The economy is "small" and "open," allowing capital, savings, goods, and services to flow freely across national borders;
- Capital and associated production can easily move abroad;
- Savers are willing to own foreign stocks and bonds to help fund the expatriate capital;
- consumers are willing to buy goods and services from abroad instead of insisting on local output;
- Industries are competitive, lacking monopoly pricing power, and must take world prices for traded goods without the ability to raise prices and pass the tax on to consumers;
- The amount of capital that flows abroad is not large enough to depress rates of return to capital in the world. Even if capital is fixed in quantity (the world total is not depressed by lower returns to saving), these conditions are sufficient to force most of the tax onto labor in the form of lower wages. If saving is responsive to its rate of return, and falls due to the tax, and world capital formation declines, the burden on labor is even greater.

By contrast, capital will bear some of the corporate tax if:

- Domestic capital is fixed in quantity (no reduction in saving due to the tax);
- A sufficient amount is unable or unwilling to move abroad for any of several reasons—such as that savers will not purchase foreign securities, or consumers have a strong preference for domestic goods and services;
- The quantity of capital moving abroad is large enough relative to the world stock that it depresses return on foreign-sited capital;
- The businesses cannot raise prices to pass large amounts of the tax forward to consumers. In these conditions, some of the tax is borne by capital due to lower rates of return.

However, it is not immediately obvious which view is realistic, or the extent to which one or both frameworks apply. Empirical work has helped to better answer these questions. Some of the historical debate leading to these two views of the world is reflected in the papers reviewed below.

The leading modern expert in the tax incidence field is Professor Arnold Harberger. Sixty-five years ago, he noted that the corporate tax could force capital from the corporate sector to the no-corporate sector, reducing returns to noncorporate businesses, which would suffer some of the burden of the corporate tax.[2] He assumed a closed economy, where the capital remained in the country, but shifted sectors.

Harberger subsequently expanded his analysis to include the likelihood that a corporate income tax would drive some U.S. capital out of the country (an open economy model), and that enough capital would leave to boost after-tax returns on remaining U.S. capital to pretax levels.[3] Some firms would choose to shift production abroad for sale to the United States or foreign markets. U.S. workers would have less capital to work with, and labor productivity and wages would decline. The increased availability of capital abroad would increase the wages of foreign workers. Assuming the capital shift is too small to depress worldwide capital earnings, U.S. workers would bear all, or more than all, the burden of the corporate income tax. Why more than all? Because some sectors of the economy could gain from the corporate tax increase. For example, if wages fall, earnings of capital-owners (including land owners) in the no-corporate agricultural sector would increase. Workers would lose more than the net loss to the whole economy.

2 Arnold C. Harberger, "The Incidence of the Corporate Income Tax," *Journal of Political Economy* 70, no. 3 (June 1962), 215-240.

3 The evolution of Harberger's thinking about this issue is laid out in Arnold C. Harberger, "Corporation Tax Incidence: Reflections on What is Known, Unknown and Unknowable," a paper prepared for a conference "Is it Time For Fundamental Tax Reform: The Known, Unknown and Unknowable?" James A. Baker III Institute for Public Policy, Rice University, April 2006. Later published in: John W. Diamond and George R. Zodrow (eds.), *Fundamental Tax Reform: Issues, Choices, and Implications* (Cambridge, MA: MIT Press, 2008).

Harberger noted that if the capital flight were very large, it could depress returns on capital in the rest of the world, meaning that owners of capital abroad, including U.S. capital that had fled, would also lose income. To that extent, and only to that extent, would the tax fall on U.S. capital-owners. In that case, he estimates that labor's share of the tax burden might be reduced to 96 percent of the total, with about 4 percent falling on U.S. capital-owners (including landowners, and after allocation of price increases on consumers to labor and capital).

Harberger and many other thought experimenters do not allow for any reduction in total world saving due to the tax, due to skepticism that savers respond strongly to reductions in the rate of return. They assume that total world capital formation remains constant, and the only effect of the tax is on where the capital is located. More recent work on saving responses suggests that saving would shrink if after-tax returns fall, and total world capital formation could be negatively affected by the tax, at least to some degree.[4] Martin Feldstein has pointed out that the effect of the tax on saving would increase the amount of damage due to taxing capital.[5] A portion of the added damage would fall on labor, including workers' pension funds and retirement savings. If world saving were to shrink enough in response to the U.S. tax and capital flight, such that U.S. capital fleeing abroad replaced foreign capital without adding to the total, global returns on capital and saving would be maintained, and capital-owners would not be injured by the tax. They would earn the same income from the capital abroad as they would have at home before the tax increase.

William Randolph estimates that, in an open economy with mobile capital in fixed supply and immobile labor, domestic labor loses income equal to 74 percent of the corporate tax revenue while domestic capital income falls by 33 percent of the tax (with additional effects on foreign labor and capital).[6] He finds the labor effect would be less as the economy is assumed to be less open, or capital less mobile.

Jane Gravelle and Kent Smetters sought to challenge the open economy results.[7] They calculated a range of hypothetical outcomes, depending on whether the U.S. acts like a small open economy, with limited effect on world returns to capital and global interest rates, and with a high degree of willingness to substitute imports for domestic products and services. If so, Gravelle and Smetters find that labor bears 79 percent of the corporate tax, while capital-owners bear approximately 11 percent, close to the Harberger results.

4 Michael J. Boskin, "Taxation, Saving, and the Rate of Interest," *Journal of Political Economy* 86, no. 2, pt. 2 (April 1978).

5 Martin Feldstein, "Incidence of a Capital Income Tax in a Growing Economy with Variable Savings Rate," *The Review of Economic Studies* 41, no. 4 (October 1974): 505-513.

6 William C. Randolph, "International Burdens of the Corporate Income Tax," Working Paper Series, Congressional Budget Office, August 2006.

7 Jane G. Gravelle and Kent A. Smetters, "Does the Open Economy Assumption Really Mean That Labor Bears the Burden of a Capital Income Tax?" *The B.E. Journal of Economic Analysis & Policy* 6, issue 1 (December 2006).

However, Gravelle and Smetters raise two concerns. One is that the public may so prefer home-produced goods that it becomes difficult to shift capital and production abroad and then sell the output back to consumers in the home country. The capital that would otherwise migrate abroad would have to remain at home, and bear more of the burden of the tax, to retain the domestic market. Their second objection is that savers may so strongly prefer to hold domestic stocks and bonds that it would be difficult to tap domestic saving to finance capital investment abroad. Again, capital might have to stay home and bear more of the corporate tax. These cases lead to an alternative burden pattern of 25 percent of the corporate tax borne by labor, and 75 percent borne by owners of capital.

Harberger (2006), responding to these concerns, dismisses the reluctance to import, pointing to the increased reliance of global production chains in recent years. For example, since the North American Free Trade Agreement (NAFTA), the automobile industry's parts and assembly operations are well-integrated throughout North America. Most vehicles now contain parts and labor input from more than one country. Consumer electronics are another area in which technology, chips, parts, and assembly are multinational.

As for savers' willingness to fund capital abroad, Harberger points out that not every saver need be involved in foreign exchange or trading in global securities to equalize financial returns and borrowing costs around the world. It takes only a few large financial institutions with sufficient resources to transfer large amounts of saving around the globe. The access to global credit is clearly sufficient to make the United States a fully integrated part of the world capital pool.[8] American and foreign firms routinely tap global credit markets at interest rates determined by the creditworthiness of the company, not by national credit market conditions. Recall that, at the height of the credit crisis afflicting Greece, Italy, Spain, Portugal, and Ireland, healthy private sector borrowers obtained credit at lower interest rates than their national governments. Harberger concludes that the larger responses that Gravelle and Smetters calculate for the open economy case are closer to the truth, and not far below his own estimates.

The empirical work cited above suggests that the open economy view of the world, with free movement of capital, goods, and services, is more nearly correct. Wages do appear to be negatively affected by the taxation of capital. Workers do appear to be harmed by the corporate income tax.

8 William Gentry concurs, writing: "The evidence suggests that capital is quite mobile across countries. Covered interest parity tends to hold across countries suggesting little need for increased capital flows as a way of eliminating arbitrage opportunities. Corporate investment decisions appear quite sensitive to international differences in after-tax rates of return. Thus, the empirical evidence supports the open economy assumption for modeling the incidence of the corporate income tax." See William M. Gentry, "A Review of the Evidence on the Incidence of the Corporate Income Tax," OTA Paper 101, Office of Tax Analysis, Department of the Treasury, December 2007, 30. This paper reviews a wide range of the literature on the topic.

Recent Empirical Studies Using Real-World Data

While thought experiments create useful frameworks for thinking about the potential distribution of the corporate tax, they do not directly answer the question of how much of the tax is borne by labor and how much is borne by capital. Thus, in recent years, economists have begun to estimate the incidence of the corporate income tax with empirical studies.

Empirical research attempts to estimate the impact of tax changes by using real-world data. The challenge, however, is that no data exists that simply tells us that this much of the corporate tax falls on labor and that much falls on capital. Empirical researchers must ask related questions, such as: are there variations in wages across countries or regions with different corporate tax rates and related tax elements, such as depreciation rules? Is there evidence of "sticky" saving behavior that makes returns on capital vary across national borders, suggesting that it is hard to move capital abroad to avoid a tax? Are after-tax returns similar for countries with similar levels of capital per worker and similar risk factors such as adherence to the rule of law and political stability?

Empirical studies conducted over the last several years have shed new light on questions concerning capital mobility and the link between higher corporate taxes and reduced earnings of labor. A literature review on this topic by the Organisation for Economic Co-operation and Development (OECD) discusses these and other papers on the subject, and provides a handy table (below) for summarizing the results and the analytic methods used.[9]

Cross-country studies.

Some of these studies seek to relate observed differences in taxes on capital to differences in wages across countries. For example, Kevin Hassett and Aparna Mathur, in a study of cross-country data, report: "[O]ur results indicate that corporate taxes are significantly related to wage rates across countries. Our…estimates suggest that a 1 percent increase in corporate tax rates leads to a 0.5 percent decrease in wage rates."[10] Hassett and Mathur note that the results hold for statutory tax rates, effective marginal tax rates, and average tax rates. They also find that tax rates in other countries affect tax rates in the country in question; higher corporate taxes in a country's trading partners raise wage rates at home, as there is less advantage to moving capital to the other countries. Wage reductions of the magnitude described by Hassett and Mathur would cost the workforce more money than is raised by the corporate tax, because labor compensation is several times larger than total profits.

9 Anna Milanez, "Legal tax liability, legal remittance responsibility and tax incidence: Three dimensions of business taxation," OECD Taxation Working Papers, no. 32, Table 4, September 18, 2017, available at http://dx.doi.org/10.1787/e7ced3ea-en. The studies cited here are only a sample of the literature. Many factors influencing the distribution of the tax burden are still being researched. As always in economics, some researchers hold divergent views on the nature of the markets, the mobility of labor and capital, and the resulting estimates of the distribution of the tax. Most of the works cited below have numerous citations of articles worth reading.

10 Kevin A. Hassett and Aparna Mathur, "A spatial model of corporate tax incidence," *Applied Economics* 47, no. 13, (January 2, 2015): 1350-1365, http://dx.doi.org/10.1080/00036846.2014.995367.

Within-country studies.

The central group of studies in the table compares differences in wages in different states, provinces, or counties within countries to differences in those regional tax rates on corporations. Such studies have the advantage that, within a single country, there is generally more uniformity in nontax factors such as regulation, political stability, property rights, and rule of law than one sees across countries. The results suggest a range of possible effects of the burden on labor, from roughly a third of the tax to more than the total revenue raised.

Alison Felix reports on a cross-country study of open economies. She states: "The empirical results presented here suggest that the incidence of corporate taxation is more than fully borne by labor. I estimate that a one percentage point increase in the marginal corporate tax rate decreases annual wages by 0.7 percent. The magnitude of the results predicts that the decrease in wages is more than four times the amount of the corporate tax revenue collected.[11]

TABLE 1.

Empirical Evidence on the Economic Incidence of CIT on Labour

Research Design	Citation	Country	Period	Industry	Economic Incidence on Labour
Exploiting cross-country variation in tax rates	Hasset & Mathur (2010)	65 developed and developing countries	1981-2005	Manufacturing	2,200%
	Desai, Foley & Hines (2007)	50 countries (excluding the U.S.)	1989; 1994; 1999; 2004	Cross-industry	45-75%
	Felix (2007)	19 developed countries	1979-2002	Cross-industry	400%
Exploiting sub-national variation in tax rates	Ebrahimi & Vaillancourt (2016)	Canada (variation across provinces)	1998-2013	Cross-industry	75%
	Suárez Serrato & Zidar (2014)	U.S. (variation across counties)	1980-1990; 1990-2000; 2000-2010	Cross-industry	30-35%
	Liu & Altshuler (2013)	U.S.	1982; 1992; 1997	Cross-industry	40-80%
	Carroll (2009)	U.S. (variation across states)	1970-2007	Cross-industry	250%
	Felix (2009)	U.S. (variation across states)	1977-2005	Cross-industry	360%
Wage bargaining models	Arulampalam, Devereux & Maffini (2012)	9 European countries	1996-2003	Manufacturing	49%
	Felix & Hines (2009)	U.S. (variation across states)	2000	Cross-industry	54%
	Fuest, Peichl & Siegloch (2015)	Germany (variation across municipalities)	1993-2012	Cross-industry	40%

Source: Results from papers cited by the author. See footnote 9.

11 Alison Felix, "Passing the burden: corporate tax incidence in open economies," Regional Research Working Paper RRWP 07-01, Federal Reserve Bank of Kansas City, October 2007, 21. https://ideas.repec.org/p/fip/fedkrr/rwp07-01.html.

Wage bargaining models.

Other studies focus on the extent to which labor has sufficient bargaining power to capture some of the returns accruing to capital. This is most common when returns to capital are higher than normal due to some form of pricing power, and when unions are strong. Insofar as the tax lowers returns available to be shared with labor, labor bears some cost of the tax. The lower level of unionization in the United States would make this phenomenon less pronounced here. However, not all profit capture or profit sharing by labor is due to union activity. Significant profit sharing arises in many nonunionized industries, such as the technology sector, and is common in vibrant start-up businesses.

In a working paper at the University of Warwick, Wiji Arulampalam, Michael P. Devereux, and Giorgia Maffini assess the impact of the corporate tax on wages: "Our central estimate is that 61 percent of any additional tax is passed on in lower wages in the short run and around 100 percent in the long run."[12] In another paper, the same authors investigate the incidence of the corporate tax on "quasi-rents," which are unusually high returns on capital in protected situations.[13] Arulampalam, Devereux, and Maffini find that even in these circumstances, 49 percent of the tax falls on labor, because labor bargains away about half of the returns in question.

A study by Clemens Fuest, Andreas Peichl, and Sebastian Siegloch, using microeconomic data from 11,500 German municipalities (which impose different local taxes) found that a 1 percent increase in the effective marginal corporate tax rate leads to a 0.18 percent decrease in the wages of current workers, which results in a significant portion of the burden falling on low-income labor.[14] Firms in the sample that are not restricted by collective bargaining agreements display nearly twice this average elasticity. Because total wages in an economy are several times corporate profits, and many times corporate taxes, these elasticities are large enough to place most of the tax burden on labor income.

12 Wiji Arulampalam, Michael P. Devereux, and Giorgia Maffini, "The Incidence of Corporate Income Taxes on Wages," Mimeo, University of Warwick, September 2007. Cited in William M. Gentry, "A Review of the Evidence on the Incidence of the Corporate Income Tax."

13 Wiji Arulampalam, Michael P. Devereux, and Giorgia Maffini, "The direct incidence of corporate income tax on wages," *European Economic Review* 56, issue 6 (August 2012): 1038.

14 Clemens Fuest, Andreas Peichl, and Sebastian Siegloch, "Which Workers Bear the Burden of Corporate Taxation and Which Firms Can Pass It On? Micro Evidence from Germany," WP 12/16, Oxford University Centre for Business Taxation, July 2012.

How Can Labor Bear More Than 100 Percent of the Corporate Tax?

Some empirical studies, and much of the earlier thought experiment analysis, conclude that labor may bear more than 100 percent of the corporate tax. The Council of Economic Advisers (CEA) has just estimated the amount borne by labor at 250 percent of the tax. This many seem perplexing, but it is perfectly possible, even likely.

The burden of a tax on people's income is more than the revenue the government takes in. The burden of a tax includes any additional damage to the economy, in the form of reduced output and income, caused by the tax. The added damage is called the "dead-weight loss" of the tax. Therefore, the tax revenue is only a lower bound on the total cost to the population. For example, a study by Romer and Romer found that, on average, GDP falls by roughly $3 for every $1 of tax raised.[15] Labor routinely receives between 60 and 70 percent of the GDP, and would suffer a loss of roughly $2 in income per dollar of tax revenue. Romer and Romer did not distinguish the type of tax. The damage would be higher for taxes that impede capital formation, such as a corporate tax, than for taxes on consumption.

If a study is measuring the total loss of income from the tax, not just the revenue it collects, the portion of the income lost by labor can easily exceed the total revenue collection. This does not mean that only labor is harmed. There may be some income loss for capital-owners too (although that share may be low if capital is in highly elastic supply—that is, if it withdraws from the market unless it is paid its minimum demanded return). Labor's share of the total loss may not be 100 percent or more, but the amount of its loss may exceed the total revenue from the tax, showing a ratio of 200 percent, 300 percent, or more. How the percentages appear depends on whether the analyst is looking at the size of the loss relative to the tax revenue or the shares of the loss borne by labor versus capital.

A recent blog by Casey B. Mulligan, professor of economics at the University of Chicago, addresses these issues. He reviews the basics of tax revenues and dead-weight losses, with excellent graphics, neatly summarizing standard microeconomic textbook discussions of the concepts.[16] Mulligan confirms the CEA calculations, and rebuts critics of the CEA release who have ignored the additional economic losses from the tax.

15 Christina D. Romer and David H. Romer, "The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks," *American Economic Review* 100, no. 3 (June 2010): 763–801 http://www.aeaweb.org/articles.php?doi=10.1257/aer.100.3.763

16 See http://caseymulligan.blogspot.com/2017/10/furman-and-summers-revoke-summers.html.

Super-Normal Returns and the Incidence of the Corporate Income Tax

A recent approach to describing the incidence of the corporate income tax focuses on "super-normal returns." The super-normal returns approach is a new thought experiment that involves dividing profits into two categories: normal returns to capital in competitive markets, and super-normal returns in cases where the firm has pricing power and returns greatly exceed the normal.

The theory asserts that only the portion of the corporate tax that falls on normal returns may be shifted in part to labor by reducing output and wages. It assumes that activities generating super-normal returns are largely insensitive to tax; taxing that income is assumed not to discourage investment, productivity, wages, or employment, not to reduce production, and not to result in price increases. Therefore, the portion of the tax that falls on super-normal profits cannot be shifted to labor via lower wages or layoffs, or to consumers via higher prices. The extent of super-normal returns is assumed to place an upper bound on the normal returns on which the tax might be shifted in part to labor.

Both the U.S. Treasury Department and the Tax Policy Center of the Urban Institute and the Brookings Institution (TPC) have used variants of this approach to allocate the burden of the corporate tax. Their method classifies a significant amount of corporate profits as super-normal, and they therefore assert that the bulk of the tax falls on shareholders. Unfortunately, their methods, and their estimates of the extent of the super-normal returns, are faulty.

The "super-normal profits" theory and the TPC method of calculation is discussed in detail in a 2012 TPC paper: "How TPC Distributes the Corporate Income Tax." It states: "One key finding is that a substantial share of the returns to corporate capital is from "supernormal" returns to successful risk taking, infra-marginal returns, and economic rents in excess of the "normal" return (the riskless return to waiting)."[17] The TPC views 60 percent of profits as super-normal, and 40 percent as normal. The tax on the 60 percent is attributed entirely to capital. The tax on the 40 percent is split equally between labor and capital. The result is assignment of 80 percent of the corporate tax to capital, and 20 percent to labor.

These results are close to those of a 2012 report issued by the U.S. Treasury Department that also relies on a "super-normal returns" theory of tax allocation, and describes how Treasury defines and measures the returns.[18] The Treasury paper finds an even greater share of profits to be super-normal, and allocates 89 percent of the burden of the tax to capital, and only 11 percent to labor.

17 Jim Nunns, "How TPC Distributes the Corporate Income Tax," Tax Policy Center, September 13, 2012.

18 Julie Anne Cronin, Emily Y. Lin, Laura Power, and Michael Cooper, "Distributing the Corporate Income Tax: Revised U.S. Treasury Methodology," Department of the Treasury, Office of Tax Analysis Technical Paper 5, May 2012. In recent news interviews, Secretary Steven Mnuchin has stated that the Treasury technical paper is no longer the view of the Department. The paper has been withdrawn from the Treasury web site, but can be found on the *National Tax Journal* site at https://www.ntanet.org/NTJ/66/1/ntj-v66n01p239-62-distributing-corporate-income-tax.pdf.

These figures are substantially at odds with findings of the empirical studies and predictions of earlier thought experiments.[19] There are several reasons why the approach may overstate the amount of income tax borne by capital. Even if one trusts the concept, measurement errors appear to exaggerate the amount of super-normal returns. If corrected, the method would suggest a 50-50 split of the tax burden between labor and capital. (We describe details of the approach, and associated measurement issues, in the Appendix.)

More importantly, the basic concept is flawed. First, not all super-normal returns are generated by activities that are insensitive to tax; much more tax shifting is possible than the approach assumes, especially in areas involving risk-taking. Second, inframarginal returns have nothing to do with decisions to expand or contract activity at the margin, and do not indicate that taxes do not matter. As a result, the statistics calculated by the super-normal returns approach give no useful information about the relative tax burdens on capital and labor.

The Concept of Economic Rent and Super-Normal Returns.

Normal returns to an investment are bare bones returns that businesses must earn to compensate investors for the time value of money; that is, the minimum returns necessary to make it worthwhile to delay consumption. They predominate in competitive markets. Super-normal returns are any returns that exceed what are considered normal, and can be the result of either permanent or transitory pricing power. They include economic or monopoly rents, quasi-rents, and other returns resulting from successful risk-taking or other advantages over the competition.

Pure "economic rent" is a higher-than-normal payment for the services of a piece of land with an unusually valuable location. The term "rent" may also be extended to permanent higher-than-normal returns on property other than land, and may be associated with monopoly. Permanent non-land rents are sometimes referred to as quasi-rents, to distinguish them from the land-related returns.

More commonly, however, the term "quasi-rent" is reserved for any above-normal return that is temporary in nature. Quasi-rents arise in situations of imperfect competition, where barriers to entry, such as patents, regulatory hurdles, or other protections of incumbent producers by governments delay production of similar goods and services by other potential suppliers. Above-normal profits may also result from access to scarce or specialized resources, a reputation for quality, or successful risk-taking and innovation that lead to a particularly attractive new design, discovering a new oil field, or being the first to offer a new product, where it takes time for the competition to catch up.

19 Although this new approach calculates a statistic based on Treasury tax return data, it remains a thought experiment because it merely asserts, without evidence, that the statistic is related as advertised to the economic behaviors that affect how the corporate tax alters output and labor and capital income.

Firms in these non-monopoly sectors may display transitory pricing power, but it lasts only until the entry of other firms into the market, or even the emergence of potential entrants that the existing firms must try to block with a price reduction. In time, patents expire, other production methods or substitute products or resources are found, or firms take the risks required to find a new design or product that captures the consumer's eye. As the original quasi-rents disappear, new ones are created by innovation or exploration in other areas. Creating new quasi-rents requires new investment and risk-taking.

The key distinction between rents and quasi-rents is in their permanence, whether the conditions that create them are due to location or monopoly power, or due to some transitory factor that vanishes over time or must be constantly renewed. Thus, it is true that all pure economic rents are super-normal returns, but not all super-normal returns are pure economic rents. This distinction is crucial in determining whether the tax on such profits alters the behavior of a business, and whether the burden of the tax falls on capital or labor.

Pure Rent and Monopoly—Why Some Super-normal Returns Must Bear the Corporate Tax.

The basic observation in the Treasury and TPC papers—that some businesses are insensitive to the corporate tax and do not react in a manner that would shift the tax to labor—could hold for the case of pure economic rent or a natural monopoly. True economic rent is the return to a unique piece of property that is not easily replicated. An acre of land in Manhattan, New York, is going to earn a higher rent than an acre in Manhattan, Kansas, due to its location. The owner is assumed to charge the revenue-maximizing rent, all that the market will bear. The land cannot not flee a high tax rate, and it will remain employed. Its super-normal returns bear the burden of a tax.

Likewise, a natural monopoly, an industry that has large economies of scale and high barriers to entry, will best be served by only one firm, which can produce all that is demanded at the lowest cost. If unregulated, the monopoly will receive a higher-than-competitive return on its assets. Its returns to capital will bear the burden of a tax, because it will not pay for the monopoly to take the steps necessary to shift the tax to labor or consumers.

A monopoly can choose how much to produce, and its decision will affect the market price. The monopoly sets output to maximize net revenue. That amount of output depends entirely on how consumers react to price changes. At higher prices, consumers demand less of the product, but the firm gets more revenue per unit. The monopolist will reduce production and raise prices if the price rise adds more to revenue than is lost due to the decline in unit sales. When the rise in the market price no longer compensates for the cut in sales, due to consumer resistance, it will stop. There is only one level of output that maximizes the revenue.

This revenue-maximizing amount of a monopoly's production is fixed. No matter whether the government takes 10 percent, 35 percent, or 50 percent of the resulting revenue in tax, the after-tax amount left to the firm is always highest at that level of output. The firm will not change its level of investment, output, or prices even if the tax changes, so the tax will not affect labor or consumers.

These examples of monopoly power or pure economic rent due to unique location are the grain of truth in the approach to determining tax incidence by examining super-normal profits. These profits are associated with high returns, unchanging output, and inability to shift a corporate tax to labor or consumers. However, these returns constitute a small portion of the economy, and the tax on this income is a small portion of the total corporate tax. Monopoly rent does not significantly affect the degree of tax shifting economy-wide.[20]

Not All Super-Normal Returns Should Be Treated as Insensitive to Taxation.

The TPC paper lists two major sources (other than monopoly rents) of super-normal returns: quasi-rents on investments by successful innovators and risk-takers, who have developed a remarkably successful product ahead of the competition, and inframarginal production facilities, which have lower costs than the average for some reason. These sources should not be lumped together with the cases of true economic rent or natural monopoly power. High returns in these two areas do not mean that the firms are insensitive to tax or that imposing or increasing a tax on them is harmless to labor or consumers.

Lumping these types of earnings in with monopoly profits involves a logical fallacy akin to the syllogism: If it is raining, it must be cloudy. Therefore, if it is cloudy, it must be raining. The super-normal returns papers make a similar error: Monopolies, which are insensitive to tax, have super-normal returns. Therefore, all industries that have super-normal returns must act like monopolies and be insensitive to tax. The argument is false.

Risk-takers Are Sensitive to Tax.

In many cases, quasi-rents are the reward to businesses' incurring costs and taking risks. Risks involve losses as well as gains. Risk premiums in successful ventures are vital compensation for the money-losing efforts, and are clearly sensitive to taxation. The Treasury and TPC papers look only at money-making businesses. Ignoring losers by looking only at tax returns of profitable firms that won the risk lottery is defective analysis.

Treasury argues that taxes on high profits from successful risk-taking do not alter output and fall entirely on the capital. On the contrary, risky sectors of the economy are among the most sensitive to taxation, looking ahead to new activity. It is only looking backward that they appear to be immune. The argument may be true for a firm with a high return on an existing discovery, but not for firms researching future discoveries.

20 Note that the monopoly argument does not apply in the case of a regulated monopoly, such as a regulated utility. Regulated monopolies are sometimes said to be insensitive to the corporate tax, because they can request a rate hike from the state utilities commission, and pass the tax on to their customers. The rate of return on the company's assets is thereby maintained. But in that case, the tax is passed on to consumers as higher prices. There is room for the price increase because the regulated utility was not permitted to go directly to the revenue-maximizing monopoly price to begin with. Some customers will reduce consumption because of the higher price. They may install solar panels, or utilize heat recycling power generation technology in a factory, or just cut back on heating or cooling in their homes. Output and capacity will be less than in the no-tax case, and employment in the industry will be lower. Consumers will find their income from working or saving does not buy as much power. Labor bears a large portion of the tax as workers or as consumers.

Consider a pharmaceutical firm with a blockbuster drug. It has a patent that gives it a monopoly for a few years, or until a competitor finds a different cure for the same illness,[21] and it is presumably charging what the market will bear. Even if the government increased the corporate tax rate, the firm would continue to produce and sell the drug, because it is in a use-it-or-lose-it situation with a product already developed. Sunk costs are sunk; one cannot go back in time, recover the expenditures, and undiscover the drug. The cost of the discovery has been incurred, and it would be pointless not to produce the product for whatever positive after-tax profit can be had, even if the tax on the income is raised. The tax on the earnings of the existing drug cannot be shifted.[22]

What the papers fail to consider, however, is the effect of the tax on future activity and risk-taking. Super-normal returns do not last. They must be replenished by new discoveries requiring significant investment and risk. These efforts to create future super-normal returns may or may not pay off.

For example, for each successful new medicine, firms spend billions of dollars on hundreds of experimental drugs that never come to market. A successful blockbuster drug may yield super-normal returns to the lucky company. Many other efforts lose money, sometimes for years, with no payoff. Returns to the whole industry are far lower than returns to a successful drug.

In deciding how much to invest, the firms in the industry weigh the probable costs of the failures against the probability of success and the amount of after-tax return that a successful drug is expected to generate. Raising a tax on the firm's earnings not only diminishes the returns to an existing drug, it diminishes the expected payoff from future research. The risk-reward ratio will shift against such efforts, and diminish the amount investors are willing to commit. Less R&D will be undertaken, and fewer new drugs will be developed.

The same principles apply to any industry with risk-related super-normal returns. The two papers wrongly assume that the quantity of super-normal returns in the economy is invariant with respect to the corporate tax. This is an assumption that does not take account of the effort required to maintain the returns. A higher tax rate will reduce investment. Less output and profit will occur in the future. Current labor engaged in developing new products, and future labor and consumers producing and using the new products, will suffer the consequences if the activity is discouraged.

21 For example, Viagra was followed quickly by Cialis. In fact, the profitability of Viagra acted as a spur to research into substitutes that did not infringe on the Viagra patent. The same pattern can be seen in drugs for cholesterol control, cancer treatment, and hundreds of other medical conditions.

22 If the government has helped to create the monopoly, as with licensing arrangements that give sole rights to build cable services in a county, the imposition of the tax does not reduce the supply of the service or raise the cost to the consumer beyond the original quantity reduction and price increase due to the granting of the license. But the added tax collected by the government due to the abnormal profits derived from the restraint of competition due to the license would not have occurred without the government action in granting the license in the first place. That damage to the consumer is certainly the fault of the government.

Inframarginal Super-Normal Returns Do Not Mean a Tax Cannot Harm Labor.

Some firms can produce at a lower average cost than others. Perhaps one turnip farm's fields are more fertile, better-watered, or flatter and more rock-free than another's. At a given world price for turnips, the efficient turnip farm will earn more than the less efficient farm. If this advantage were to cover the efficient farm's entire crop, any cutback in turnip production due to higher taxes might be assumed to occur at the less efficient farm. Advocates of the super-normal return theory assert that the portion of the industry's returns earned by the more efficient firms can be viewed as "inframarginal," and therefore insensitive to higher taxes, and thus the tax on them must accrue mainly to capital.

This distinction is not relevant to the issue. The harm to labor comes from the reduction in output by the whole industry. It does not matter for the impact on labor which firms cut back the most and which the least. Workers laid off in one corner of an industry become intensified competition for workers in another. The depressing effect on wages occurs regardless where the reductions in hiring began.

Furthermore, it is wrong to assume that the calculation can be done on average cost. Nearly all firms face costs that rise with output. The first units of output are more profitable (more inframarginal) than the last. Each producer will push its output to the point where additional production just covers additional costs. Each entity will proceed with new investment opportunities until it does not pay to do more. In other words, all (non-monopoly) firms have normal returns at the margin. If the tax is raised, each firm will reduce output, not just the less efficient firms. If the tax is raised high enough, the less efficient firms may go out of business entirely, leaving the more efficient firms to carry on, but both types are normally affected by any tax increase, and so is their labor.

Nearly all significant economic decisions are made at the margin. At the margin, the inframarginal return is irrelevant. The assertion that taxes do not affect industries with low average costs is not correct. The inclusion of their profits in a "non-shiftable" monopoly tabulation is a mistake.

Conclusion

Recent empirical evidence seems to support earlier theoretical analysis that domestic U.S. labor bears the largest portion of the burden of the U.S. corporate income tax. The share of the burden falling on labor is routinely found to be between 50 percent and 100 percent, with 70 percent or higher the most likely outcome. As the tax reduces investment, productivity, and wages, the dollar amount of the cost to labor may exceed the revenue raised by the tax by a wide margin.

This evidence squares with the bulk of the theoretical discussions of earlier decades predicting that capital flight would shift the burden of the corporate income tax to labor. The increasing integration of the world economy in the production of traded goods and services and in the integration of financial markets reinforces the assumptions of these early analysts.

According to the empirical work, capital is a highly mobile and sensitive input; it can be located in the United States or overseas, or it might not be formed at all. Labor is less free to move from one country to another than is capital, and workers have limited freedom to set their own hours, or skip work entirely, if they want to earn income. Capital can and will flee high-tax jurisdictions, leaving labor behind to suffer the consequences. Capital can and will grow in jurisdictions that lower the tax burden, benefiting labor more than any other group.

An alternative Treasury and TPC approach to assigning the tax incidence is based on speculation that most capital income consists of super-normal returns due to pricing power and successful risk-taking, that the underlying economic activities are insensitive to tax, and that taxes on such activities cannot be shifted to labor. This suggests that a huge portion of the corporate tax falls on capital. Their method of calculating super-normal returns includes earnings of entire sectors of the economy and large amounts of economic activity that are clearly sensitive to tax, and ought to be excluded. This approach is invalid.

Even if one were to credit the concept behind the super-normal returns limitation on the amount of tax that could fall on labor, it appears that the result is very sensitive to which business costs are allowed as deductions. We tried to replicate their numbers using national income account data, and found a much lower level of "excess" returns. This suggests that even on their own terms, the result should have allowed for a 50-50 split between labor and capital. This would have brought the results more into line with the empirical work, although we still doubt that the resulting statistic measures anything truly related to the question.

Technical Appendix

How Treasury and TPC estimate super-normal returns.

Treasury and TPC determine the extent of normal and super-normal profits by comparing tax liabilities based on current law depreciation (gradual write-off of the cost of investment over time) against tax liabilities in an alternative regime of immediate expensing (immediate deduction of the full cost of investment in the year the investment is made).

In theory, firms expand until new investment is barely earning enough to cover its cost and generate a normal return reflecting the riskless time value of money. That is, firms keep investing until the current cost of investment and the future returns from investment are equal in present value. In that case, immediately deducting the full expense of investment would reduce the current tax owed by the same present value as the amount of tax that would be collected on the future revenue. In other words, expensing shelters the normal return to investment from tax.

It follows that, under a tax regime that includes expensing, any tax that remains, and only that amount, would be on super-normal profits, which would indicate the existence of some monopoly or other source of pricing power. As described above, there is no incentive to cut output in monopoly situations, and that portion of the tax would not be subject to tax shifting. To the extent that the current income tax imposes a higher tax than would be collected under expensing, the additional tax should theoretically fall on the normal profits, and could be shifted to labor.

For example, suppose a business's pretax revenue is $100, and using current depreciation rules, its federal income tax is $30. Suppose, using expensing, the tax would be $0. That would imply that 100 percent of the firm's income is a bare-bones normal return, and the current tax of $30 is on a normal profit. Taxes on normal profits may lead a firm to reduce output, which would shift a portion of the tax burden to labor. Alternatively, suppose, using expensing, the firm's tax would fall to $10. If there is still a tax owed under expensing, it must be on some super-normal element in the profits. In this case, one-third (10/30) of the income (or $33.33) must be super-normal profit, and two-thirds (20/30) of the income (or $66.67) must be normal profit. The $10 tax on the super-normal profit does not lead to reductions in output, and it falls only on capital.

Why the Estimation Method May Overstate Super-normal Returns.

The method used by Treasury and Tax Policy Center certainly measures the difference between tax systems with current-law depreciation and expensing, but it is not clear that is the appropriate measure of super-normal profits or how a firm reacts to taxation. Both papers have some serious logical and methodological flaws. The theoretical flaws are discussed above in the body of this paper. Some issues of measurement are reviewed here.

The Treasury and TPC methodology is based on corporate tax returns for firms with positive taxable income. Returns with losses are not included. Beginning with corporate tax returns keeps the focus entirely on the corporate sector. However, it requires reconstructing the gross (pretax) income of the businesses by adding back in deprecation, income and property taxes at the state and local level, interest deductions, and other elements of the tax calculation.[23] This grossing up procedure is difficult and prone to error. Once achieved, the tax is recalculated under the two depreciation systems.

Recalculating Super-normal Returns.

We have attempted to determine what might be called super-normal returns economy-wide under several methods to show the sensitivity of the results to the underlying assumptions. Given our lack of privileged access to corporate tax returns, and shortcomings in publicly available data on business taxes from the IRS, we use the Federal Reserve Flow of Funds tables as our chief data sources. These incorporate the U.S. Commerce Department's Bureau of Economic Analysis (BEA) National Income and Product Accounts (NIPA) data for GDP, investment, and tax accruals. However, the U.S. Bureau of Labor Statistics (BLS) provides a superior measure of labor compensation, including self-employment income and pass-through data often misclassified in IRS and BEA tax sources.

The combination of sources allows us to capture all investments and business revenues, regardless of a firm's profitability. The data covers the full economy, including businesses in loss situations and earnings of individuals not required to file tax forms. Treasury and TPC omit money-losing firms from the analysis. This can distort the calculation of normal versus super-normal earnings. Even money-losing firms utilize capital in the hope of future profits, which will be taxed. Start-up businesses employ a lot of capital on which they hope to earn money in the future. Older firms temporarily losing money due to a recession or other factors also employ capital, and expect to return to profitability. Both types of firms use loss carry-forwards, which will be impacted by future tax rates. Their current economic decisions are affected by expected taxes on future earnings, and affect current employment and labor income.

23 The OECD paper points out that other empirical research shows these other business taxes also appear to be shifted to labor, to much the same degree as the corporate income tax.

We must use the business sector, including noncorporate businesses, because capital returns data do not adequately separate C-corporations from S-corporations and other pass-through entities. Also, some noncorporate businesses may have super-normal returns. With this method, we find a much smaller share of super-normal returns in the economy than the Treasury and Tax Policy Center.

We begin by deriving gross returns to capital from the accounts by subtracting BLS labor compensation from national income. We then compare investment, representing expensing, to the capital returns to see how much of the returns are "sheltered" from tax and are to be considered "normal." This gives a "normal" return equal to 60 percent of profits, and a "super-normal" share of 40 percent. This compares to the TPC finding of 40 percent normal returns, 60 percent super-normal.

These numbers use gross capital income before taxes, including state and local taxes and interest expense. The Treasury and TPC calculations also appear to be based on gross returns. But gross returns are an inappropriate starting point. It is important to remove other taxes from the gross returns. These mandatory payments reduce net returns, and can throw firms into a money-losing situation. Taxes must be paid, and are not part of the net, after-tax returns to capital. One should also remove the returns to land, which is a non-depreciable asset, and for which there is no difference between expensing and depreciation.

Leaving other taxes in the calculation is equivalent to asserting that the affected businesses are indeed indifferent to taxes, and are acting like monopolies, and presupposes that one will find super-normal returns from the calculation. But that is what the calculation is supposed to be exploring. Assuming the result begets a statistic that ratifies the result. This is a form of circular reasoning. It proves nothing.

NIPA and the Federal Reserve consolidated income accounts show investment (other than in land) which would be immediately deductible under a corporate tax with expensing normally exceeds 55 percent of capital income net of state income taxes and local property taxes. This is the average ratio over the period 1968 through 2007, the last 30 years before the Great Recession distorted the picture.[24] Another 18 percent of the gross return constitutes a "normal" return to land.[25] Therefore, about 74 percent of capital income should be regarded as having "normal" returns, and about 26 percent might be regarded as "super-normal."

Even assuming the normal versus super-normal rationale holds as advertised, this data suggests that it should predict that 74 percent of a "pure" business income tax may be subject to some shifting from capital to labor. This is a far cry from the 40 percent normal return found using the TPC method.

24 Investment has been abnormally low since 2008. These recent years do not represent a normal economy. The depressed investment and resulting wage stagnation is what tax reform should be designed to correct. Papers which regard the current abnormal situation as the new normal do not contribute to the solution.

25 Our calculation for land uses the land value series based on BLS numbers, rather than the series in the Flow of Funds table. The Flow of Funds formula gives a peculiar negative price for land during the Great Recession, and is obviously flawed. We have smoothed the BLS time series to avoid the extremes.

Simply assigning 74 percent of the business taxes to labor and capital using their respective shares of GDP, one would estimate that about 50 percent of the tax falls on labor, and about 50 percent on capital, much more in line with what the empirical results suggest looking at real-world data. This method still overstates the lack of shifting of risk-related taxation described above, and might represent a lowest bound on the degree of shifting of the tax.

An Issue Relating to the Starting Point for Depreciation.

The normal versus super-normal return calculation described above can yield different results depending on what tax system is assumed to be in place. The NIPA-baed calcualtion above compared expensing to the depreciation rules in existing tax law. Existing law employs some acceleration of depreciation under MACRS (Modified Accelerated Depreciation System) and some outright expensing of equipment. Some "normal" returns are currently sheltered from additional tax, while some are not. A shift to expensing from this starting point reveals only the remaining "normal" return yet to be protected. A comparison of expensing versus a purer "Haig Simons" income tax base utilizing something closer to longer-lived "economic depreciation," as under the Asset Depreciation Range or Kennedy Guideline lives in the 1960's and 1970's, would give a bigger value for the "normal" returns still sensitive to tax. However, the entire concept is dependent on whether the Commerce Department and Treasury estimates of real economic depreciation are correct. Treasury has periodically studied asset lives, and repegged them (or asked Congress to repeg them) to match obsolescence and replacement behavior in the real economy. Over time, these reviews have repeatedly led to a shortening of asset lives. If current estimates of the pace of economic depreciation are too low, economic income is overstated, and MACRS is doing less to offset the taxation of normal profit than currently supposed.

The Treasury and TPC procedure is aimed at answering the question: "What share of the current law corporate income tax base is supernormal returns?" Current "accelerated" depreciation schedules (MACRS) allow faster deductions than would be used under a "pure" income tax. Because of the accelerated depreciation, the current tax base does exempt a portion of the normal return on investment from tax, which should reduce the presumed amount of the tax that may be shifted to labor. If the question is, "What share of corporate income is super-normal returns?" we get a different outcome. Measuring the differential between a "pure" corporate income tax and a tax employing expensing, such as a value-added tax (VAT), would show a bigger drop in tax, and, therefore, more normal profits and smaller super-normal profits, than starting with a MACRS-based income tax system. This suggests that a higher amount of a "pure" corporate tax may be shifted to labor than the current "impure" corporate tax.[26]

This discussion of the role of accelerated depreciation on the incidence of the corporate tax raises an interesting point. Expensing should result in a greater share of the corporate tax falling on capital, and less on labor, potentially making the corporate system more progressive. This runs counter to concerns that accelerated depreciation somehow favors the wealthy.

26 Current law also includes partial or "bonus" expensing, which would worsen the disparity and increase the understatement of normal profits. The papers claim to have corrected for this "bonus expensing" provision.

Mr. SCHWEIKERT. All right. Good because I have got a good stack for you.

How many of you saw the CBO report that came out yesterday basically saying in 8 years or so the United States has more deaths than births? This is more than just what we are going to extend in the expiring tax policies. The fact of the matter is the world we are dealing with today is different than those of us who worked on TCJA 2017.

A couple of other things I sort of want to walk through. We have the reports, and it has been supplemented a couple of times, from CBO, but it's all very, very recent, that shows we maximize GDP growth and wage growth if we offset most of these tax extensions because you don't bleed out the capital stack that is required so you actually have lendable, borrowable money for your businesses. But that makes the world difficult.

But a couple of other things I do want to walk through here on both CBO and tax foundation charts—and this will also be submitted for the record—basically showing that if we had done the expensing, you know, the series of research and development expensing, capital expensing, it actually has much less costs and actually equal to or greater than economic velocity than we did in the industrial policy, what was done with the IRA and the CHIPS Act because it has a better distribution. Those dollars actually ultimately go to where it maximizes investment velocity.

And I am sorry, but this is maybe the most important committee in the world. Can we get our basic economics and our math right? Because this is a big deal. You have a country, Mr. Chairman, that is now facing a movement around the world where government debt is up almost a full point since where we were in December. If we go to a five handle on U.S. sovereign debt for the next 10 years, that is almost $9 trillion additional borrowing to just pay for that.

How does this committee produce policy that says we are not going to raise taxes on working people? We need our small businesses to be hitting a new productivity curve because that is how we survive. But at the same time, how do we thread the needle and communicate to the world debt markets that we are serious, please don't keep raising our interest rates. Because at this moment where the interest rates are going just that increase of going to a 5 handle is double, is actually double the cost of extending all of these tax provisions. Understand if we don't get this right, the debt and bond market is going to run this country, not us.

With that, I yield back.

Mr. KUSTOFF. The gentleman yields.

Mr. Davis, you are recognized for 5 minutes.

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

Mr. DAVIS. You know, the 2021 Child Tax Credit expansion almost halved child poverty in just 1 year. It pains me that the Republican-forced expiration of the 2021 Child Tax Credit expansion doubled the child poverty rate in just 1 year.

Yet, here we are again, with Republicans advocating an average $70,000 tax cut for millionaires, while demanding that working families and seniors pay thousands more in tariffs, and lost Medicaid, Medicare, food, student aid, housing, and Social Security benefits.

The TCJ does nothing to help parents afford childcare. In 2021, the Democrats' Family Care Credit improvement took the benefit from $600 for one child to $4,000, and from about $1,200 with two or more children to $8,000. $8,000 is a lot better than $1,200.

The TCJA does nothing to improve the Earned Income Tax Credit, to stop taxing low-income workers into poverty.

In 2021, the Democrats nearly tripled the Earned Income Tax Credit and made critical expansions for younger workers, older workers, foster youth and homeless youth. The TCJA fails to help these workers.

The TCJA does nothing to increase housing insecurity. In fact, Mr. Duke mentioned that housing investment is lower today than before.

Mr. Duke, as an economic expert, 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 help parents without tax liability get up to $8,000 credit for their childcare, like we did in 2021, or if we restored the 2021 Earned Income Tax Credit expansion, or if we created a new renters' tax credit, how would these benefits help not only these families, but the economy as well?

Mr. DUKE. Absolutely. So we have got $4 trillion on the table, so that is like a lot to work with, right? And, you know, as I mentioned in my testimony, housing investment basically cratered after the law passed. And, you know, I suspect a lot of the reason why CBO found that growth went down after you extend the tax cuts is because housing investment gets hammered. It is a very interest-rate-sensitive factor.

So I think a key thing is paying for whatever we are going to do to keep the deficit in check, which is going to, you know, keep housing investment going.

On top of that, though, we do have room to make investments in families that directly benefit them. You mentioned a lot of them. I think the Child Tax Credit was just an enormous success in 2021, you know, increasing the size, making sure working-class families get, you know, the same tax credit that middle-class families do. And, again, you know, I think, you know, this committee oversees the largest affordable housing program that we have—the Low-Income Housing Tax Credit.

That is an example of, I think, a better priority than, you know, a lot of what is, you know, in that $4 trillion, especially that $2.5 trillion for households making over $400,000.

So I think the investments you are talking about—the Child Tax Credit, the Earned Income Tax Credit, you know, making more support available to low-income renters—make a lot of sense, while making sure that we have robust housing investment going by offsetting whatever extension happens by raising taxes on the wealthy and corporations.

Mr. DAVIS. Thank you very much. I thank you, and, Mr. Chairman, I yield back.

Mr. KUSTOFF [presiding]. The gentleman yields.

Mr. LaHood is recognized for 5 minutes.

Mr. LAHOOD. Well, thank you, Mr. Chairman. I want to thank all of our witnesses for your valuable testimony here today on this important subject that we are talking about.

There was some reference earlier about the election and maybe the insignificance regarding the results of the election, or somehow, this was not a mandate on what happened in the election.

And this is our first full hearing, really, since the election, and I guess I look at the election results a little differently.

If we were sitting here 6 months ago and I would tell you that Donald Trump would win all seven swing states, that he would win the popular vote, would win record amounts of African-American males, and a record amount of Latino males, I don't think anybody would have believed us. But that was the result of what happened.

And the other thing that never changed in the election, if you look over the last year was, 72 percent of the country thought we were headed in the wrong direction, based on the economy and immigration.

It never changed. We are headed in the wrong direction.

And you drill down on that, on the economics—and we have alluded to it here today—the insecurities and the anxiety that the American people had, lower, middle-class people felt it, devastating inflation, cost-of-living increases, lower wages, lack of economic optimism, and anxiety on living the American Dream. And that was reflected on the election results.

And so, when we think about those results, that is the reality, that is the mandate we have to fulfill those campaign promises that we made on fixing the economy.

What better way to do that than continue the Tax Cuts and Jobs Act from 2017, go back to the Tax Cuts and Jobs Act. And, again, we have talked about some of the results from that here today.

I would argue—my nine years I have been in Congress—it is the most important and most impactful vote that I have taken, in voting for the 2017 Tax Cuts and Jobs Act and what it did for the American economy. It created the best economy in my lifetime.

You look at what it did to the economy: higher wages, record employment, record number of investment in small- and medium-sized businesses. It created a booming economy.

But even going a little further, we moved 6.5 million people out of poverty. People don't talk about that enough. It was the largest migration of people leaving poverty, leaving welfare programs to go into our economy, under the Tax Cuts and Jobs Act.

That is the reality of what happened. So why wouldn't we want to continue that, particularly with the election results we just had?

I would also mention, on the international side, particularly what we did on GILTI and "B" in the international tax provisions, we repatriated $3.5 trillion back to the United States.

No one talks about inversions anymore. Pre-TCJA companies were inverting all around the globe, going to other places. No one inverts anymore because of the changes we made, bringing that $3.5 trillion back to this country. Those are the tangible real results that we had from TCJA.

Now, I will admit, COVID got in the way of that growth path. I think we all admit that. But what better way now to continue that growth and get back on track with those real results than making these tax cuts permanent. And that is why we are really here today.

So a couple of things. As we begin, I just want to mention two goals that we should be accomplishing: One, we need to ensure that the tax cuts are preserved. And if we let them expire at the end of this year, the average taxpayer in my district would see a 22 percent tax hike in 2026. And I know that percentage is similar to a lot of other districts.

This is simply unacceptable, and we need to work together to ensure that we are protecting the full gamut of taxpayers, whether they are individuals, working families, small businesses, family farms, and so on.

The second goal that I hope we can accomplish in addition, is extending the Trump tax cuts. And it is for us to consider the tax proposals that address some of the news challenges that we are seeing in the country today.

There are commonsense reforms already out there that address affordable housing, childcare, and taxation of Americans living overseas. And I hope we can look to better support working families and ensure our Tax Code is more pro-growth and even-handed.

Ms. Gallagher, I do have a question for you. My district that I represent in central and northwest Illinois, has a large number of family farms, family-owned small manufacturing companies.

I wonder if you could talk—you alluded to it in your statement you made—about what can be done for farms and small businesses, if we were to let the estate tax exemption be cut in half at the end of this year, due to the expiring tax cuts. Can you talk about what that would mean to businesses?

Ms. GALLAGHER. Yes, and thank you for that great question. It will impact at least twice, maybe three times as many of what I say, unexpecting families. I think most are oblivious to potentially this estate tax exemption being cut in half.

Many small businesses, yes, they do have advisers, and we do our best to advise our clients on these things, but the middle-class businesses are the ones who will be unexpecting of this and will not have, in my opinion, the time or money to hire the accountants and estate planners to develop the estate plan that can protect those assets.

I would also comment that farmers in particular are most at a disadvantage. Manufacturers and companies are as well, because they have very illiquid assets. Farmers, in particular, their values of their land continue to increase—it is very valuable—but you can't just pull cash out of it unless you sell some of it or—there is no cash there to pay that estate tax. So it can be devastating to a family when they don't have the cash to pay that estate tax, and they need to plan.

Mr. LAHOOD. Thank you.

Mr. KUSTOFF. Ms. Sánchez, you are recognized for 5 minutes.

Ms. SÁNCHEZ. Thank you, Mr. Chairman.

Before we begin, I want to just take a minute to discuss the fires that are still raging in Los Angeles. I did travel home this weekend, and while my district so far is safe, many of our friends and neighbors in Los Angeles, including those in Ms. Chu's district, are suffering, and they have lost everything in these horrific wildfires.

And I have to say it was apocalyptic and just heartbreaking to see firsthand the devastation.

We have also seen, sadly, a lot of disinformation and lies that are being spread and attempts to score cheap political points, and I just want to remind folks that these are real people who are hurting, families who have lost everything, and they deserve better from our Nation's leaders.

In the weeks and months ahead, I hope that we can focus on ways to help these families recover, just as we have done for victims of other natural disasters across this country.

But that is not what we are here to discuss today. We are here today because Republicans are attempting to renew Trump's signature tax scam that rewarded our Nation's wealthiest at the expense of working families.

Republicans say this hearing is about making the Trump tax cuts permanent for working families, but let's not forget what they really did. In 2017, they permanently cut taxes for large incorporations, which allows them to continue paying less in taxes than ever before, forever.

Republicans claim that those tax cuts would trickle down to everyone else, but slashing the corporate income tax rate only further lined the pockets of millionaires, executives, and shareholders.

Republicans love to claim that they are helping working families, but the fact of the matter is, under their policies, working families only get the crumbs.

We need to chart a new and fair path in tax policy. We should expand and make fully refundable the Child Tax Credit, like Democrats did in 2021, which cut child poverty in this country nearly in half.

We should expand the Earned Income Tax Credit to reach the millions of low-income workers who work full-time but don't make enough to make ends meet.

And we should increase the Child and Family Caregiver Tax Credits to help our families manage their exhausting and expensive balancing act of working and caring for their loved ones.

My Democratic colleagues and I recognize that investments that directly benefit American families yield much stronger returns than continually cutting taxes for the wealthiest in this country.

Mr. Duke, can you explain what happens when our neediest families experience a drop in income from the death of a parent or a natural disaster, such as we have seen in Los Angeles, to their eligibility for a Child Tax Credit that is not fully refundable.

Mr. DUKE. Yeah. So I think a good, you know, a good tax credit that really supports families reduces income volatility. But we can see with the earnings requirement, the Child Tax Credit kind of increases that earnings volatility for those low-wage workers, because if they lose their job, if they have to take time off to, you know, care for, you know, a new child, if, you know, a loved one dies, they have to leave the workforce.

And not only do they lose those wages, but they also lose the Child Tax Credit. That is getting hit twice from that. So I think, you know, that is why full refundability is so powerful.

And we know, look, this is America, you know, most Americans are connected to the labor market, right? And, you know, the ones who aren't, you know, they are retired because they are a grandparent, they have a disability, or, you know, they are not in the labor market that year, but they were in the labor market the year before and they are going to get a job after.

It is really hard to get by in America without a job, so that is why full refundability makes the most sense.

Ms. SÁNCHEZ. Now, Ms. Marple said that, you know, they rely on that Child Tax Credit to get by, and that it should be for hardworking families like hers.

Isn't it true that under the Republican policy you can still receive part of that credit if you make over $400,000 a year for joint filers?

Mr. DUKE. Yes, that is right.

Ms. SÁNCHEZ. And isn't it true that there is an earned-income requirement under this Republican plan so that the poorest who don't even earn enough don't even get the full credit?

Mr. DUKE. Yes, that is right.

Ms. SÁNCHEZ. Does that sound like we are helping—that this tax policy that they are trying to push is going to help the neediest, hardest-working families in this country?

Mr. DUKE. No, it does not.

Ms. SÁNCHEZ. Thank you.

Mr. Duke, as you know, nearly 80 percent of the tax cuts for individuals in the TCJA went towards White households who represent about 67 percent of American taxpayers. And the wealth of billionaires has nearly doubled since the enactment of the TCJA.

Can you tell us how extending the TCJA is going to actually widen that racial inequality?

Mr. DUKE. Yeah, absolutely. So America is a country where wealth is distributed very unequally, and there is a racial pattern to it. The 10 percent wealthiest White households hold two-thirds of the entire country's wealth.

And so when we cut taxes in the way that TCJA did, that, you know, drives that disparity, and even more, again, we are going to have to pay for it somehow. We are going to do it through taxes on imported goods, we are going to do it through cuts to programs like healthcare now or in the future.

So, again, you know, I think low- and middle-income families are going to pay that price, and that is going to drive those disparities.

Ms. SÁNCHEZ. Thank you very much. I appreciate all of our witnesses' testimony today, and I yield back.

Mr. KUSTOFF. Mr. Arrington, you are recognized for 5 minutes.

Mr. ARRINGTON. Thank you, Mr. Chairman.

I can't imagine in any world that anyone from any political party would call what happened and transpired as a result of pro-growth policies a tax scam.

You would have to have the fundamental belief that it is a scam because that is not the American people's money that we are playing with here in Washington, that that is actually rightfully the government's money, I think.

Because there is no way to describe the lowest poverty rates in recorded history as a scam. There is no way to describe the results of the Trump tax cuts and the broader Trump economic agenda—deregulation, America-first trade—and the results of the highest capital investment ever, highest R&D investment, ever; lowest unemployment rates for minorities and women, ever; no repatriation of our jobs and businesses overseas, but repatriated capital, repatriated businesses, repatriated jobs from overseas back to the great U.S. of A.

Now, if that is a scam, as they say, I got some ocean-front property in west Texas to sell you.

Everyone benefited. And those on the lower-income spectrum benefited the most. Actually, the top 1 percent paid more. So it got more progressive in that sense.

But all boats rose on the tide of prosperity as a result of good, low, competitive tax rates for our country and for our families.

I guess my colleagues want to go back to when we had higher tax rates than communist China. What is pro-American about that? How are we going to unleash economic growth, job creation, and prosperity with that kind of tax rate?

And we reduced it to 21 percent. We are not even in the top quarter of the most competitive tax rates. So I guess my colleagues want to go back to being the highest business tax rate in the free world. It makes no sense.

The American people had the clearest contrast between my colleagues' policies and the associated effects on our families and our economy, relative to the Republicans' policies and associated effects on families and the economy.

We have never had a clearer contrast between the two because we had total control when we passed TCJA. They have had total control for the last—not the last four years, but the two previous years. And what is—there is no comparison.

Think about the last four years. We have had the worst, most regressive tax in 40 years, called inflation, on working families. We had $8 trillion in deficit spending. We had higher taxes, a barrage of regulations on our small businesses, our job-creation engine.

We stomped the production of domestic energy, the lifeblood of our economy, repeatedly with a whole-of-government assault.

Why wouldn't we have experienced the inflationary firestorm and the cost-of-living crisis that is decimating families today—why wouldn't we—with those failed economic policies and the reckless spending combined.

We were paying people not to work. We were expanding welfare without even the reasonable commonsense expectation that if you are able to work, and you receive social services on behalf of the American people, that you ought to be looking for a job or working at least 20 hours a week.

The American people were clear about what was on the ballot here, and they didn't want any more of the last 4 years. We could not have suffered anymore.

We need to lock in low tax rates for our families and relief. For heaven's sakes, what did they lose in their income over the last 5 years?

And now what would happen—let me ask a question in 15 seconds, Ms. Gallagher—what would happen to a working family if you put a $5,000 tax hike on them right now, on the heels of the last four years of having inflation burn a hole in their budget, in their pocketbook, what would that do to them? You have interacted personally with them.

Ms. GALLAGHER. Yes.

Mr. ARRINGTON. You can tell this story. I want to hear it—and, you know, I am out of time. So can she answer that question, Mr. Chairman?

Mr. KUSTOFF. Quickly.

Mr. ARRINGTON. Please.

Ms. GALLAGHER. I will be brief. They will tighten their belts, meaning they will have less money to put back into their households and into their communities, which will then stifle more economic growth. So it becomes problematic.

Mr. ARRINGTON. Especially when the credit card debt is the highest it has ever been, especially when consumer debt is the highest it has ever been, especially when we just added $3 trillion in consumer debt, especially when their APR went up by 50 percent.

They are out of money. They don't have any more credit cards. I yield back, Mr. Chairman.

Mr. KUSTOFF. Ms. Sewell, you are recognized for 5 minutes.

Ms. SEWELL. Thank you, Mr. Chairman.

As we review the Tax Cuts and Jobs Act and its effects, I think we should be guided by a simple principle. The American people deserve a Congress that puts the American people's interests first, all of the American people's interests first, not just some.

I can't think of a better place for this committee to do this than through an expanded and fully refundable Child Tax Credit.

We have had economists, academics, parents, guardians, and, yes, even today, Ms. Gallagher, as well as Ms. Marple, talked about the advantages of the Child Tax Credit.

The Child Tax Credit has helped millions of children across America, including over 11,000 children in my Alabama district.

It is not just expanding CTC that is important, it must also be fully refundable and timely received.

To make the Child Tax Credit fully refundable would allow many more families to take advantage of this crucial resource. We know that because in 2021, the Democrats and the American Rescue Plan gave more money per child and made it fully refundable, capturing millions of families who make very low wages who may not file taxes, or who make no wages at all.

I think that it matters how we structure the Child Tax Credit, and I think that the plan—the way that we did it under the American Rescue Plan was the best way. We gave more money to children, and we gave more opportunities for their families to have better resources.

Likewise, the CTC would have a more immediate impact if the Child Tax Credit is paid in advance, in monthly installments with the option of even depositing it directly into their checking accounts.

People do not pay for rent or utilities on an annual basis. They pay for it monthly. Then I am not sure why we would do the same for the CTC.

I think it is really important that we are accountable, not just to some of the American families, but to all American families.

I can't tell you how many times I was stopped in the grocery store by many of my constituents during the American Rescue Plan

2021 year, and was told by countless parents how that increase in money from the Child Tax Credit and being given it monthly was such a huge advantage to them.

They were able to get instruments for their children, and better food for their children, and I think that we, as an American people, if we are going to spend $4 trillion, get $4 trillion into debt, we can't do that on the backs of our working families and our children.

We should be trying to figure out ways that we can be fairly distributing those resources.

Now, another area that the Tax Cuts and Jobs Act has negatively impacted is in limiting the ability of municipality governments and public entities to improve their communities, especially those underserved communities.

Our Tax Code incentivized these investments in providing tax credits and tax incentives to investors to invest in these communities. As a former bond lawyer, I believe we need to use all of the tools in our tool kit to make sure that we are revitalizing communities.

TCJA repealed the advance refunding or the tax-exempt bonds that were advanced refund, so that many of these communities, these public entities and these governments, couldn't take advantage of lower interest rates. So the borrowing costs went up.

I think that there are many ways that we can actually effectively help more Americans and better use the $4 trillion that we are investing in expanding the TCJA.

I also think that it is critically important that we look at expanding the Earned Income Tax Credit.

Mr. Duke, you talked a little bit about that, and I would like for you to elaborate on ways that we can literally talk about a rising tide lifting all boats, but the fact of the matter is, we have an opportunity, if we are going to open the Tax Code up again, to actually benefit more Americans. Can you talk a little bit about that?

Mr. DUKE. Yeah. So low-wage workers without children are the only group that the Federal Tax Code taxes deeper into—taxes into poverty or taxes deeper into poverty. That is just a policy error that we need to fix.

So in 2021, with the American Rescue Plan, we tripled it for these low-wage workers, making, like, $14-, $15,000 a year. These people are not making much money. But it really, you know, just again, prevents the Federal Tax Code from taxing them into poverty and deeper into poverty.

These are workers, you know, they are working as cashiers, as construction workers, doing the hardest work in this country, and, you know, really I think we should have a Federal Tax Code that values that work instead of insults it.

Ms. SEWELL. Well, thank you.

And, Mr. Chairman, I just want to actually say that if we are going to actually look at our Tax Code again, I really would hope that the Republicans would work with us on structuring this Child Tax Credit, the Earned Income Tax Credit, the Low-Income Housing Tax Credit, as well as new market tax credits and advance refundings, so that we can truly, broadly affect all Americans.

Thank you, and I yield back the balance of my time.

Mr. KUSTOFF. Mr. Estes, you are recognized for 5 minutes.

Mr. ESTES. Thank you, Mr. Chairman, and thank you to all of our witnesses for being here this morning for our first hearing of the 119th Congress. We have so much important work to do for the American people, and I am glad we are starting with this critical issue of pro-growth tax reform.

Before I get too deep into my remarks, I wanted to briefly discuss an op-ed that I wrote for The Telegraph. I am deeply concerned that the OECD is working very hard to finalize Pillar Two guidance before the change of administrations next week.

My House Ways and Means colleagues and I have long warned that the Pillar Two agreement, which mandates a global minimum tax, implements a UTPR provision, and unfairly treats U.S. tax credits, is detrimental to our country's tax sovereignty, to American ingenuity, the Federal Treasury, and our national economy.

Our allies would be best served by partnering with the incoming administration, not the one halfway out the door.

Mr. Chairman, I ask unanimous consent to submit this op-ed for the record.

Mr. KUSTOFF. Without objection.

[The information follows:]

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Ron Estes
US allies shouldn't ignore our new direction on tax

Continuing with the OECD's minimum global tax rules would be a mistake

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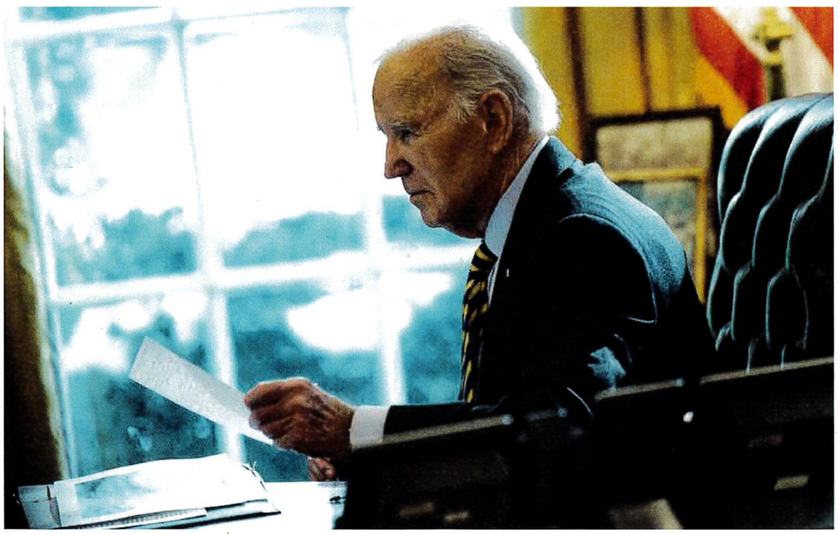

Credit: Elizabeth Frantz/REUTERS

Ron Estes
12 January 2025 7:00am GMT

Foreign allies, take note. In the United States, our constitutional republic ensures that Americans can change the direction of our country every two years. Every member of the House of Representatives is on the ballot in even-numbered years, along with a third of the Senate. And of course, we elect the president every four years.

So after November, when Republicans flipped the Senate and the White House and maintained control of the House, it should be apparent that Americans have rejected the direction the country has been going in under the Democrats. Yet the Biden administration is working overtime to cement its bad policies before noon on January 20, when President-elect Trump is sworn in. This includes a push for foreign countries to accept the terms of a poorly negotiated agreement by the Organisation for Economic Co-operation and Development (OECD).

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My House Ways and Means colleagues and I have long warned that the Pillar 2 agreement – which mandates a global minimum tax, implements the unfair undertaxed profits rule, and unfavourably treats US tax credits – is detrimental to our country's tax sovereignty, American ingenuity, the federal treasury and our national economy. In fact, even when Democrats had a majority in Congress, they would not pass the Biden administration's ill-conceived plan.

But the current administration is ignoring the constitutional mandate that all tax policy originates in the House, and they are ignoring the will of the American people.

President Biden, Treasury Secretary Yellen and their outgoing DC allies are trying to pressure several countries to move forward with the adoption of the OECD Pillar 2 rules in an effort to gain a critical mass of compliant countries. This will make it harder for American job creators in the new year, and it will also isolate these countries when the Trump administration takes over.

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If these countries move forward with Pillar 2, US companies will be forced to report the impact of the proposed guidance in their financial statements. This could distort the market and be misleading to investors, especially when the US adopts a different approach to the OECD under the new administration. Companies may be required to make significant write-offs now, only to reverse them a quarter or two later when the US affects change at the OECD.

And while trade has been a low priority for the current administration, trade and negotiations were a hallmark of the previous Trump administration. Make no mistake, President Trump will look at expanding trade opportunities with friendly foreign nations. There's no reason any country should adopt the egregious Pillar 2 rules negotiated by an administration rejected by voters.

The Trump administration and Congress will govern with a mandate for change, and it seems obvious that our allies should take note of the coming shifts in Washington. I, along with my Ways and Means colleagues, have been in contact with the representatives of several countries who are questioning the timing and the sense of shifting the goalposts this late in the game. In short, our message to them is clear: don't do it.

While the Biden administration may promise adoption by the US, they can't ignore the US Constitution, and House Republicans won't agree to rules that harm our innovators, job creators and workers. Tax and trade policy will take a new direction in 2025 thanks to voters across the country. Our allies would be best served by partnering with the incoming administration, not the one halfway out the door.

Ron Estes has represented Kansas' 4th Congressional District since 2017. He serves on the House Committee on Ways and Means and Budget committees

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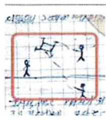

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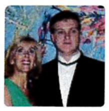

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Mr. ESTES. For the past 4 years, the Kansans I represent and Americans across the country have suffered under historic inflation, thanks to the damaging policies of the outgoing administration. Kansans need economic relief, and the Trump tax cuts are a sure-fire way to deliver it.

It is pretty simple. Without the Trump tax cuts, taxes on nearly every American will go up. The average taxpayer in Kansas will pay over $2,200 more in taxes if the Trump tax cuts are allowed to expire.

But by extending the 2017 tax cuts, we will avoid this tax hike and allow Americans to keep more of their hard-earned money. Making the Trump tax cuts permanent will do more than just provide sorely needed relief to individuals and families.

These tax cuts also help the businesses and innovators who create and sustain countless jobs in communities across our country, leading to job creation and economic growth.

We can't go backwards from the growth that we have gotten out of 2017 to lose all of these benefits.

Key to the success that the immediate R&D expensing provision. After the Trump tax cuts, R&D investment grew by 18 percent, amounting to over $2 trillion in new facilities and activities.

Extending immediate expensing of R&D would generate over $70 billion in new investment and support over 21 million jobs.

We also have the advantage of knowing how beneficial immediate R&D expensing is, as we have had three years to see the damage and hardship that happens without it.

Since immediate R&D expensing expired in 2022, we have seen investment in R&D drop from over 6.5 percent increase each year to less than 0.5 percent per year. That means we have less economic growth, fewer jobs for American workers, and less tax revenue.

In a recent jobs report, we have seen some job growth but not manufacturing jobs. We are competing globally for jobs and investment, and without immediate R&D expensing, we risk again losing good innovators, jobs, and dollars to other countries like China that are instead choosing to incentivize R&D investments.

We can't afford to fall behind on the international stage this way.

I also want to highlight that, as mentioned earlier, that in January the House of Representatives showed it is possible to find consensus on this commonsense pro-growth policy by passing the Tax Relief for American Families and Workers Act. Not only did this legislation pass, but it passed with huge bipartisan support, 357 to 40.

Given the American people's desire for change in our economic trajectory, I am hopeful that this committee and this Congress can once again come together to deliver meaningful tax reform that will boost the economy and allow Americans to keep more money in their pocket.

Ms. Silver, some people wrongly conceive of the business provisions in the Trump tax cuts as handouts or special treatments for business.

Can you share how business provisions, like immediate R&D expensing, allowed you to reinvest in your business to support your employees and customers?

Ms. SILVER. Sure. Thank you for the question, Congressman. You know, manufacturing is a total team sport. So this expired R&D tax provision has affected my customers, and it has affected my suppliers. So no matter what your size or structure of your business, we are affected by this, and I can give you an example.

I run my entire business on a software, on an ERP system, it is called, and the company that has built that software is in Texas, and they were dramatically affected. Their tax liability went up by a lot after this R&D tax provision expired, and so that is less—they have less ability to reinvest their profits to create new jobs, to innovate the product that I use every day to run my business. So there is a ripple effect definitely for me.

Mr. ESTES. Yeah.

Ms. SILVER. And that is just one example.

Mr. ESTES. That is right, and we are hearing it over and over because of the cash flow costs and not being able to write off that expenses on their taxes, that you are not getting the benefits, and therefore, your customers aren't getting the benefits.

So, thank you, and unfortunately I am out of time. I have got more questions, but I will yield back, Mr. Chairman.

Mr. KUSTOFF. Ms. DelBene, you are recognized for 5 minutes.

Ms. DELBENE. Thank you, Mr. Chairman. I want to thank all of our witnesses for being with us today.

I also appreciate that so many of our witnesses have highlighted the benefits of expanding the Child Tax Credit. When Democrats expanded the Child Tax Credit in 2021, child poverty was cut nearly in half, with the credit reaching over 65 million kids.

The Republicans' version of the Child Tax Credit leaves out 1 in 3 children, especially the ones who need it the most. And when Republicans let the expanded Child Tax Credit expire, child poverty more than doubled.

This data—and there is lots of data—underscores the importance of expanding the Child Tax Credit beyond what was done in the TCJA.

Republicans are focusing on all the so-called good things from the TCJA, when in reality, we have spent the last 7 years trying to fix the many mistakes that they made.

For example, Republicans made changes to the R&D credit to help pay for their $3 trillion bill, making it more difficult and expensive for businesses to invest in R&D.

We have a chance to meaningfully help families and small businesses by reforming our Tax Code, but Republicans instead are moving full steam ahead with plans to spend trillions upon trillions on more Trump tax cuts for the wealthy and well connected, leaving working families to foot the bill.

Even worse, Republicans say they want to partially pay for these tax give-aways by cutting Medicaid and Medicare, which provide basic healthcare to low-income families, people with disabilities and seniors, gutting critical investments to combat climate change, and imposing across-the-board tariffs on imports which economists estimate would raise prices on the average American household by thousands of dollars per year.

This means higher costs at the grocery store, gas pump, and pharmacy counter.

And these negative impacts will get even worse when our trading partners retaliate by cutting off access to their markets, or blocking essential goods, like critical minerals, from coming into the United States.

Mr. Duke, can you discuss the regressive nature of tariffs and what the likely impacts are—or that impacts would be of Trump's first—our tariff-first trade proposals? Let me turn that one over to you.

Mr. DUKE. Yeah, absolutely. Tariffs are our most regressive form of tax. So, for example, Treasury assumes the bottom 90 percent of Americans only pay about 20 percent of the total individual income taxes that are paid. They pay about 30 percent of corporate taxes.

But the bottom 90 percent pay more than half of taxes on imported goods. These numbers actually understate the regressivity of tariffs because they don't actually account for the fact that low-income people spend their entire income in a given year just trying to, you know, make ends meet, while millionaires can save their entire income.

So our Income Tax Code does a good, if imperfect, job of creating progressivity by taxing high-income people at different rates than low-income people.

Tariffs can't do that.

Tariffs still have a role to play as a targeted trade tool, protecting strategic industries based on national security, industrial strategy, and resilience, but the more industries you apply that to, the less effectively we accomplish those aims.

And when we are using it as a revenue tool, 20 percent across the board, we are essentially talking about a national sales tax. It is the most regressive way to raise revenue.

Ms. DELBENE. Thank you for that. I also wanted to talk a little bit about the IRS. Republicans claim to be concerned about the Nation's deficit, yet they continue to advocate for and enact policies that increase it.

For example, Republicans continue to target the IRS and have rescinded $20 billion of the $80 billion from the Inflation Reduction Act to help make sure that folks are paying their taxes, especially the wealthiest are paying their taxes.

Mr. DUKE, can you speak to how cutting IRS funding impacts the deficit?

Mr. DUKE. Yeah, sure. So the bulk of that IRS funding was dedicated to hiring more staff for stepped-up enforcement of existing tax law, and, frankly, modernizing a 20th century, you know, technology that was at the IRS.

And the Biden administration focused those enforcement efforts on auditing the wealthy and corporations. The funding was extremely—is extremely effective, and it pays for itself multiple times.

CBO estimates that a $1 cut to IRS funding will raise the deficit by $2.50.

One last thing I will note, IRS funding is a critical force of our law enforcement apparatus. Tax enforcement is how we caught Al Capone. I don't understand why we would let terrorists and money launderers and fentanyl dealers off the hook by cutting IRS funding.

Ms. DELBENE. Thank you for that, and thanks again to our witnesses for being here.

Mr. Chairman, I yield back.

Mr. KUSTOFF. Mr. Smucker, you are recognized for 5 minutes.

Mr. SMUCKER. Thank you, Mr. Chairman. I am glad we are holding this hearing. I think as we engage on implementing tax policy over the next few months and year, it is very important to understand the impacts of the TCJA and the impact that had on the economy and on the American people.

And we are hearing again some tired arguments today about the TCJA that are just simply false. We have heard that the TCJA made the Tax Code more progressive. That is false.

We have heard that the TCJA benefited the rich at the expense of middle-income America. That is false.

And I have, Mr. Chairman, a chart from the IRS that I would like to submit into the record.

Mr. KUSTOFF. Without objection.

[The information follows:]

Measuring the Effects of Republicans’ Tax Cuts and Jobs Act on Income Taxes

President
Donald Trump
Gage Skidmore/Flickr.com

By Justin Haskins

In 2017, President Donald J. Trump and Congress, which was then controlled by members of the Republican Party, passed the Tax Cuts and Jobs Act (TCJA) into law. (Most of its provisions did not go into effect until 2018.)[1]

In a report published by the Tax Foundation less than a week before President Trump signed TCJA into law, the Tax Foundation noted, “The Tax Cuts and Jobs Act would reform the individual income tax code by lowering tax rates on wages, investment, and business income; broadening the tax base; and simplifying the tax code. The plan would lower the corporate income tax rate to 21 percent and move the United States from a worldwide to a territorial system of taxation.”[2]

During the legislative debates that occurred prior to the bill’s passage, opponents of the legislation—especially congressional Democrats—argued TCJA would disproportionately benefit wealthy households and businesses, at the expense of lower- and middle-income American families.

For example, Rep. Nancy Pelosi (D-CA), who now

BULLET POINTS

- According to data from the U.S. Internal Revenue Service comparing outcomes from 2017 to 2018, the Tax Cuts and Jobs Act reduced average effective income tax rates for filers in every one of the IRS’s income brackets, with the largest benefits going to lower- and middle-income households.
- IRS data show the TCJA appeared to have a strong upward effect on economic mobility.
- The IRS data reveal higher-income earners paid an even larger share of the total tax burden in 2018 than they did in 2017, suggesting the tax code became slightly more progressive.

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1 Thomas Kaplan and Alan Rappeport, “Republican Tax Bill Passes Senate in 51-48 Vote,” *The New York Times*, Dec. 19, 2017, https://www.nytimes.com/2017/12/19/us/politics/tax-bill-vote-congress.html

2 Tax Foundation, “Preliminary Details and Analysis of the Tax Cuts and Jobs Act,” taxfoundation.org, Dec. 18, 2017, https://taxfoundation.org/final-tax-cuts-and-jobs-act-details-analysis

serves as speaker of the House, said on November 6, 2017, "Despite Republicans' empty promises to cut taxes for middle class working families, it's clear that the GOP tax plan for the wealthiest is rich indeed."[3]

"House Republicans' tax bill would increase taxes for 12 percent of Americans next year, according to a new report from the nonpartisan Tax Policy Center," Pelosi added.

"The truth is already catching up with the GOP's snake oil pitch," Pelosi concluded. "Instead of pushing a deficit-exploding handout to corporations and the wealthy that increases taxes on millions of hard-working families, Republicans must join Democrats to work on bipartisan tax reform that puts the middle class first."

More than four years after Pelosi's dire statements, analysts now have the evidence needed to evaluate whether TCJA truly was, as Pelosi suggested, nothing more than a "snake oil pitch." The results are definitive and striking.

Based on tax data from 2017 and 2018, the Tax Cuts and Jobs Act reduced taxes for the vast majority of filers, led to substantial improvements in upward economic mobility, and disproportionately benefited working- and middle-class households, many of which experienced tax cuts topping 18 percent to 20 percent.

According to data from the U.S. Internal Revenue Service (IRS) comparing outcomes from 2017 to 2018—the first year the tax reform law went into effect—the Tax Cuts and Jobs Act reduced average effective income tax rates for filers in every one of the IRS's income brackets, with the largest benefits going to lower- and middle-income households. (See Table 1.)

For example, after accounting for all tax deductions and credits, filers with an adjusted gross income (AGI) of $40,000 to $50,000 received an average tax cut of 18.2 percent.[4]

The IRS data further show the Tax Cuts and Jobs Act appeared to have a strong upward effect on economic mobility. The number of filers with an adjusted gross income of $1 to $25,000 decreased by more than 2 million in just one year, while the number of households reporting incomes higher than $25,000 increased in every income bracket.[5]

The most significant increase occurred in the $100,000 to $200,000 bracket, which included more than one million additional filers in 2018 than in 2017.[6]

The IRS data also reveal higher-income earners paid an even larger share of the total tax burden in 2018 than in 2017, indicating the Tax Cuts and Jobs Act may have made the tax code slightly more progressive. This finding contradicts the countless statements made by Democrats over the past four years criticizing TCJA as legislation that favored wealthier filers.

In 2017, filers earning $500,000 or more paid 38.9 percent of all personal income tax revenues. In 2018, the same income bracket paid 41.5 percent of total income tax revenues.[7]

The available evidence is clear: Based on tax data from 2017 and 2018, the Tax Cuts and Jobs Act reduced taxes for the vast majority of filers, led to substantial improvements in upward economic mobility, and disproportionately benefited working- and middle-class households, many of which experienced tax cuts topping 18 percent to 20 percent.

It appears Nancy Pelosi's claim of "snake oil" peddling was completely unfounded.

[3] Nancy Pelosi, "'The Tax Cut and Jobs Act': GOP vs. Reality," speaker.gov, Nov. 6, 2017, https://www.speaker.gov/newsroom/11617-4

[4] See Table 1.

[5] See Table 1. Figure does not include filers in the "no adjusted gross income" category.

[6] See Table 1.

[7] *Ibid.*

Table 1. The Effects of the 2017 Tax Reform Law on Personal Income Tax Revenues

Size of adjusted gross income, all returns, total (2017-18)	Number of returns (2017)	Average income tax paid by each filer, in dollars (2017)	Number of returns (2018)	Average income tax paid by each filer, in dollars (2018)	Percent change in number of filers (2017 to 2018)	Percent change in average taxes paid by each filer (2017 to 2018)
Total Returns	152,903,231	10,498.68	153,774,296	10,006.55	0.57%	-4.69%
$1 - < $5,000	9,752,106	3.28	9,187,650	1.99	-5.79%	-39.37%
$5,000 - < $10,000	10,789,563	34.11	10,014,109	4.21	-7.19%	-87.65%
$10,000 - < $15,000	11,594,637	120.03	11,454,274	34.20	-1.21%	-71.51%
$15,000 - < $20,000	10,665,270	328.69	10,187,149	240.16	-4.48%	-26.93%
$20,000 - < $25,000	9,983,829	632.45	9,610,628	530.76	-3.74%	-16.08%
$25,000 - < $30,000	8,824,548	1,031.82	8,984,412	817.71	1.81%	-20.75%
$30,000 - < $40,000	15,209,009	1,720.47	15,510,580	1,403.72	1.98%	-18.41%
$40,000 - < $50,000	11,915,599	2,819.03	12,017,312	2,306.05	0.85%	-18.20%
$50,000 - < $75,000	20,958,446	5,041.06	21,460,676	4,177.60	2.40%	-17.13%
$75,000 - < $100,000	13,508,353	8,362.71	13,685,409	7,100.42	1.31%	-15.09%
$100,000 - < $200,000	19,951,450	17,091.12	21,146,537	15,157.88	5.99%	-11.31%
$200,000 - < $500,000	6,215,046	54,699.98	6,905,670	47,469.06	11.11%	-13.22%
$500,000 - < $1,000,000	1,010,203	171,230.39	1,108,430	156,270.47	9.72%	-8.74%
$1,000,000 - < $1,500,000	222,611	333,633.12	241,713	312,855.89	8.58%	-6.23%
$1,500,000 - < $2,000,000	90,527	487,902.36	98,583	463,730.37	8.90%	-4.95%
$2,000,000 - < $5,000,000	129,868	852,636.35	142,011	815,503.19	9.35%	-4.36%
$5,000,000 - < $10,000,000	31,628	1,937,354.50	34,788	1,869,881.74	9.99%	-3.48%
$10,000,000 or more	20,223	7,991,562.48	22,112	7,380,559.06	9.34%	-7.65%
No adjusted gross income	2,030,316	97.90	1,962,253	70.65	-3.35%	-27.84%

Data Source: U.S. Internal Revenue Service, "SOI Tax Stats - Individual Statistical Tables by Size of Adjusted Gross Income," irs.gov, last updated May 14, 2021, https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income

ABOUT THE AUTHOR

Justin Haskins is a widely published writer and political commentator and the editorial director and research fellow at The Heartland Institute, a national free-market think tank. Haskins is the editor-in-chief of StoppingSocialism.com, one of the world's largest and most influential publications devoted to challenging socialism, and Justin serves as the director of the Henry Dearborn Institute for Human Rights, a nonprofit association of scholars and professionals.

Haskins writes frequently for FoxNews.com and works as a contributor for *The Hill, Newsweek, Washington Examiner*, and *Townhall.* He has appeared on television and radio more than 200 times, on shows like *Tucker Carlson Tonight, Fox & Friends*, and the *Glenn Beck Program*.

Haskins is the author of the Amazon best-selling book *Socialism Is Evil: The Moral Case Against Marx's Radical Dream* (2018), and he served as the first contributor to Glenn Beck's *Arguing with Socialists* (2020), a *New York Times* best-selling book. Haskins is also the co-author, with Beck, of *The Great Reset: Joe Biden and the Rise of Twenty-First Century Fascism* (2022).

Haskins has been published more than 800 times in major digital and print publications, including *The Wall Street Journal, New York Post, Forbes, Newsweek*, and *National Review*, among many others. His writing has also been featured or discussed by *The Rush Limbaugh Show*, *Glenn Beck Radio Program*, *The New York Times, Drudge Report*, The Heritage Foundation, the White House, and Newsmax, which named Haskins one of "Top 30 Republicans Under 30" in 2017. In 2016, Haskins was named to MediaDC's "30 Under 30" list of young and influential leaders on the right.

Haskins is author or co-author of three Heartland *Policy Briefs*, all of which received significant media attention: "The American Health Care Plan" (2021), "Estimating the Income Tax Hikes Required to Pay for Bernie Sanders' Medicare-for-All Plan" (2019) and "Debunking the Scandinavian Socialism Myth: An Evaluation of Denmark, Norway, and Sweden" (2019).

Haskins has also co-authored several national surveys conducted by Rasmussen Reports, one of America's leading pollsters.

Haskins graduated from the University of Richmond (Richmond, VA) in 2010. In 2011, Justin earned his M.A. in government with specializations in international relations and American government from Regent University (Virginia Beach, VA), and he earned a second M.A., this time in journalism, from Regent in 2015. Haskins was inducted into the Philadelphia Society in 2018.

Mr. SMUCKER. And I would like to explore a little of this here today. This is essentially a chart, comparing—it is directly from the IRS 2017 tax returns filed, compared to 2018 tax returns filed, and there is some striking results here.

The Tax Cuts and Jobs Act—2018, of course, the first year the Tax Cuts and Jobs Act went into effect—reduced average effective income tax rates for filers in every one of the IRS' income tax brackets, everyone, with the largest benefits going to the lowest- and middle-income households.

So, for instance, in the $40- to $50,000 income range, there were about 12 million returns. The average tax paid by them was reduced by 18 percent.

In the $10- to $15,000 range, the average tax paid was reduced by 71 percent as opposed to the top 1 percent. They also saw a reduction but much, much less. They saw a reduction of less than five percent.

So the benefits most certainly accrued to the lowest-income earners, and everyone—or every class at least, maybe not everyone within that class, but every class saw a reduction in their taxes paid over their taxes in 2017.

We also saw, of course, the poverty level reach the lowest ever in the history of the country, so the poor were lifted out of poverty.

One of the interesting things of this chart as well is that we saw upward mobility as the result of the Tax Cuts and Jobs Act. So, for instance, the number of individuals in the $1 to $25,000 earnings bracket was decreased by more than two million filers per year. So that many people moved up in their earnings.

And the highest increase in earnings, over a million filers, was in the $100- to $200,000 range. They essentially moved up from the lower earnings and were earning more and paying less taxes.

So the American people didn't believe Democrats last session when they said this—you know, when they looked at how they felt after 4 years of the Biden administration, compared to 4 years of the Trump administration, they understood that the Tax Cuts and Jobs Act benefited them. They saw the impact on their pocketbooks. They understood that their real wages had gone up about $6,000 annually, compared to a reduction of real wages after inflation with the Biden administration. And they told us they understood that in the election.

So to the Democrats on the committee, they didn't believe you last time, and they are not going to believe you now.

So what I suggest is that we find ways to work together, because I do agree that—there are a number of things I heard from the Democrat side of the aisle here today that I agree with, and one is, I am concerned about the debt.

And we ought to make sure that when we are doing the extension of these tax cuts that we are implementing policies that grow the economy.

You can't change our fiscal trajectory that we are on, which isn't going to end well, without strong, economic-growth policies, and I think we could agree on a lot of that.

And then otherwise, we should have corresponding cuts in spending to offset the cost of any tax increases—or tax extensions that are not covered with additional revenue through economic growth.

But I think there is a lot of areas for us to work together. We should do that. We should do what is right for the American people.

But these tired arguments about what happened with the Tax Cuts and Jobs Act, as I said, they didn't believe you then, and they are not going to believe you today as well.

Thank you, Mr. Chairman.

Mr. KUSTOFF. Ms. Chu, you are recognized for 5 minutes.

Ms. CHU. The Republican tax bill provided a gigantic tax cut for corporations, from 35 to 21 percent, leading to billions of dollars of profits for them.

There were no conditions for this money.

This bill gave a top, tax-rate cut for millionaires and billionaires, from 39 percent to 37-1/2 percent, giving them millions and millions of dollars of profit.

There were no conditions for this money.

And yet, I have just returned from my district in Southern California, which has been completely devastated by the Eaton fire, leaving it an apocalypse. In Altadena and northern Pasadena, the fire has destroyed over 7,000 structures, left 20,000 people homeless, burned schools and businesses and community institutions to the ground. First responders have found 16 people who lost their lives and expect that number to rise. Thousands of people have lost their homes and a lifetime worth of belongings and memories.

And yet, scores of Republicans, led by President-elect Trump and Speaker Johnson, are already threatening to place conditions for disaster assistance to these victims.

I invite any Republican in Congress who is entertaining these demands to visit my district, see the devastation for yourself, and look the victims in the eye when you tell them they don't deserve help from their country because you disagree with certain policies passed by their State.

This is the United States of America. We help our citizens when they fall victim to a natural disaster, regardless of their political party or opinions, and we do it without strings attached, just like we did in December for victims of Hurricanes Milton and Helene.

I bring this up because I have not heard a single Republican suggest that the trillions of tax cuts for the wealthy they are proposing to make permanent, should be conditioned or come with strings attached.

One thing is for sure, we should not impose conditions for helping people at the absolute lowest time of their lives.

And now, I will turn to another subject. Mr. Duke, I have noticed that you had written some pieces about pass-through entities for the Center for American Progress, even before the Trump tax law passed.

As a long-time member of the Small Business Committee, I would like to ask you about the 199A deduction. I believe one of the major myths of the Republican tax bill is that it helps small businesses through this 199A pass-through.

Actually, there is no size restrictions for the size of the business taking this deduction, and in fact, the largest businesses can take advantage of the deduction.

So, Mr. Duke, are all pass-through deductions small businesses? And can you talk about the kinds of taxpayers who benefit from this deduction and whether it is an effective way to support the smallest businesses in this country?

Mr. DUKE. Yeah, so, no, not all of the businesses that receive the deduction are small businesses. It goes to big companies, generating millions of dollars in profits. They have pass-through status, and they can, you know, collect the benefit.

And according to JCT, more than half of the benefits of this deduction go to millionaires, people making over $1 million each year. Rich people are both more likely to have pass-through income, and the structure of the deduction makes it mechanically larger, the benefit, larger for high earners.

So, you know, again, you know, the deduction, you know, doesn't do anything for a business without profits like a startup, and as its value goes up, the higher a family's income is. So by design, it can go to wealthy real estate investors without any employees.

I think there is a lot we can do to help startup businesses, including expanding the size of the deduction for startup expenses, you know, to $30,000 or $50,000. And a key thing for small businesses and startups is they borrow money, so interest rates matter to them, which means that, you know, making sure that whatever we spend, we pay for, to keep those interest rates low.

Ms. CHU. And in fact, the pass-through deduction provides, for the wealthiest 10 percent of taxpayers, a 3,000 times larger benefit for taxpayers than those of the lowest 20th percentile of income.

Thank you. I yield back.

Chairman SMITH [presiding]. Thank you.

Mr. Hern.

Mr. HERN. Thank you, Mr. Chairman, for having this very important meeting.

Mr. Duke, I would like to ask you a question that the witnesses sitting next to you that take risks every single day, they employ people, they sign both sides of the paycheck, that many times don't get paid, are you in business? So you don't think that 199A is important at all to anybody?

Mr. DUKE. I am not. I think that how we pay for things matter. So if we can find a good offset for it, maybe that is something we can discuss, but how we pay for things matters. You know, I think you and I can agree that the deficit is not on a good trajectory.

Mr. HERN. Well, it has not been on a good trajectory for about 50 years, so we can talk about that for a long time.

Like my colleague to my left here, who is also a business person, we are concerned about it. We are concerned about frivolous money. I mean, there is a belief that we should just tax everybody 100 percent, and we get to decide where the money goes back.

I don't think you agree with that, and I think at the end of the day, we have to respect the idea that when people take risks and try to create jobs and put Americans to work, they are doing that for the independence, the liberties, the freedoms that those individual workers enjoy, and so they don't have to depend on the federal government.

Before coming here and still here, I have been 40 years in business, from starting as a single person in business to creating 1,200 jobs at my highest before I started selling my restaurants.

But in the manufacturing world, in the technology world, I have seen this as a small business entrepreneur for my entire life.

Grew up in poverty. If not for the opportunities in the United States of America, for the opportunity to take risks and create jobs and help people go to work and experience that same opportunity, I wouldn't be here today. That is what these folks are doing. That is what they are talking about.

And I would like you to share with us where only the rich are benefiting from the tax cuts, because everything that I read—both liberal, left of center, right of center, hard right—no one says that.

When you look at it right now, the top 1 percent pay 26 percent tax rate. The bottom 5 percent pay a 3.3 percent rate. So I hear it is not dollars for dollars, and that is how you guys try to make this thing sound so evil, but the reality is, there is being more paid at the top today than there was prior to 2017, before I got here. I wasn't here in 2017.

But as these folks have said and want to say to you but they can't ask you questions, certainty is important, and we are getting ready to see the largest tax increase in American history, starting in January of 2026, if we don't do something.

And we have got to figure out if it all needs to go through, or if the entire package or what may need to be fixed modified, adjusted, added to, so that we have the greatest country in the world for creating jobs.

Let's talk about the 21 percent corporate rate, and I am speaking directly to you because the information you are sharing to the committee, or what they are asking you the questions on to validate the things that they are saying.

The 21 percent rate in the United States of America, when you add the average State rate across the United States, is at 25 percent.

Our greatest adversary in the world economically—nobody else is even close—is China at 25 percent. Do you think it is smart business practice for the global economy, for us to be one of the highest-taxed nations in the world?

Mr. DUKE. I don't think it is a good idea to borrow money from China——

Mr. HERN. I asked you—I didn't ask you about that. China has a whole different way. I said, do you think it is smart business practice to be the highest-taxed nation in the world when it comes to global competitiveness?

Mr. DUKE. It matters how these things are paid for.

Mr. HERN. Do you think China worries about that?

Mr. DUKE. I mean, they lend money to us. They don't have that problem.

Mr. HERN. They lend it less today because they understand the importance of what we are doing.

Do you remember in 2017—again, I wasn't in Congress, but I was an observer from the outside, wasn't even running for Congress—when the 21 percent corporate rate was lowered, the other nations around the world lowered their rates so they could remain competitive with the United States of America, because they were afraid what was happening was going to impact them, and it did.

The 4,000 inversions before 2017, we have had zero since then. No one argues that. No one is talking about the impact of the tax rates. It did change the hearts and minds of America. It did.

And it created corporations here. They didn't leave anymore. They didn't go buy companies from somewhere else and relocate their headquarters.

The 199A, it puts a parity between small business pass-throughs and C corporations, of which, 95 percent of the businesses in America are pass-throughs. Are there some larger than others? Absolutely.

Are we going to be punitive to those people who have fought and grown their businesses from one person, as I did, to 1,200 employees? Are we evil because we created jobs?

Okay. So why aren't we sitting here saying, Yes, some—what is the percentage of people, of businesses in America, that you think, or you are so disgusted with, that are getting 199A pass-through deductions?

Mr. DUKE. I am not disgusted by anybody receiving 199A. I would love to cut taxes for businesses, but it is a question of how we pay for it. Are we doing it through taxes on imported goods? Are we cutting Medicaid? Those things matter, too.

Mr. HERN. Mr. Chairman, I ran out of time. I yield my time back.

Chairman SMITH. Thank you.

Mr. Boyle.

Mr. BOYLE. I would like to thank the chair and the ranking member as well as all of my colleagues. It is indeed a pleasure to resume my service on the Ways and Means Committee.

I would also like to thank all of the witnesses for being so generous with your time and taking now 3-plus hours out of your lives in order to testify.

You are proof of the wisdom of the old saying, "No good deed goes unpunished." So, I am sorry you have had to listen to us for the last 3 hours and probably still have some time to go.

I do want to return to the history of 8 years ago, because it is often said that history doesn't repeat itself, but it does rhyme. Eight years ago, the very top priority of then-President Trump and a unified Republican Congress was the so-called Tax Cuts and Jobs Act, which, according to the nonpartisan Congressional Budget Office, showed 83 percent of the benefit went to the richest 1 percent.

No wonder that in the entire history of Gallup polling, the only poll to register majority voter disapproval, as opposed to approval, was the TCJA.

And it wasn't just one poll. Poll after poll showed only about 40 percent of the American people supported the Trump tax cuts, while a majority, somewhere in the mid 50-percent range, opposed them.

The wisdom of the American people was proven to be right. That added $2 trillion to our national debt.

So now that it is 8 years later and they are set to expire, the question is, how much more debt would this policy add?

The CBO again released a report in May, and they have testified before the Budget Committee, another committee on which I serve as ranking member. They showed in their report the full extension of the TCJA would add $4.6 trillion to the national debt.

So, for the last 4 years, I keep hearing from a number of my friends on the other side of the aisle how concerned they are about deficit, how concerned they are about debt. I do tend to notice that whenever there is about to be a Republican in the White House, we tend to hear a lot less concern about deficit and debt, and the top priority is always tax cuts for the richest 1 percent of Americans.

Now, Mr. Duke, let me—with a great first name—let me turn to you, Brandon, and ask you, do tax cuts pay for themselves?

Mr. DUKE. No.

Mr. BOYLE. And the $4.6 trillion figure that the nonpartisan professionals at the CBO found, which is also similar to analysis done by The Wharton School and by other nonpartisan groups as well—does that sound, approximately, the right number?

Mr. DUKE. Yeah.

Mr. BOYLE. And you are familiar with some of the other reports and analysis that has been done by other groups? They are all approximately in that $4.5 trillion range, correct?

Mr. DUKE. Yeah, that is right.

Mr. BOYLE. So, it is fair to say that if we fully extend the TCJA, we will be adding at least $4 trillion more to the national debt?

Mr. DUKE. That is right.

Mr. BOYLE. Now let me turn to tariffs. "Tariff" is another word for tax, is it not?

Mr. DUKE. That is right.

Mr. BOYLE. So, if President Trump follows through on his promise to do wholesale tariffs on imported goods, that would be, in reality, like a national sales tax on anything that we get abroad, correct?

Mr. DUKE. That is right.

Mr. BOYLE. It is funny, it seems to me that one of the big drivers of this past election was dealing with the global increase in inflation, a problem that wreaked havoc all around the world—from the Baltics and Germany, through the U.K., to Canada, the U.S., Asia—started in 2021, once economies began to get back into full swing after the COVID pandemic and that we had to restart supply chains.

Would tariffs make goods less expensive for the American people?

Mr. DUKE. Absolutely not.

Mr. BOYLE. In fact, tariffs would make goods more expensive for the American people?

Mr. DUKE. That is right.

Mr. BOYLE. Thank you. With that, I yield back.

Chairman SMITH. Thank you.

Mrs. Miller is recognized.

Mrs. MILLER of West Virginia. Thank you, Mr. Chairman, and thank you all for being here today.

I don't think there is a more appropriate way to kick off the 119th Congress and the Republican leadership than to discuss the great success of the 2017 Trump tax cuts.

And I am so thrilled that we have a strong leader who understands business and the economy and the mandates, et cetera. So he is back in the White House, and I think that is a wonderful thing.

American voters have given Congress and our President a mandate to make permanent the great work that was accomplished in 2017, and it is up to the members of this committee specifically, to ensure that these policies are made permanent for our working-class families and small businesses to thrive.

I am a West Virginian, and we know small business, because 98.9 percent of our businesses in my home State are considered small businesses.

The 199A, small business deduction, created in the Tax Cuts, was transformational for the hardworking, small business owners in my district. The small business deduction allows pass-through entities to receive tax rates comparable to larger corporations, allowing those small businesses to stay competitive and to reinvest in their employees and their community.

Last year, we had Michael Ervin, who is the founder and CEO of the Coal River Coffee Company in Charleston, West Virginia, and he came and testified before this committee about how his business has been able to utilize the benefits from this deduction.

And I have stayed in touch with him since then and all the work that the Coal River Coffee Company has been able to do for his workers and the community in the district, thanks to the 199A.

Mrs. MILLER. The business has been able to provide raises, promotions, purchase new equipment, label-making, you know, train their new coffee roasters. And they were also recognized with the 2024 Small Communities BIG Solutions award for revitalizing communities across West Virginia. This type of growth helped small businesses level the playing field with the bigger corporations. And it is happening all over my state. Workers and businesses alike are much better off because of the 199A. And I look forward to extending this policy as part of our efforts this next year.

Not only does Congress have the opportunity to make permanent the 2017 tax cuts this year, but we also have the opportunity to provide additional relief for working class Americans that were harmed by President Biden's disastrous economic policies. One such policy was the 1099–K reporting threshold.

In the misnamed American Rescue Plan Act, the 1099–K reporting threshold was changed from the time tested standard of $20,000 and over 200 transactions to $600 over a single transaction. As a result, Americans using eBay or Etsy to sell or resell products or Venmo to collect rent are now considered small businesses and will be sent a 1099–K form this upcoming tax year.

Since this disastrous policy was signed into law, the Biden administration's IRS twice delayed implementation and last year illegally changed the thresholds without congressional authority all because they knew how catastrophic the policy would be for the average Americans and the gig workers.

My bill, the Saving Gig Economy Taxpayer Act to restore the 1099–K threshold to the pre-upper levels was cosponsored by all Republican members on this committee and favorably passed out of this committee last Congress. So I look forward, again, to introducing that legislation to fix this problem that the Biden administration created to provide relief for the working-class Americans.

Ms. Couch, you helped small businesses and individuals understand these onerous 1099–K reporting requirements. Can you speak to how difficult it has been for taxpayers to understand that the new thresholds amidst the uncertainty from the Biden administration?

Ms. COUCH. Thank you for your question. Yes, these thresholds are requirements that are very burdensome for small business owners who already have a lot of compliance requirements that they must do on a regular basis. There will be a good bit of confusion in our economy professional opinion that folks won't be able to understand the difference between personal and family payments through Venmo, for example, versus a payment to an actual small businessowner. And there is the potential for people to receive 1099s that should not be receiving them. So that is another concern as well.

We would really like to see these thresholds move in the opposite direction of where they are headed now. And we appreciate your work and bill that you have done to help small business owners on this matter.

Mrs. MILLER. Thank you. I yield back.

Chairman SMITH. Dr. Murphy.

Mr. MURPHY. Thank you, Mr. Chairman, and thank you for putting together this meeting. The greatest existential threat to the United States is our debt. I am not an economist by trade, but reading and researching, this is what is going on right now. Having sound tax policy that allows us to bring in revenue, grow our country, is critical. Is everything perfect with the TCJA? In my opinion, no. Are there a lot of good things? Yes. It grew our economy, it grew people out of poverty, it helped in every single demographic upon.

You know, I hear the phrase so often that they are, quote, "not paying their fair share."

Mr. Duke, what percent do the top 10 percent pay in taxes?

Mr. DUKE. Could you repeat the question?

Mr. MURPHY. Of the top 10 percent, what percent of taxes do they pay? Seventy-six percent just to give you the answer real quick.

Mr. DUKE. Okay.

Mr. MURPHY. The top 1 percent pay 45 percent. The lowest 50 percent of income owners, what percentage of taxes do they pay? 2.3 percent. You should know these numbers. I know you know these numbers.

You know, the Biden administration through the Pillar II—I am glad one of my partners or colleagues brought that up—is trying to give our taxpayer dollars away to other countries.

You know, when Ireland tried to grow their economy, guess what they did? They cut the corporate tax rate. And guess what happened? Companies went to Ireland because they paid a lower tax rate. And what companies and businesses do? They employ people. Imagine that. What a novel concept. What do some folks want? They just want more money for the government so the government can employ people.

It is good to have people who have run businesses. A lot of the folks on this side of the dais have. I did it in a medical practice. And we didn't get a chance to raise our prices. We had to make sure that we knew where money was coming from and how money was spent.

So, you know, I just get irritated, I have to be very frank and say that folks who talk about business policy have never run a business know what the hell they are talking about. These are folks who are sitting here who stay up at 2 o'clock in the morning on Saturday night trying to figure out how they are going to meet payroll.

You know, Ms. Silver, I am giving my most sincere condolences to you on the loss of your husband. I went out and toured a sweet potato farm that went through, you know, generations upon generations. And now we have the estate tax that has come due that would drop, that would plummet. How does that work with your family? What things would you have to face if that were to occur?

Ms. SILVER. In 2014, it could have definitely drastically affected us, the expiration of the estate taxes. You know, my husband was the sole shareholder and owner of Ketchie. So upon his passing, it went to me. I don't know if I would have continued on with his legacy if I would have had this large looming tax bill ahead of me. And I am in a very capital-intensive business which I kind of described earlier. So a lot of times we don't have the liquidity and the business to pay such a tax, like an estate tax upon someone's passing. And I really view it as double taxation. I have already paid taxes on my assets. I have already paid taxes on my business, on my income.

Mr. MURPHY. Yeah, so absolutely. And this is the hard part about America. I think there is just an absolute theological difference on how we run our economy. How do you give people a life that is worth living, esteem, a reason to get up in the morning? You get them a job. You give them something to create. You give them something to accomplish. And we should be creating policies that allow us to grow rather than create dependence.

If you look about reform, if we talk about any of the entitlement programs about reform, it is not about giving money back so people will stay at home. It is about giving them a productive life, going in, growing a job, maybe even having a business of their own someday, to employ people, make decisions, make payroll, and God forbid they actually have some extra money left over that they would actually reinvest in their business to grow their people. And guess what? You would employ more people and educate more people.

We get into this maelstrom of co-dependency upon the government check rather than one that you do through your own efforts and energy. This is what our tax policy should be burdened for. I am happy to work with Democrats. TCJA is not perfect. I am just going to say that. I wasn't here at the time. It is not perfect. But it gives us a policy that allows American business and innovation to grow, employ people, give them a meaningful life. And at the same time I am going to go back to my original statement, help us cut our deficit. Thank you, Mr. Chairman, I yield back.

Chairman SMITH. Thank you. Mr. Beyer.

Mr. BEYER. Mr. Chairman, thank you. I thank all of you for hanging in there with us. I firstly want to build on things my good friend Dr. Murphy just mentioned.

Yeah, I am too a businessowner on this side, 46 years running the family business. So, I very much appreciated the bonus depreciation, the interest deductibility. I think 199A was essential when we cut the corporate tax rate to 21 percent. Otherwise, every sub S or LLC or partnership would be fleeing to become a C-corp. And I think we have seen significant small business growth because of that.

However, this notion that the corporations were overtaxed, yeah, we dropped the rate to 21 percent, which is the lowest has been in a hundred years.

When I started my family business, it was 78 percent, and we were still profitable. Now, it is 21 percent. But the effective rate according to Peterson Institute Foundation, which is a very Republican thing, said effective rate was 9 percent in 2018. The last year for which they have statistics. Nine percent.

And if you look at corporate taxation, the shared GDP, it is 1.6 percent. That is I think the lowest in the OECD. Things like Canada, 5 percent. So, our corporations are contributing relatively little to the tax dollars overall.

But the fundamental point I want to make is back Dr. Murphy's notion of fair share. I would argue that we don't look at what percent of the tax revenues come from the 1,000 billionaires—it is going to be a lot, they are billionaires—but rather how much they have versus how much the rest of us have. Our income and equality, our wealth and equality is the worse it has been in at least a hundred years 1913, 1915.

We saw this in the last election when so many people couldn't figure out how to make ends meet, and that they fled to a different President, hoping that he could somehow solve that problem. The problem isn't that we—and by the way, it is not about entitlements. I totally agree with my Republican friends. It is about work that pays. We have so many Americans working full-time one job, two jobs, three jobs that can't pay the rent. They can't make their car payment. They can't pay for childcare.

I had the honor of serving on Switzerland for 4 years. When I left in 2013, the minimum wage in Switzerland was $48,000 a year. Way, way higher than it is here. And that was a long time ago. As a consequence, there is virtually no poverty. There is also virtually no entitlement payments. There is none of these takers and makers developed.

So what we have now is a significantly undertaxed, very wealthy class, the 10 percent and up. And not a lower class that is overtaxed, but rather a lower class that is not given the job opportunities that they need to make things work.

And if we as a combined, Democrats and Republicans together, can address the fact that people with $20 million, $50 million, a billion dollars, they don't live a better life incrementally than someone that has 21 million versus $20 million. This whole notion that it is all about money rather than about family and the community and making America strong again. And we screwed up our tax policies so bad because those taxes not to be used for transfer payments, but for making our economy stronger and our companies stronger.

Let me ask this simple question. Brendan, one of the things that my Republican reps are talking about is getting rid of the EV tax credits that came in the Inflation Reduction Act. That suggests we will put 133,000 high-quality manufacturing jobs at risk. It will hand this critical future industry dominance over to China.

What would Ford and GM and all those international nameplate manufacturers making cars in the United States think about this policy?

Mr. DUKE. Yeah, so EVs are clearly the industry of the future. I mean, you know this better than me as a former car dealer. And so what we didn't see is we didn't see this taking off when we imposed tariffs under Trump. Just tariffs alone isn't going to do it. You need that investment to couple with it, right? You need to make that big push in the industry of the future.

And, again, I am very worried that this industry of the future is going to be dominated by a GS strategic rival.

The way we won World War II was we had all these civilian industries that could be dual purpose for, you know, for military stuff, right? That is how we won World War II. Letting China build, you know, these industries so the future is not the way we are going to do it.

So, again, Ford and GM are going to cut back on those investments in the industries of the future that they are going to make if we pull back on these investments.

Mr. BEYER. Thank you very much. I just want to add with the thought, I think about this room filled 90 percent with people filled with economic anxiety about their lives, and the other 10 percent with more money than they know what to do with. I think there is something fundamentally wrong with the fairness of an economy and a society like this democracy. And we should address it. With that, I yield back.

Chairman SMITH. Thank you. Mr. Kustoff.

Mr. KUSTOFF. Thank you, Mr. Chairman. And thank you to the witnesses for appearing today.

Mr. Chairman, when you opened this committee hearing today, you talked about the 2017 Tax Cuts and Jobs Act and its passage and how it was really a kind of rocket fuel for our economy that we still benefit from today. And I think we all take that to heart.

And then something that the witnesses have testified to about is certainty. What we need to do. What Congress needs to do to give individuals and especially small business owners some certainty about the path forward.

And so I do think it is instructive from the witnesses' standpoint to talk about the real practical implications of the Tax Cuts and Jobs Act.

If I can, Ms. Couch, with you, in your testimony and in your written testimony, you talked about the importance from your standpoint about your work with small business owners and how important Section 199A has been since 2017 to small business owners.

Again with you, can you talk about from your standpoint working with those business owners what it has meant not only in terms of being able to maybe hire more employees, but also to provide for their wages and benefits, if you will.

Ms. COUCH. Yes, thank you for your question. So 199A has provided tax relief to free up cash flow that has been reinvested in small business by the owners. As I mentioned in my testimony that small businessowner income is different from business income. The owners take profits and invest them back into their businesses. And that is done by way of raises and hiring additional employees. They also use that money to invest in software purchases and things of that nature. They give money to the T-ball team. They sponsor youth trips. They really invest it back into their communities as well. And that is something that we can't ignore and that I am afraid would be some of the first things to be cut if that deduction expired.

Mr. KUSTOFF. You worked with these small businesses for the passage of the Tax Cuts and Jobs Act. You worked with these small businesses prior to the COVID pandemic. In your opinion, if Congress had not enacted the 2017 Tax Cuts and Jobs Act and implemented Section 199A, what would the COVID pandemic have done to your small business owners that you work with?

Ms. COUCH. So I worked very, very closely with my small business owners during COVID. I often tell the story that I would from sunup to sundown would be on my porch. And there was no time to even be out there not in my pajamas because there would be no time to even properly get dressed. You were on the phone with folks trying to come up with new revenue streams, trying to calm their fears and anxiety.

And there were a lot of tears shed because small business owners truly feel that their small business is like a child to them that they brought along the way. And COVID was a very scary time for a lot of small business owners. And I am certain that without TCJA that we would have seen a lot more small businesses close up shop during COVID had that not been in place.

Mr. KUSTOFF. Thank you very much, Ms. Couch.

Ms. Gallagher, if I could with you, the doubling of the standard deduction is met with the statistics that we have seen. That nationwide, some 88 to 89 to 90 percent of tax filers take the standard deduction and don't have to itemize.

Can you talk about your work with people you helped before the Tax Cuts and Jobs Act and after in terms of the doubling of standard deduction and the benefit that it gave?

Ms. GALLAGHER. Yes, and thank you for that question. The doubling of the standard deduction has not only provided tax savings to middle-class families, it also has decreased the amount of time and energy and effort that taxpayers, business owners and working families alike have had to spend navigating complex tax filings. So it has freed up their time considerably.

I have even noticed in particular, even my high-income taxpayers have used the standard deduction now for ever since it came into play. And the middle-class families themselves, many of them were under that doubling amount for years, they may not have had a large mortgage, or you know, they might have been just barely getting over the hump. And so by doubling that, it made a big impact on the middle-class families that I work with.

Mr. KUSTOFF. Thank you, Ms. Gallagher.

I yield back, Mr. Chairman.

Chairman SMITH. Thank you, Mr. Fitzpatrick.

Mr. FITZPATRICK. Mr. Duke, just very briefly, because I want to get to the Child Tax Credit, but you had answered a question of my colleague Mr. Boyle that tax cuts don't pay for themselves, ever. Do you wish to qualify that at all?

Mr. DUKE. The tax foundation, which lots of people, you know, people on your side of the aisle, you know, cite, they posted last November tax—and I am quoting, "tax cuts typically don't pay for themselves."

Mr. FITZPATRICK. Typically.

Mr. DUKE. I mean, could we find some education but not with a $4.6 trillion, you know.

Mr. FITZPATRICK. Mr. Duke, are you saying that no tax cuts ever generate any kind of economic development, any kind of revenue generation that pays for themselves?

Mr. DUKE. So, for example, you know, with the first Tax Cuts and Jobs Act, CBO and JCT found that they increased the economy. And that cut the cost by about like 20 percent.

Mr. FITZPATRICK. You gave a blanket statement that tax cuts don't pay for themselves. That seems ridiculously oversimplified.

Mr. DUKE. Well, if you could name a tax cut that you think paid for itself, that would help me, you know, figure out what that—

Mr. FITZPATRICK. Your answer to this question was there are none. They don't exist.

Mr. DUKE. I mean, I can't think of any.

Mr. FITZPATRICK. Going to the Child Tax Credit, currently the CTC benefits approximately 40 million families each year. Obviously, the Tax Cuts and Jobs Act doubled it from one to $2,000. A tax Social Security number required for the first time. Very important. And to render it current law, the CTC's 2–K per child. And if it were to expire, it would drop after $1,000. Moreover, the refundability was a key element. The refundability has increased from $1,000 to $1,400. Moreover, it was indexed to keep track with inflation.

If we do not extend the Child Tax Credit, all Americans will see their tax refund go down. And, specifically, for our district in Pennsylvania, families would see their household Child Tax Credit cut in half.

Ms. Marple, as a stay-at-home mom with three children, can you speak to the benefits of the Child Tax Credit for you and your family and the importance of keeping that protected.

Ms. MARPLE. Yes, thank you for your question. I think that as a stay-at-home mom and raising kids at home, there is a lot of pressure at every angle, and a big one is financial. It influences your marriage, it influences all your decisions, especially grocery shopping, and trying to meet your needs for your growing family.

And the Child Tax Credit is a powerful form of communication where the government communicates to people like me working behind the scenes that my job raising kids is important to the stability and the prosperity of our country.

Mr. FITZPATRICK. Ms. Gallagher, in your experience working with thousands of multigenerational businesses, what have you seen as the major pieces of the Tax Cuts and Jobs Act that have benefitted your clients, and if they were to expire how they harm these very people?

Ms. GALLAGHER. Thank you for that question. The multigenerational families have benefitted across the board. Any of the 199A full bonus depreciation, lower income tax, lower marginal rights brackets. What I would say most importantly when you bring in the multigenerational piece to this is the estate tax and the increased exemption.

I work at length with businesses and farming clients to develop estate plans that work for them and work for their families, and also try to help benefit the most dollars get to their heirs as possible. And so the estate tax has probably been the most impactful for those types of businesses.

Mr. FITZPATRICK. Thank you, Ms. Gallagher. I yield back, Mr. Chairman.

Chairman SMITH. Ms. Moore.

Ms. MOORE. Happy New Year, everyone. I am so glad to be back with my Ways and Means family. I want to join the chairman and the ranking member in welcoming all of our new members and welcoming our returning members. I am so grateful to have this extremely great panel. I hope you had a break so that you could sort of move around a little bit and excuse my departure with conflicting obligations.

You know, in this hearing—I walked back in, and I felt like I had never left. People making the same comments that: Taxes are going to go up for every single American, unless we extend these tax cuts. I didn't miss a beat. And, I guess—I was thinking the other day, it would have been my dad's 119th birthday. The first time I heard this, I heard it from him—is, you know—is the squeeze worth the juice?

And I wondered that, particularly when I was listening to your testimony, Ms. Gallagher, when you were saying that, you know, that the 199As were just a great thing, and it is harder for the wealthy to qualify.

And I guess that is my biggest issue with the 199A. Because all of us want to help small businesses. There is not a single person who has elected to anything—dog catchers, school board, nothing else that won't tell you they don't want to help small businesses, you know.

But what is a small business? I mean, is a small business—and I guess I am going to go to the gentleman on the end for some answers to some of these questions. Is a small business some of the ones that we have seen that have received the 1099—the 199A—were the $100 million businesses, not so, so small. Businesses that are sole proprietors have only one play—we have talked about small businesses as being these entities that have less than 25 employees. But if they make a hundred million dollars, where is the break-even point?

So, I have in my hand—and I am going to ask the chairman, please, to let me put this in the record——

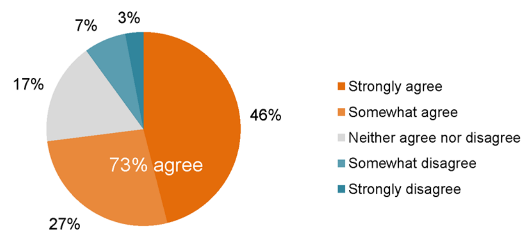
[The information follows:]

SMALL BUSINESS MAJORITY

Fostering a Level Playing Field - The Small Business Case for Equitable Tax Reform

Small businesses have long represented the underpinning of a diverse and thriving economy, but for too long, our nation's tax system has benefited the largest businesses – leaving small business owners with an inequitable tax burden. Small Business Majority research has revealed that over two-thirds (73%) of small businesses agreed that the current tax system favors big businesses over their small business.[1] Rather than continuing to give tax breaks to big business, an equitable tax system that will help all entrepreneurs—from the Main Street restaurants and independent retailers to the solo-entrepreneur just getting their business off the ground – is an essential component of fostering a competitive marketplace.

Small business owners agree current tax system favors big business over small businesses



One way to support a thriving small business ecosystem is to review and address inequities in the existing tax code – a critical component to that debate centers around the expiring 20% pass-through deduction (otherwise known as the Section 199A business deduction) implemented in 2017.

What is the Section 199A Qualified Business Income Deduction?

The Section 199A Qualified Business Income (QBI) Deduction was enacted through the 2017 Tax Cuts and Jobs Act, (PL 117-97) which allows pass-through entities to deduct up to 20% of their eligible, pass-through business income from their federal taxes. Unlike corporate profits, which are taxed at the entity and shareholder level, pass-through entities are only taxed once at the owner level. Pass-through entities, which include sole proprietorships, partnerships, LLCs, and S-Corporations, make up the vast majority (95%) of all small businesses in the U.S.

The smallest Main Street businesses aren't seeing the benefits of 199A

While the creation of the Section 199A deduction was touted as a much-needed tax relief program for America's small businesses, the data show that the distribution of this tax benefit is heavily skewed towards large well-resourced firms as opposed to your typical Main Street small businesses.

- Approximately 95% of small businesses (primarily S-Corporations and partnerships) pass their profits and losses through to their owners, according to 2022 Tax Policy Center data. However, while only 4.5% of businesses have pass-through income taxed in the top two brackets, a disproportionate 69.2% of all pass-through income is earned by those few business owners in these two rarified brackets.[2]

- Concentration of pass-through income at the top has resulted in the concentration of deductions among higher earning individuals and businesses. The financial benefit to a pass-through entity making $500,000 is 20 times the benefit to a business making $75,000. This leaves America's smallest businesses and self-employed entrepreneurs, who make an average annual profit of just over $33,000, left behind. While the wealthiest passthrough entities claimed an average deduction of over $1 million in 2021, claimants with adjusted gross incomes (AGI) below $100,000 took home an average deduction of just $1,997.[3]
- Finally, the current tax structure also incentivizes wealthy individuals to classify their income from wages and salaries as pass-through income since pass-through income is taxed at a lower rate than labor income.[4] This loophole further exacerbates the disparity that honest, small businesses face when trying to leverage tax deductions for their business.

Congress should consider and enact a standard bottom-up tax deduction for small businesses

Looking ahead, we face a timely opportunity to revisit the tax code to ensure it's working for the small businesses that desperately need relief. The year 2025 presents a golden opportunity as Section 199A deduction is set to expire. The expiration of this provision, alongside others, presents a critical opportunity for impactful, bottom-up reform that can have a significant, direct benefit to small businesses and self-employed individuals, as opposed to larger businesses.

- To ensure tax relief is reaching America's small businesses, Small Business Majority proposes **replacing the 199A deduction with a bottom-up, small business standard deduction** of their first $25,000 of Qualifying Business Income (QBI).
- This **bottom-up approach** will allow the vast majority of small businesses, primarily the smallest businesses with the thinnest margins, to benefit rather than a select number of wealthy businesses.
- This deduction should be accompanied by a **phase-out for business owners with $400,000+** in income to ensure it benefits the entities most in need.

We encourage Congress to consider this proposal, which would provide simplified, and streamlined tax relief to millions of small businesses, giving them the ability to save and invest back into their business, create jobs, and grow their enterprises.

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[1] "Small Businesses Share Views on Proposed Tax Reforms, Workforce Shortages," Small Business Majority, 2021, https://smallbusinessmajority.org/our-research/small-businesses-views-on-tax-reforms-workforce-shortages

[2] "Sources of Flow-Through Business Income by Statutory Marginal Tax Rate; Current Law, 2022," Tax Policy Center, 2023, https://www.taxpolicycenter.org/model-estimates/distribution-business-income-february-2023/t23-0028-sources-flow-through-business

[3] "The 2017 Tax Bill's Pass-Through Deduction Largely Favors the Wealthy and Encourages Gaming of the Tax Code," Center for American Progress, 2024, The 2017 Tax Bill's Pass-Through Deduction Largely Favors the Wealthy and Encourages Gaming of the Tax Code - Center for American Progress

[4] "The Pass-Through Deduction Is Tilted Heavily to the Wealthy, Is Costly, and Should Expire as Scheduled," Center on Budget and Policy Priorities, 2023 https://www.cbpp.org/research/federal-tax/the-pass-through-deduction-is-tilted-heavily-to-the-wealthy-is-costly-and

Congress of the United States
JOINT COMMITTEE ON TAXATION
Washington, DC 20515–6453

January 14, 2025

MEMORANDUM

TO: Andrew Grossman

FROM: Thomas A. Barthold T.A.B

SUBJECT: Data on Section 199A Deductions

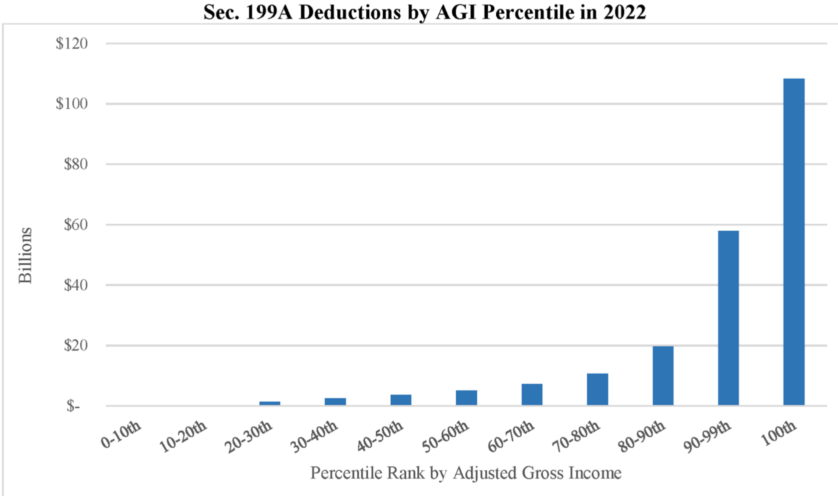
This memorandum is in response to your request from January 13, 2025, for data summarizing the usage of the deductions generated by Internal Revenue Code (the "Code") section 199A. In particular, you requested two exhibits summarizing section 199A deductions claimed by top income centiles.

The figure and table below display the total section 199A deductions claimed by taxpayers in each of the bottom nine deciles of the distribution of taxpayers by adjusted gross income (AGI). They also separately display the amount of deductions claimed by the 90th-99th percentiles and the top percentile. Both exhibits indicate that deductions taken under section 199A are increasing with AGI. Those in the bottom nine deciles, taxpayers with adjusted gross incomes of less than $174,000, account for approximately 23 percent of all section 199A deductions. Taxpayers with adjusted gross incomes between $174,000 and $644,000, placing them in the 90th-99th percentiles, account for approximately 27 percent of all section 199A deductions. Taxpayers with adjusted gross incomes above $644,000, placing them in the top percentile, account for approximately 50 percent of all section 199A deductions.

Congress of the United States
JOINT COMMITTEE ON TAXATION
Washington, DC 20515–6453

TO: Andrew Grossman Page 2
SUBJECT: Data on Section 199A Deductions

Sec. 199A Deductions by AGI Percentile in 2022



Notes: Totals calculated by Joint Committee staff using Internal Revenue Service data. The cut-off values for each decile are approximately $8,000 for the second decile, $16,000 for the third decile, $26,000 for the fourth decile, $36,000 for the fifth decile, $47,000 for the sixth decile; $62,000 for the seventh decile; $82,000 for the eighth decile; $114,000 for the ninth decile; $174,000 for the top decile; $644,000 for the top centile.

Congress of the United States
JOINT COMMITTEE ON TAXATION
Washington, DC 20515–6453

TO: Andrew Grossman
SUBJECT: Data on Section 199A Deductions

SEC. 199A DEDUCTIONS BY AGI PERCENTILE IN 2022

AGI Decile	Tax Units Claiming (thousands)	Section 199A Deductions ($millions)
0-10th	30.9	7.2
10-20th	650.7	181.4
20-30th	1,572.7	1,345.5
30-40th	1,818.3	2,426.5
40-50th	1,881.5	3,585.6
50-60th	2,142.5	4,985.1
60-70th	2,665.9	7,193.5
70-80th	3,257.5	10,586.8
80-90th	4,322.1	19,686.0
90-99th	6,214.8	57,867.5
100th	1,097.5	108,213.7
TOTAL	**25,654.3**	**216,078.7**

Notes: Totals calculated by Joint Committee staff using Internal Revenue Service data. The cut-off values for each decile are approximately $8,000 for the second decile, $16,000 for the third decile, $26,000 for the fourth decile, $36,000 for the fifth decile, $47,000 for the sixth decile; $62,000 for the seventh decile; $82,000 for the eighth decile; $114,000 for the ninth decile; $174,000 for the top decile; $644,000 for the top centile. Totals may not add due to rounding.

Ms. MOORE. It is a memorandum from Thomas A. Barthold, our chief economist here, data on Section 199A deductions.

And he says that these taxpayers with adjusted gross incomes of less than $174,000 account for approximately 23 percent of all this money that we spend on it.

Whereas, people with gross incomes, adjusted gross incomes above $644,000, placing them in the top percentile, account for over 50 percent of all of the section—of the Section 199A deduction.

So, I guess I am going to ask you, sir, how does the distribution of the 199A comport with the notion of tax equity and tax fairness?

Mr. DUKE. Yeah, absolutely. So the data you were citing was on, you know, who gets the deduction. And actually in some ways that understates the progressivity. Because, you know, a $1,000 deduction for somebody in the zero percent tax bracket does nothing for them. A $1,000 deduction for somebody in the 40 percent tax bracket gets them a lot more. Right?

And so what we know is that taxpayers making over a million dollars got half of the benefits from wanting 199A. And so that is the distribution of it. And, you know, hopefully it trickles down. But we have a study from a Carnegie Mellon economist that shows that cutting the top rate on passthroughs only help the businessowner and their highest paid employees.

Ms. MOORE. Exactly. That is true. I don't have enough time. I want to thank all the women who earlier testified.

Also, Ms. Silver, you talked a lot about being able to buy new equipment, but that wasn't the 199A, that was like the bonus depreciation and stuff that helped you with that. Am I correct?

Ms. SILVER. Well,——

Ms. MOORE. Those other business—just yes or no. It wasn't the 199A that helped you get equipment.

Ms. SILVER. Yes, 199—I have a thousand examples I could tell you of what it——

Ms. MOORE. Okay. I got 30 seconds. So I just want to talk to these, especially the moms with the Child Tax Credit. I mean, this is my passion. I have three daughters, three granddaughters, three great granddaughters, you know, ages six to one years old. This is so important. And sometimes your happily ever after isn't. And I am so glad you found love again, and you found a good husband.

But what I am saying to you is that there are 19 million children whose parents can't get any or very little of this deduction. The poorest most vulnerable kids that need to eat, and they need to be well off only because their parents don't earn enough money.

And I think when you start talking about work conditions, I mean this is not Charles Dickens, people. We are not asking kids to go to work. Why do we have a work requirement in order to make the Child Tax Credit totally refundable?

I think that families like yours are great, but I think poor families and poor children deserve this benefit as well.

Mr. Chairman, thank you for your indulgence. Thank you, witnesses. I wish I had more time. I got so many questions. I will come and mess with you guys afterwards if you are still there. I yield back.

Chairman SMITH. Thank you. Mr. Steube.

Mr. STEUBE. Thank you, Mr. Chairman. President Trump's tax cuts undeniably sparked significant economic growth. The TCJA 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.

With many of the TCJA provisions expiring after this year, it is imperative that Congress act this year to ensure that we continue pro-growth policies that help American families.

In my district, the consequences of inaction would be devastating, my constituents on average would experience a 24 percent tax increase if the TCJA is allowed to expire. Meanwhile over 55,000 small businesses in my district alone would be hit with a 43.4 percent tax rate. The expiration of TCJA would result in small businesses closing, jobs lost, and American families suffering just so the government can take more of their hard-earned money.

The good news is that Congress can avoid such economic catastrophes by extending and making permanent TCJA provisions like the individual rate cuts and the 199A qualified business income deduction, which helped small businesses compete and provide jobs for millions of Americans.

Moreover, Congress must end the immoral death tax once and for all. It is fundamentally unjust. The federal government claims a right to the property of taxpayers just because they die. This immoral provision of our Tax Code has hurt family farmers for far too long. Unless we act, millions of family-owned farms will be subject to even more taxes.

This time Congress needs to finish the job and deliver a final death blow to the death tax.

Ms. Couch, I would like to ask you, start with you. As an owner of a small business that also services hundreds of other small businesses, can you please tell us how 199A has a real-world impact for your employees and customers?

Ms. COUCH. Yes, thank you for your question. So 199A has really been wonderful tax relief for true small business owners. A typical client earns gross revenue under $3 million a year. Employees—ten or less employees. So we are talking about coffee shops, we are talking about ice cream shops, restaurants, professional service, business owners, the real heartbeat of the American economy. And I have seen 199A have the greatest impact on that segment of business owners more so than any other form of tax relief in my 21 years in practice. So it frees up cash flow to reinvest in employees, to reinvest in equipment, and software.

And as mentioned earlier, I think that it really provides a little bit of cash flow to give back to the community, to sponsor T-ball teams, to be there for PTOs, and things like that, which really is very impactful when you are such a strong advocate for your community as a small businessowner.

Mr. STEUBE. And if 199A were allowed to expire, how would your businesses and clients be forced to respond?

Ms. COUCH. If 199A expires, it will feel like a tax increase on small business owners instead of a sunset of a tax deduction. And so what you will see as a result of that is the inability to provide raises, inability to invest in new equipment, the inability to really—RND and different things of that nature that is so crucial when you own a small business. And, quite frankly, I think that it will cost some small business owners their businesses. I think it is that impactful.

Mr. STEUBE. And Ms. Gallagher, in your testimony, you note that IRS statistics do not reflect the difficulties faced by family businesses being forced into fire sale situations by the death tax. You mentioned that this often results in family-run businesses being acquired by larger corporations.

How does this affect local communities? And are employees of these family businesses impacted.

Ms. GALLAGHER. Yes, they are definitely impacted. And I have seen firsthand businesses having to succumb to multinational corporations or private equity because they simply cannot afford to pay the death tax. It has impacted the communities that I have seen by the lowering of jobs and just general economic growth within the community. Some of those companies have purchased our businesses and taken the work elsewhere out of the community altogether. I too have seen an impact on the community on numbers, dollars being contributed back to the community in terms of high school football sponsorships, and any type of community event you can think of has decreased considerably.

If I could just add one quick thing on the 199A to your testimony. I think it is important to note that 199A has impacted the small businesses and middle class more than any of the businesses in this country. We talk about the large businesses or the wealthy or the high income, and I can firsthand tell you it does not impact them as greatly. Because, frankly, many of them don't even qualify for it.

If you think about it, some of the highest income businesses: Doctors, lawyers, CPAs, engineers, service businesses don't even qualify for this. And there are significant guardrails and limitations in place to make sure that if a high-income individual is going to qualify, they are absolutely required to invest in their employees and infrastructure and equipment to even qualify.

So I would just like to make sure it is on the record that 199A is the most impactful for the small businesses and the working families who run them.

Mr. STEUBE. Thank you all for being here today. My time has expired.

Chairman SMITH. Thank you. Ms. Tenney.

Ms. TENNEY. Thank you so much, Mr. Chairman, and thank you for holding this meeting. And congratulations and welcome to all our new members on both sides of the aisle.

This has been, you know, incredibly helpful to me to listen to today. I am one of those small business owners that knows what it is like to struggle to make payroll. There are times when we couldn't make payroll, and I went ahead and got a 30 percent loan on a credit card, several of them, thinking someday we are going to go under. Thankfully, that didn't happen. I just know that kind of stress. You know, I sat there and combed through my, you know, accounts receivable list and said, Jeez, hey, you worked 10,000, how about three, how about 500, just to make payroll.

And every single person that works in our family business, which we still have, is an important part of our entire family. And every one of them has a family, and we provide healthcare and a 401–K. And we provide them with a livelihood and a challenging good job, as many as we can. And that is why the Tax Cuts and Jobs Act was so important to my business.

A small, family-owned business started in the 1940s by my grandmother handed down through generations to us. And listening to you all today has been amazing. And so when I hear that this is about the wealthy—I come from New York. We are currently the highest tax state in the entire United States with the highest burden of compliance and requirements for running a business. It is a hard place to be.

And I ran a newspaper in a dying economy, in a dying industry. And we sold it thankfully in 2004. But what I really want to talk about—I don't know even where to start. You are all so good, and you all have given great testimony.

I wanted to just say something quickly to Alison from NFIB. I just want to thank you because NFIB has been an invaluable resource for our business. We joined in the eighties. And you have always been so helpful in understanding and articulating what we have been through as businesses. And I just so appreciate what you have talked about.

And when you talked about 199A—I am looking at your testimony. And this really stuck out for me—that you talked about the macroeconomic impact of 25.9 million small businesses use the 199A deduction. That is critically important in Upstate New York. And everyone thinks of New York as New York City. Upstate New York, 95 percent of the people where I live go to work in a small business that is dependent on 199A. And we need that to continue. That is so critically important. And you indicated that these passthrough entities, 33 million are passthrough entities throughout this country. This is such important information coming from you so that I hope that my colleagues on the other side of the aisle realize how critical this is.

And you are all talking about wonderful things. One of the great things Michelle Gallagher, one of the most important things you said in this committee meeting, as a small businessowner that we nearly got all of the cash taken, the little bit that we had because of the death tax taken out of our business. A very small business. A lot of former farmers work for us.

But you said the IRS spends more money on compliance with the death tax than it actually brings. How important is that? The IRS with compliance, enforcement, litigation spends more money going after small businesses, family farms that have invested in expensive equipment and all of this than it actually collects. That is the best case for getting rid of it, especially because we have one in New York State as well. It is not just federal. We have all these things on the state level. So thank you for doing that. It really is just important.

And one of the things I just wanted to get back at and also ask a couple of questions of all of you, is as we go through this process of trying to figure out a way to protect our family businesses and the jobs, what would you provide to them—I guess I am going to go to Courtney. You talked a little bit about, you know, making things predictable in the business. And that is what every businessowner is looking for—predictability, transparency, neutrality, simplicity in the tax. You know, knowing what you are going to expect so you can budget for it.

What would you highlight in dealing with this estate tax? What would you say that would happen if your death—I know you talked about this earlier, but I want to hear it from you again. What would happen if the death tax expired in your business, and what would be the consequences of that?

Ms. SILVER. Sure. Well, we may not continue in business. And it would obviously depend upon the year, what was going on, what was, you know, that—the financial statements, the financial condition of the company looking forward. But thinking about having this huge tax bill in a situation where a company is passing to another owner, we are capital-intensive. We aren't sitting on piles of cash. We use our cash flow to reinvest.

Ms. TENNEY. Exactly. That is so important. Because so many of the—I represent the largest agricultural district in the entire Northeast. We have farmers who have spent millions of dollars on equipment, on labor, all these things. If we were to implement another death tax, that would end basically nutrition in upstate New York that supplies not only for our region, our state. You know, we ship some of this stuff overseas—our food, nutrition. This is so important.

I am out of time, but I just want to say, again, thank you so much to all of you for what you do and for supporting our small business community. There is nothing more important than making sure that extend these tax cuts to help the middle class. And it was the best thing that has happened to upstate New York in 30 years. And we are so grateful and hope that you will continue to advocate. Thanks so much. I yield back.

Mr. FEENSTRA [presiding]. Thank you. Mr. Evans, you are now recognized.

Mr. EVANS. I yield to Ms. Moore.

Ms. MOORE. Thank you so much, Mr. Evans. And I won't take much of your time. I just wanted with unanimous consent to be able to put something in the record.

We have had the National Federation of Independent Business witness here. But the small business majority sort of agrees with the notion of—in line with what the Joint Committee on Taxation has said. That this 199A provision goes largely to higher earning individuals.

And so, while it might be one of the most important provisions for the reauthorization, it is actually one of the most expensive and really accounts for individual taxes increasing.

I just want to point one thing out too. I was around in politics in 1986, the tax reform at that time, and that is when a lot of businesses organized themselves as passthroughs because they received a benefit even as far back as then. There is no equity issue involved with this overblown 199A benefit. Thank you.

And I will yield back to Mr. Evans.

Mr. EVANS. Mr. Duke, I would like to talk a little bit about the earned income tax credit. I believe that the earned income tax credit is the most important tool we have in tax space to reduce poverty. It has been active in introducing legislation to expand and to approve.

Although this credit normally is bipartisan supported, Republicans did not use the opportunity in the last 2017. Meanwhile, Democrats have passed legislation in 2020 to expand the last credit to more individuals to help lift more people out of poverty. So could you speak to that issue, please?

Mr. DUKE. Yeah, so, you know, as you know, the earned income tax credit is usually important for American families. It is our second largest antipoverty program after Social Security. And, you know, Paul Ryan was actually a huge supporter of expanding it for childless workers. But they failed to do that in 2017. And, again, that is the group that the tax code taxes into poverty or deeper into poverty.

At the same time, one of the pay forwards for the tax legislation was changing the inflation—and that sounds very nerdy, but gets important for, you know, how we, you know, for how we had the income tax credit.

Mr. EVANS. Mr. Duke, the Joint Committee on Taxation says that under the last Republican tax bill a $6 billion less on improved income tax credit was paid out prior to the bill.

Can you please describe why.

Mr. DUKE. Yeah, so they used the budget reconciliation process, which means that you can't increase deficits outside of 10 years. Because, you know, when you do a prior length vote, you have to use reconciliation, right? And what that means is they needed a payfor for their permanent corporate tax cut. There were two payfors.

There was cutting healthcare by eliminating the individual mandate in the Affordable Care Act, and then there was changing the inflation index by which we adjust all of our tax parameters and the Tax Code for inflation, including the earned income tax credit.

Now, you know, for some provisions, maybe that is fine because, you know, the individual tax rates, you know, gives them still a tax cut. But for really low-wage workers who don't pay the normal income taxes, they didn't get that benefit, but they see a slower growth and frankly a real cut in their earned income tax credit. So in that sense, you know, the reduction in the earned income tax credit helped pay for the permanent corporate tax cut.

Mr. EVANS. One last real quick feedback a little bit. Under the Republicans' current plan for the tax bill extensions, would this problem get worse.

Mr. DUKE. You know, I haven't heard, you know, what the plan is to do on, you know, the earned income tax credit. Again, I think they are kind of leaving it behind. But again, I haven't heard any, you know, any tax cuts for, you know, those super, low-wage workers who are making $14,000, $15,000 who aren't paying Federal income taxes. Again, that is why the America Rescue Plan was so important. It tripled the size of the earned income credit for those folks so that we stopped taxing low-wage workers without kids into poverty or deeper into poverty.

Mr. EVANS. Thank you, Mr. Duke. Thank you, Mr. Chairman.

Mr. FEENSTRA. Thank you. Ms. Van Duyne, you are now recognized.

Ms. VAN DUYNE. Mr. Duke, I am perplexed by a lot of your testimony today. You have had a lot of criticism over the small business deduction. So I am just curious, what do you consider a small business?

Mr. DUKE. I don't know if there is a clear definition of it.

Ms. VAN DUYNE. You don't have a definition of it.

Mr. DUKE. I don't think I said the word small business deduction.

Ms. VAN DUYNE. So the 199A?

Mr. DUKE. Sure, but that is passthroughs. They can be really big. There is no, you know, on their side.

Ms. VAN DUYNE. Do you think the way that it is being held right now helped small businesses? The 33 small businesses that we have, and 99.9 percent of all businesses in the U.S.——

Mr. DUKE. Sure.

Ms. VAN DUYNE [continuing]. That are small businesses that are able to take advantage of this, do you think that the 199A actually helps them?

Mr. DUKE. Sure. It gets them a tax cut, increases deficits, increases interest rates.

Ms. VAN DUYNE. So you are concerned about the deficit? You are concerned about the deficit.

Mr. DUKE. Yeah, for sure.

Ms. VAN DUYNE. I was really surprised as a Democrat witness that some of the ideas that you held that we should be concerned about the debt, and we should be concerned about how much of that is owned by China.

I am curious as a volunteer in the Biden-Harris transition team, and as the person who is part of the Biden administration's Build Back Better and American Rescue plan as the White House National Economic Council, you are a senior policy advisor to the White House on those two bills, were you concerned at all about the trillions of dollars of debt that they added, the trillions of dollars of debt that China may potentially own, and the benefit that China directly got as a result of those bills.

I am assuming you are advocating against that. Because if you don't want additional debt, God forbid we have trillions of dollars that are going out the door for Green New Deal programs that are benefitting China. Am I correct?

Mr. DUKE. You are not correct in the context matters a lot. Inflation is high——

Ms. VAN DUYNE. Oh, wait——

Mr. DUKE. Unemployment——

Ms. VAN DUYNE. Inflation that by adding to the debt, the 20 percent inflation that we got over the last 4 years, I am assuming that you are advocating against all of this tax increases.

Mr. DUKE. Every country in the world experienced that——

Ms. VAN DUYNE. The 20 percent that we have got inflation, I am assuming you are against those?

Mr. DUKE. Justin Trudeau is facing that problem.

Ms. VAN DUYNE. I don't want to compare the U.S. to Justin Trudeau. There is a reason why that man has quit his job.

Mr. DUKE. Okay. But inflation was a global supply chain phenomena that affected every country.

Ms. VAN DUYNE. You are also, if am I correct, you are the point person on the supply chain data during the infant formula crisis of 2022?

Mr. DUKE. Yes.

Ms. VAN DUYNE. Okay. So we all saw how that went. I want to make sure that we are appreciating the opportunity right now to be able to kind of correct some of the views that we are seeing—these misinformed views of the Tax Cuts and Jobs Act.

You were saying that, you know, the rich experience getting richer, the poor experience getting poorer. However, in 2024, about one out of 180 American taxpayers will make a million American dollars or more. About 5 percent.

So based on the government's forecast, the government's own forecast on this, those earning a million dollars or more in 2024 will pay an average of about $776,800 in Federal income taxes, which is 475 times as much as the average taxpayer who is making between $50,000 and $100,000. The top 1 percent will pay an average of 31.5 percent this year compared with 10 to 12 percent of the middle class and about zero percent at the bottom. And the rates near the bottom can be negative because of the refundable tax credits.

So according to the Federal Reserve, low- and middle-income tax Americans receive the largest increase in wealth during 2018 and 2019. Low-income families saw their net worth increase by 37 percent, while middle-income families net worth increased by 40 percent.

In the two years after TCJA, more than 6.6 million people were lifted out of poverty, dropping the poverty rate to 10.5 percent, the lowest level in U.S. history. And yet we are somehow arguing that the TCJA did nothing for the lower class. It blows my mind that we can even say that.

Ms. Silver, I want to thank you very much for your testimony. You talked about how much you were able to reinvest in your businesses after TCJA was implemented. And that is great to hear.

Can you talk a little bit about what the cost would be if your business and if Congress did not renew President Trump's tax cuts?

Ms. SILVER. It is going to result in less investment in our equipment, less investment in our people, less investment overall. It would be very difficult to stay competitive.

Ms. VAN DUYNE. Okay. So all of the people that you pay would possibly lose their jobs or get paid less?

Ms. SILVER. Potentially, yeah.

Ms. VAN DUYNE. Or your job and your investments would shrink?

Ms. SILVER. Absolutely.

Ms. VAN DUYNE. So a real-life example right there.

Mr. Chairman, I ask to submit a letter from the wine and spirit wholesalers of America, expressing support for the extension of small business credit into the record.

Chairman SMITH. Without objection.

WINE & SPIRITS
WHOLESALERS
OF AMERICA

January 10, 2025

The Honorable Jason Smith
Chairman
U.S. House Ways and Means Committee
1011 Longworth House Office Building
Washington, DC, 20515

The Honorable Richard Neal
Ranking Member
U.S. House Ways and Means Committee
1129 Longworth House Office Building
Washington, DC, 20515

Dear Chairman Smith and Ranking Member Neal,

Today, the House Ways and Means Committee will hold a hearing on the importance of permanently extending the 2017 Tax Cuts and Jobs Act (TCJA)—a decision that carries immense consequences for America's family-owned wine and spirits distributors.
The TCJA introduced key tax reforms, including the Section 199A deduction for qualified business income and updates to the estate tax.

Nearly all of America's wine and spirits wholesalers are multi-generational, family-owned, privately held businesses that are eligible for the Section 199A deduction. Since 2017, our businesses have invested billions across the country into their 97,800 full-time equivalent employees, 4,175 facilities, and 1,121 separate communities. A study performed by John Dunham and Associates indicates that Section 199A in particular has enabled wine and spirits wholesalers to invest between $44 million and $54 million annually into our companies, at a total of $304-$380 million since Section 199A was enacted.

One of the unique aspects of wine and spirits wholesalers is that our businesses operate only in the United States, employing only local workers. That means that 100 percent of that reinvestment has been made here in the United States and in the local communities we serve. To the extent that one of the primary goals of Section 199A was to promote investment in American businesses and economic growth within the United States, then wine and spirits wholesalers have done exactly that.

The importance of Section 199A to the livelihood of family-owned businesses across the country cannot be overstated. It has created jobs, supported local communities, and ensured American companies can thrive through the challenges presented by a global pandemic and the significant inflation of the last few years. Without it, many businesses would be forced to make difficult decisions about their workers, facilities, and business future. The expiration of Section 199A would not only directly impact wine and spirits wholesalers but by extension would impact our suppliers' customers and vendors who could see reduced service and spending by our companies. These partners employ over 1.2 million full-time equivalent people in every corner of the country.

It is important to note that wine and spirits wholesalers do not only compete with each other, being in the logistics and marketing businesses, we compete against large, publicly traded and corporate distributors and retailers for employees, trucking, warehouse space, equipment, and other services. The TCJA permanently lowered the corporate rate for many of these businesses. If the Section 199A tax deductions were to expire, we would be at a significant disadvantage compared to these multinational companies, paying a top statutory tax rate nearly double the corporate tax rate.

In addition to creating Section 199A, TCJA also made important changes to the estate tax. Specifically, it raised the exemption available to families passing their assets to the next generation. For our wholesalers, this increased exemption is critical to the continuation of the family business, some of which are entering their fifth generation of family leadership. If this exemption were to return to pre-2017 levels it could force some of those businesses to liquidate. Unfortunately, the buyers of those businesses would likely be large corporations or private equity firms. Maintaining the exemption levels from the TCJA is critical to the health of independently owned family businesses.

We look forward to an educational and informative hearing and appreciate the opportunity to share our story about the importance of these tax provisions. Thank you for the support the Committee has shown for family-owned businesses like ours.

Sincerely,

Francis Creighton

Francis Creighton, President & CEO
Wine & Spirrits Wholesalers of America

Ms. VAN DUYNE. We hear the party's incumbents claim that the tax cuts were just too big for corporations. But this is just not true. As part of my work on the Main Street tax team, we were able to get out of D.C., and we talked to real business owners. We heard about the successes for policies, such as the small business deduction in Section 199A, which created over $66 billion in tax savings from Main Street businesses.

One of the businesses I met with in north Texas was a Republican National Distributing Company where I held a roundtable with over 25 small businesses, including roofing companies, community banks, local banks, and realtors. These other businesses across the U.S. who are better framed from this. And this is why Congress must act. Thank you very much, and I yield.

Chairman SMITH. Thank you. And then the birthday boy of the committee, Mr. Feenstra.

Mr. FEENSTRA. Thank you, Mr. Chairman. And I want to thank each one of our witnesses. You have all had great testimonies. I am very impressed. And I think we all understand how important the Tax Cuts and Jobs Act of 2017 was to our families, to our businesses, and to each of us.

I think about my district. I live in a very rural part of northwest Iowa, and every day we are fighting to survive that Main Street. That Main Street made up of all these small little bakeries, hardware stores, drugstores, you name it. And this 199A is so critical for their existence.

If we did not have 199A, if it sunsets, obviously they would have a 40 percent tax increase. What would that do to rural America? It would be devastating. And to our families, you know, it as been many times here that it would be a 26 percent increase to each one of our families. Where do we get those dollars? Where do we get those extra tax dollars?

So what did it do from 2017 until now? We went through COVID. This all made a difference. I mean, if we didn't have these Tax Cuts and Jobs Act, how catastrophic would it have been to our economy? I mean, we would have probably been in a deep recession, even depression. We don't ever know. But we do know this, is that we survived. And that is what we have to look at.

There is one thing that really bothers me yet, and that is a double tax. I want to talk about the death tax. I introduced the Death Tax Repeal Act. And we will reintroduce it in the next Congress. I had over 170 Members sponsor this because everyone thought it was so important.

But think this,—when somebody dies, the government puts their arm in the grave—the IRS puts their arm in the grave, pulls that person back out and says you owe 41 percent tax on everything that you accumulated in your life. Think about it. Forty-one percent. Pull them out of the ground and say, you owe 41 percent. That person has already paid tax on most of that already. And yet to pass it on, we got to pay 41 percent tax.

That is why I am so passionate about getting rid of the death tax. And I hope we can do it this coming year, especially in reconciliation.

On the other side of the death tax, since we have currently—we do have the death tax. We have the estate tax. It cost approximately $18 billion for small businesses to comply to try to figure out insurance, to try to figure out trust, to figure out how to manage not to pay that 41 percent—18 billion. You know, we would save a lot of money by just getting rid of it.

So Ms. Gallagher, I want to talk to you about this. Obviously, your family has to have jumped through a lot of hoops to try to salvage your business to the next generation. Can you talk about that, how it affects you, and what compliance looks like.

Ms. GALLAGHER. Yes, and thank you for that question. I am very passionate about it as well, primarily because I have seen the impacts of what happens when either people have not planned for it or just simply don't have the money to pay the tax.

So the hoops are real. The hoops that these businesses and farmers jump through is starting out with identifying their personal goals for their family, first of all. So every single one has a different story and a different need and a different goal. So this is not a cookie cutter plan that everybody can just put into place. It takes a lot of customization and a lot of planning, and a lot of planning early.

Mr. FEENSTRA. Yes.

Ms. GALLAGHER. Do the hoops include setting up multiple entities, like a number of different trust vehicles can be used, limited partnerships, LLCs, setting up entities to help create the best benefit so the heirs can get the most amount of money when death does occur. You have to have many appraisals done. Your business has to be appraised. Your real estate has to be appraised. Your farm has to be appraised. The costs are——

Mr. FEENSTRA. Right.

Ms. GALLAGHER [continuing]. Astronomical with what they have to go through.

Mr. FEENSTRA. All this stuff you have to go through just to comply with the death tax, just to try to figure it out. And we can get rid of it, and we don't have all of those problems.

I want to talk about one more thing, Paid Family Medical Leave Tax Credit. To me this is so important.

Ms. Couch, you talked about this in Atlanta. Can you briefly talk about how important this is to small businesses as an incentive and not a mandate?

Ms. COUCH. Yes. Thank you for your question. So the Paid Medical Leave Act is very important to be able to retain quality employees. And right now, it is very difficult, especially in my industry as an accountant to find and retain quality employees.

However, it is so important for small business owners to not be mandated to pay various things like Paid Family Leave Act. And it is much more beneficial. It comes in the form of a credit.

Mr. FEENSTRA. Absolutely. And I want to thank you for that. Incentivized makes all the difference in the world. And we can do Family Medical Leave. And I am, again, passionate about that also. Thank you very much. I yield back.

Chairman SMITH. Thank you. Mr. Schneider.

Mr. SCHNEIDER. Thank you, Mr. Chairman. And I want to thank you for having this hearing. I thank all of our witnesses for sharing your perspectives today.

Ms. Silver, I just want to commend you. I actually went and looked at your website and saw what you do as a company and the investment in people, especially young people, and bringing people into manufacturing is so important. I am also impressed, third generation family business.

Before I came to Congress, I was a consultant. I worked with family businesses principally. And getting from the first generation to the second generation is hard. Listen, a quarter of all businesses make it to that point, but less than 10 percent make it to the third generation, and 1 percent to the fourth generation. So it is really difficult.

And there is a lot of reasons for that obviously. Ms. Gallagher, I might turn to you because you advised a lot these businesses. I am guessing a lot of them are family businesses. From my work as a consultant is now part of plan moran where I know you started your career.

But what do you tell your clients as they approach a point where they are starting to take on too much debt? What is the cost of a family business of having too much of a debt burden?

Ms. GALLAGHER. There are a lot of different aspects of a family's finances. So debt in a silo cannot be addressed.

Mr. SCHNEIDER. Well, I disagree. Because when you have too much debt as you start to accumulate debt, you have to service that debt. And you have to start paying the interest on the debt and start paying the principal on the debt. And as a business as you are trying to grow, if you take on debt to maybe acquire some equipment or go branch off into a new business line, that is going to pay itself back. But if you are taking on debt to basically expend extravagantly, that debt service is going to become a huge burden.

Ms. Gallagher, are you aware of what the debt service of the United States, what the burden is at this point?

Ms. GALLAGHER. No, I am not.

Mr. SCHNEIDER. It is larger than our defense budget. We are paying more in interest and service of our debt than any other line in our discretionary budget. And so, as we stand here and we find ourselves again in this conversation about giving large cuts in taxes to people who are doing really, really well, I am not talking about small businesses. I am not talking about folks who are struggling to make ends meet, but to take away from programs like Medicaid and investments in education, to give a tax cut to people who don't really need it and add to the debt of the country. So we are losing.

Ms. Silver, you know from your experiences, you are looking at making ends meet. The money that came in—we talked about it earlier. The money that came in during the crisis, the pandemic, allowing companies to invest, I think you said you invested in HVAC which gave better air quality probably to your employees, invested probably in training as you brought in new equipment. All of those things are investments that if you are spending all of your money servicing the debt you can't do.

So, as we look at this, just simply extending the tax cuts across the board—Mr. Duke, you talked about it—the top 2 percent of income earners, folks who are making a whole lot of money—and God bless them, their success helps grow our American economy. But giving them another tax cut will cost us another $2.5 trillion in debt in the first decade, and that is money that we have to pay back that we have to service that makes it virtually impossible to invest in our communities, invest in building resilience so we don't see crises like we just saw in California or earlier, late last year, a month ago in North Carolina. Debt has a cost, and it doesn't need to be siloed. It needs to be discussed and assessed, and we need to have the open conversation.

My colleagues on the other side, we have a lot of agreement—I know I am running out of time, and I did have questions, but I got carried away. But there are things we agree on. I think we all agree on both sides of this aisle that we want to help small businesses succeed.

Ms. Silver, I want your business to pass to the fourth—do you have a fourth generation coming into the business?

Ms. SILVER. Yes.

Mr. SCHNEIDER. Okay. I want the business to pass to a fourth generation. Less than 1 percent make it that far. It is really hard. And I want to help working families make ends meet, and not just make ends meet, I want to help working families get ahead. And I think everyone on this committee on both sides of the aisle agree on that. I think we agree that we want to make the American dream more real for more Americans. We want every American to have that chance to succeed.

So there is a lot of debate and a lot of discussion about how one side is doing this or that or taking this position and demonizing. Let's get away from that and start talking about how we can put working families, Americans, American economy front and center and find common ground.

And as my friend, Randy Feenstra, was talking about, let's find ways that companies can pass and farms can pass generation to generation, and we can build on the American dream for every American.

And I went too long without asking a question. I will yield back.

Chairman SMITH. Ms. Malliotakis.

Ms. MALLIOTAKIS. Thank you, Mr. Chairman, and thank you all for being here today. I think we as members are very excited about this opportunity to build on the success of the Tax Cuts and Jobs Act, the TCJA. It created millions of jobs. It lifted middle class wages. It brought unemployment down to record lows for African-Americans, for Hispanics, did great things for women entrepreneurs, and we are really looking forward to seeing not only extended and made permanent, but also adding some additional provisions to make it stronger.

One of the things that we saw for those that I represent that was beneficial was the doubling of the standard tax credit, the doubling of the Child Tax Credit, the lowering of the personal income tax, and the elimination of the alternative minimum tax.

And so, I wanted to talk to Ms. Gallagher because you and I agree that the alternative minimum tax cannot come back. And the issue for my constituents, middle-class families in Staten Island and southern Brooklyn, a lot of them didn't benefit from the SALT deduction because of the alternative minimum tax, and so we have to make sure that that does not come back. But we are, as SALT state members, looking to try to provide an increase to that SALT deduction, and we recognize that the reason why we need SALT relief is because our mayors and our governors treat taxpayers like ATM machines. They continue to hammer them over the head year after year. Property tax levy goes up. They don't want to cut the personal income tax rates at the local and State level like we saw President Trump do at the Federal level.

So we recognize that it really is a problem created by our local and state governments, but, nonetheless, we met with President Trump. We had a successful meeting. He does want to help, as does the chairman has been willing to help provide relief from the federal level to help those middle-class families.

So I guess my question for you, first and foremost, the alternative minimum tax should not come back, right? And if so, what kind of impact would that be on middle-class families?

Ms. GALLAGHER. Thank you for that very good question.

And usually when we start talking about the alternative minimum tax, or AMT as I will refer to it, people just run out of the room, frankly. It is one of the most complex and complicated tax computations in the Internal Revenue Code. I mean, I remember trying to learn it as a young tax professional and threw my hands up many, many times. So I was thrilled to see the AMT exemptions increase considerably so that so many of my clients were no longer subject to it.

Ms. MALLIOTAKIS. And it targeted the middle class, really. That is who got hammered by it, right?

Ms. GALLAGHER. It definitely targeted and hammered the middle class, no doubt about it.

Ms. MALLIOTAKIS. And you said in your testimony that if it does return, it would affect 7.2 million taxpayers starting in 2026, and that would be predominantly the middle class?

Ms. GALLAGHER. Yes.

Ms. MALLIOTAKIS. And the SALT deduction, can you explain how constituents may have not benefited from SALT because of the AMT?

Ms. GALLAGHER. Yes. So because of its limitation, the SALT deduction is actually part of the computation of the AMT. It is an add-back. So when you are calculating your alternative minimum tax taxable income, you have to add back all of your SALT taxes. And so, my warning in my written testimony was that if there is an argument to have SALT, then we have to keep AMT out as well.

Ms. MALLIOTAKIS. I agree with you.

Ms. GALLAGHER. Because everybody who may not be limited in SALT will now be paying AMT, and they are no further ahead than they were.

Ms. MALLIOTAKIS. Okay. I agree with you 100 percent.

Now, with the SALT, if we are able to increase that deduction, do you have any estimates of what could cover the majority of middle-class families, let's say, people with incomes of $400,000 or $500,000 or less?

Ms. GALLAGHER. Actually I have not done that math. Sorry.

Ms. MALLIOTAKIS. No problem. Just curious. I know it was around $23,000 was the average deduction for middle-class families with an income level of $200,000 to $500,000. That is in 2016. So today, it would probably be more like $30,000, if you want to hit that income level or below.

Should we index it like the standard deduction so it goes up year after year to keep pace somewhat with inflation?

Ms. GALLAGHER. Well, I think indexing is always fair. I mean, inflation and dollars go up tremendously, so yes.

Ms. MALLIOTAKIS. Do we think we should cap income eligibility so it is targeted to the middle class and not completely lift the cap? I think there is some concern from members across both sides of the aisle about giving relief for ultra wealthy. Do you think it should be targeted, the SALT deduction increase, and then cap it so only certain incomes could qualify?

Ms. GALLAGHER. Well, certainly, I would want to look at the pros and cons of all of those things, but certainly there is a middle ground to get the middle class the relief that they need.

Ms. MALLIOTAKIS. Great. If we wanted to also limit it for properties, would it make sense to limit the real estate portion or the property tax portion to just your primary residence? Would that be something that could be a possible solution to kind of limit it?

Ms. GALLAGHER. It certainly could. Not—I mean, many—a lot of folks don't have more than one property, not just the middle class, so——

Ms. MALLIOTAKIS. Thank you.

All of this salt got me thirsty, Mr. Chairman, and I have run out of time. So thank you very much, and I yield back.

Chairman SMITH. Okay. Votes have been called. We are going to try and run up as close as we can to the time that we can make it to the floor to vote, and then we will return back promptly whenever we do have to recess for the three votes that have been called. But Mr. Carey is next.

Mr. CAREY. Thank you, Mr. Chairman. It is an honor to serve on this committee again this session, and I also want to welcome our new members to the committee on both sides of the aisle, so welcome.

This body delivered landmark legislation in 2017 that provided, as we have heard from all of you witnesses, most of you witnesses, provided significant tax relief for Americans by putting money back into their pockets and for working families and boosting our economy.

We must make these effective tax cuts permanent—I think we have heard that from many of you today—and build upon the success of the Tax Cuts and Jobs Act to benefit working families and our businesses. This would ensure that Americans don't see an increase in their taxes, and on average, save Ohioans, about 23 percent, a 23 percent tax hike.

In the last Congress, this committee and the House overwhelmingly passed the Tax Relief for American Families and Workers Act, which included many, many of the policies to help working families. We need to continue to support these policies and help our working families grow.

As a member of the working families tax team, I have heard firsthand from members of my community over the last 8 months about how TCJA policies have helped them and the importance of extending these tax cuts.

Credit for Caring, this is a piece of legislation that I am proud to lead with my fellow Ways and Means member, Representative Linda Sanchez, and it is called the Credit for Caring Act which would provide eligible working caregivers a tax credit to help offset the costs of care that they offer. It would allow them to continue to work while caring for a loved one through illness, disability, and aging in place. I am looking forward to continuing that work on tax policies that will help these working families succeed.

Ms. Marple, I want to thank you so much for taking the time to come out here, and I was touched by your story, number one. It sounds like you have a lot of things going on. There is no doubt about that. But you were once a single mother, and now you are remarried and you have two children, and very similar to my mother, and so I appreciate what you are doing.

In my home state of Ohio, a family making a median income in my district is about $75,000, and they would see a tax increase of about $1,540 if these taxes are set when they are set to expire. 89,350 families in my district would see their Child Tax Credit benefit cut in half. Let me just say that number again: 89,350 would see that Child Tax Credit benefit cut in half.

So let me ask you, Ms. Marple, can you give me any idea how a tax increase like that would impact your family?

Ms. MARPLE. Yes. Thank you for your question, Congressman, and thank you for the opportunity to talk about families today.

I think that, as I talked about in my testimony, that we are raising kids in a culture of giving up. And as we do our taxes and we find out that the powerful communicator of the government, that we are doing a good job as parents, when we find out that that has been cut in half, that would be—for me, it would mean that I would have received either back less money, or I would have owed money for my taxes, which would have added to the financial burden. But it also would kind of take the wind out of our sails in doing the work that we are doing to build the country, and to fight against this culture of giving up. The tax credit remaining permanent and expanding would just encourage families like mine to not give up.

Mr. CAREY. I want to thank you for that testimony.

I was going to have some other questions, but I am running short on time. But I just want to say I represent the largest city in the state of Ohio, which is Columbus. A recent study by the National Association of Manufacturers found that Ohio could lose upwards of 208,000 jobs, and $18.9 billion in wages, and over $37 billion in gross GDP if we don't extend TCJA. So I just want to point those numbers out again: 208,000 jobs, $18.9 billion in wages, and $37 billion in GDP.

And with that, Mr. Chairman, I yield back.

Chairman SMITH. Thank you.

Mr. Panetta.

Mr. PANETTA. Thank you, Mr. Chairman. Thank you, ladies and gentlemen, for not just being here but for your businesses, for your families, for your communities, all of the work that you do, we appreciate that.

And let me also just start off by saying as someone whose district has experienced many natural disasters, I echo the sentiments of my colleagues that making disaster relief contingent on anything is pretty despicable, and actually politically stupid as well. I understand the rhetoric but doing that to vulnerable and defenseless Americans is absolutely un-American.

Now I appreciate your American stories, especially the fact that government has actually helped you. I think you all have provided some pretty nice stories, and we appreciate that. And I want you to know that we here, even though we are on this side of the aisle, we are rooting for you. We support you, and we want you to continue to succeed.

But in order to continue to help you, to help our Nation, we have got to think about—we have got to talk about how we pay for things. And if we don't, we just can't do a simple extension of the Tax Cuts and Jobs Act, the expiring provisions, because if we don't it is going to be hugely expensive. According to the CBO as we have heard today, it could reach a $4.6 trillion price tag. And with the national debt already at $36 trillion, a deficit at $2 trillion for fiscal year 2024, it is incumbent upon us to not only do something about our debt, we must do something to pay for any type of extension when it comes to the TCJA expiring provisions.

I believe the American people don't want to have an unpaid tax bill, and a bill that will further disintegrate our country's finances and destroy our Nation's credibility. A partisan deficit inflating tax bill is not the solution, and I hope that we, instead, focus on advancing bipartisan legislation that addresses the real challenges that Americans face by figuring out how we pay for those solutions.

Now, when it comes to paying for itself, there have been plenty of estimates that have found that the TCJA has failed to do that, and the reason being is that while certain cuts can spur some growth, they don't spur growth at a rate high enough to offset the cost in revenue.

Now, Mr. Duke, as you shake your head, how much would the economy have to grow to fully offset an extension of the TCJA?

Mr. DUKE. Talking about—I mean, so we have, like, an average tax rate of 20 percent or so, so you need five times the amount of growth coming from that in order to just make it all back. So we are talking 7, 8 percent or something——

Mr. PANETTA. Is that realistic?

Mr. DUKE [continuing]. Yeah.

Mr. PANETTA. Is that realistic? And are the policies of TCJA likely to bring about that growth?

Mr. DUKE. Yeah, absolutely not. CBO showed that it would shrink the economy in the long run. The Tax Foundation, which is right-leaning organization, found that, you know, economic growth only cuts the cost by 14 percent. So it is still just there. You still have a big tax cut you need to pay for.

Mr. PANETTA. Now, it has also been floated that we can eliminate credits from the IRA as a pay-for as you have heard, Mr. Duke, correct?

Mr. DUKE. Yes.

Mr. PANETTA. What would the elimination of energy tax credits in the IRA do to the ability to expand our economy?

Mr. DUKE. Yeah. So, you know, first households would pay higher costs. They would pay more for electricity. They will pay more for, you know, electric vehicles. It also, again, you know, puts us at, you know, kind of under China's thumb, that these are the industries of the future, and they are trying to build them strategically. They are reporting in trillions of dollars to build these industries, and, you know, we need that foothold in the future if we want to, you know, basically go toe-to-toe with them.

Mr. PANETTA. Now, the President-elect has proposed across-the-board tariffs of 10 to 20 percent as well as a tariff of 60 percent applied to imports from China. Some have suggested that these tariffs could be used as a pay-for for the extension of the TCJA.

Now, Ms. Silver, you operate a machining business that according to Customs reports, imports, primarily machinery, gums, resins, and aluminum from the United Kingdom, correct?

Ms. SILVER. No.

Mr. PANETTA. You don't import those?

Ms. SILVER. All of those things you said, no.

Mr. PANETTA. Where do you import them from?

Ms. SILVER. My raw material? It is mainly U.S.

Mr. PANETTA. You don't have any imports to your business?

Ms. SILVER. I am sure there are. We have had some bearing assemblies where we are sourcing bearings, and they are probably not all made here.

Mr. PANETTA. Got it.

Ms. SILVER. But the majority of our raw material is made here.

Mr. PANETTA. Got it. But if you did have imports, they would, obviously, be subject to these tariffs which would lead to price increases for your business, correct?

Ms. SILVER. Correct.

Mr. PANETTA. Right. And is that how you would want—would you want to pay for the TCJA with those price increases?

Ms. SILVER. We are—as you are saying, we are a participant in the global supply chain. And, you know, I would want Congress to tailor any policies, you know, so that we can continue to participate in that and be competitive.

Mr. PANETTA. And would that include price increases on imports for you in your business? Is that what you want?

Ms. SILVER. Well, no. I don't want any price increases on anything.

Mr. PANETTA. Thank you.

I yield back.

Chairman SMITH. The votes are ticking down. I think we will call on one more, and then we will recess and then come back directly following votes. But, Mr. Moore.

Mr. MOORE of Utah. Thank you, Mr. Chairman, for holding this important hearing. To the witnesses, thank you for being here. It has been a slugfest, and there isn't a better more important conversation to be having right now. And I believe my colleagues on the Democrat side that we need to have a focus on deficit. We need to continue to have that. It has been absent since my time in Congress enough to be able to see policy driving forward to do that.

The truth is we need a strong economy. A strong economy will produce revenues. We have seen a consistent 17 average percent as a portion of GDP pre-tax cut, post-tax cut. That is just data. So we are still seeing strong revenues even with tax cuts that we did in 2017. That is where the focus needs to be.

Now, there is a looming deficit that grows continually, and our interest that we are paying on our debt is the largest budget line item that we have had in our last 4 years. That has been increasing about $200 billion a year. That is where the issue is coming. That is where the deficit comes. But our only saving grace, our only fighting chance is to maintain a strong GDP and continue with revenues increasing.

Look, it is important to highlight again—we have touched on it a lot—in my district, the average taxpayer would face a 20 percent tax hike if TCJA expires. A certain part of this bill, it is very important to me and my team and my district is for me to be laser-focused on building the pro-family and pro-growth forms from TCJA to help American families, communities, and small businesses thrive.

Ms. Marple, I appreciate your testimony. Your story is awesome, very important, and I think a lot of people could relate to about the Child Tax Credit, and how these reforms in that 2017 bill provided tax relief to your family. This illustrates the great work that was accomplished in 2017 and how we can build on this this year. It is the reason I wanted to be on this committee is because I knew this was looming, and this is an opportunity to reestablish that.

Yesterday I introduced the Family First Act, legislation to streamline and simplify provisions in the Tax Code and to support working families with an updated and enhanced Child Tax Credit. This will provide tax relief for parents with young children and create a new tax credit for pregnant mothers.

Ms. Marple, how would either a baby bonus, or increasing the CTC amount for children under 5 provide a tax relief for working families? And would this have benefited your family?

Ms. MARPLE. Yes, thank you for the question.

When your family is growing and your kids are young, a lot of changes are taking place. You are changing jobs. Childcare looks different. You need a bigger house. You need a bigger car. There is a lot of pressure put on the family, and life gets really busy. Adding a baby bonus or something like that, like you were referring to in the bill, would definitely help compensate for all of those big changes that a growing family is facing.

Mr. MOORE of Utah. You are highlighting flexibility because you are going through a lot of change. As my kids get a little bit older, they would be mostly outside this range. We are still supporting those families and recognizing it is still expensive. Kids are expensive, regardless of their age, but particularly that first 5 years, the change that happens to the parents and their situation, it is important to make sure that we address that. So thank you for that.

This is something we are really excited about. I think it takes a look at tax provisions that have been around for a while, and when things get stale and have been around, it is time to shake it up a little bit. This Child Tax Credit is a huge increase, and my Democrat colleagues should be very supportive of this. It is a huge increase, but it also offsets it by taking a look at antiquated tax policy that probably needs to be changed or eliminated, and we are doing that, and we are creating a more pro-growth, pro-family approach, and I look forward to continuing to drive this forward.

We also introduced the Small Business Growth Act which would support small business growth by helping small businesses obtain equipment necessary to buy their operations. We have talked a lot about this.

I will just quickly ask Ms. Gallagher and Ms. Silver, anything to add on how important it is to be able to up that? Instead of $1 million, it is going to increase to X number of dollars. Like, it is going to help small businesses be able to buy their equipment and get that right off. Anything to add to that?

Ms. GALLAGHER. I can certainly agree with it 100 percent that that is an incentive to investment. And I would look to our actual business owner here on how she would respond.

Ms. SILVER. And you are talking about section 179?

Mr. MOORE of Utah. 179, yes.

Ms. SILVER. Yes, absolutely, increasing that——

Mr. MOORE of Utah. As in increasing that threshold.

Ms. SILVER. Yes, that would help us tremendously with planning and drive investment, which makes us more competitive and gets our customers what they need.

Mr. MOORE of Utah. And a point that I make when I am back home is I say, Okay, if you have that ability to invest more, guess what? That other company that is selling you that equipment, they are now paying more taxes because they are excited about their business growth, so they are—they think we are still contributing to tax revenues. It is not a decrease in taxes. It is actually spurring significant economic growth, and that can't be discounted.

Thank you so much. I yield back.

Chairman SMITH. All right. We will recess until after votes, and then we will begin right after that.

[Recess.]

Chairman SMITH. The meeting will come back to order.

Mr. Yakym.

Mr. YAKYM. Thank you, Mr. Chairman.

I ask unanimous consent to enter into the record two documents from the Blueprint for Life Coalition, as well as a letter from the Americans United for Life.

Chairman SMITH. Without objection.

Ways and Means Script

Entering Documents Into the Record

Mr. Chairman, I ask unanimous consent to enter into the record two documents from the Blueprint for Life Coalition, as well as a letter from Americans United for Life.

[Wait for response]

December 4, 2024

The Honorable John Thune
Majority Leader-designee
United States Senate

The Honorable Mike Johnson
Speaker
United States House of Representatives

Dear Leader-designee Thune and Speaker Johnson,

On the second anniversary of the overturning of *Roe v. Wade*, we launched the *Blueprint for Life Coalition*, an alliance of more than 20 national pro-life groups and advocates committed to defending life by providing for vulnerable children and their parents. Our coalition's central policy platform, called the "Blueprint for Life," provides a clear path forward for policymakers to increase support for new parents and their children.[1] As members of this coalition, we write today to urge you to prioritize policies in the 119th Congress focused on defending the dignity of life and the needs of vulnerable families in our nation.

Millions of low-income and working-class parents are faced with the daunting and ever-increasing costs of raising a child. Nationwide polling consistently shows that one of the key reasons parents delay or fear childbearing, or even choose to have an abortion, is because of financial strain and related instability. This should not be the case. Millions of young parents are raising the next generation of fathers and mothers, citizens, workers, and taxpayers who will continue to strengthen and build our great nation. Being pro-life includes advocating both against abortion and for a culture of life that ensures families have the resources, opportunities, and environment needed to support their children. There is no time in parenting when these resources are more needed, or more scarce, than in the early child-raising years.

We urge you to prioritize policies that protect life and strengthen families in this coming Congress, and ***particularly the many legislative proposals promoting timely expansion of the Child Tax Credit and provision of Paid Family Leave.*** These policies will provide crucial support for families in our nation, allowing struggling parents to maintain connection to the workforce while raising their kids and ensuring children have the flexible resources they need to grow and thrive. They are also incredibly popular across the political spectrum, sending a strong message to the American people: Our leaders agree that families are the backbone of our nation, and they will be prioritized as such.

As a new Congress approaches, you have an opportunity to set a transformative agenda that improves the lives of American families and vulnerable children. The millions of pro-life

[1] https://www.blueprintforlifecoalition.com/

advocates we represent are eager to support policies offered by this Congress that advance the cause of life and family. We urge you to put forward an agenda worth defending.

Sincerely,

Kristan Hawkins
President, Students for Life Action

Terry Schilling
President, American Principles Project

Jon Schweppe
Director of Policy, American Principles Project

John Mize
CEO, Americans United for Life

Lila Rose
President & Founder, Live Action

Kimberly Fletcher
Founder, Moms for America

Carlos Duran
President, National Hispanic Pastors Alliance

Samuel Rodriguez
President & CEO, National Hispanic Christian Leadership Conference

Michael Kenney
President, Pro-Life Partners Foundation

Jor-El Godsey
President, Heartbeat International

Walter Kim
President, National Association of Evangelicals

Jeff Bradford
President, Human Coalition

Catherine Glenn Foster, M.A., J.D.
President & CEO, First Rights Global

Kristen Day
Executive Director, Democrats for Life

Abby Johnson
CEO & Founder, And Then There Were None

Kristina Miller
Vice President, ProLove Ministries, And Then There Were None

Charles C. Camosy
Professor, Creighton University School of Medicine

Leah Libresco Sargeant
Other Feminisms

Americans United for Life

October 15, 2024

The Honorable Jason Smith
Chairman of the Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

Dear Chairman Smith and House Ways & Means Committee Members,

Thank you for the opportunity to offer potential options that the committee could address through a reconciliation package in the 119th Congress. Established in 1971, Americans United for Life (AUL) is a national law and policy nonprofit organization with a specialization in abortion, end-of-life issues, and bioethics law. AUL publishes pro-life model legislation and policy guides, tracks state bioethics legislation, and regularly testifies on pro-life legislation in Congress and the states. Our vision at AUL is to strive for a world where everyone is welcomed in life and protected in law.

America's children and families deserve our support. The historic *Dobbs v. Jackson Women's Health* decision by the Supreme Court cleared the way for Congress to debate and enact greater protections for millions of unborn children and their mothers.[1] As a pro-life organization who has long advocated for such a decision, we understand that the work of upholding the sanctity and dignity of life is far from over. Many mothers and families face significant health and financial challenges throughout pregnancy and into the early years of raising a child. We can, and should, consider how to encourage our nation to do more to provide for their needs.

Parents from all walks of life are keenly aware of the financial challenges associated with raising a child. In 2022, the estimated cost of raising a child through the age of 17 was over $300,000. According to one recent poll, around 50 percent of parenting-age adults wish they had more children than they do. When the New York Times asked parents in 2018 why they are having less children than their ideal number, a majority said childcare was too expensive, with around 44 percent simply saying they can't afford more children. Inflation has only exacerbated these challenges, leaving many parents in a daunting position, even as they courageously prepare to welcome a new child into the world.

[1] 142 S. Ct. 2228 (2022).

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Supporting life means advocating for mothers and children to have the resources they need to successfully have and raise a family. Americans understand this. We write to reiterate our support for the expansion of pro-life and pro-family policies and request that Congress prioritize the following requests in potential upcoming reconciliation packages.

Proposal #1: Enact a tax credit for pregnancy resource centers

Pregnancy resource centers (PRCs) are nonprofit organizations that have helped vulnerable women and men facing unplanned pregnancies since the late 1960's. These centers were founded to provide pregnancy related resources and life-affirming support at a time when states were pushing to legalize abortion. Today, there are nearly 3,000 PRCs across the country offering a variety of services typically at no cost including:

- Pregnancy tests
- Ultrasounds
- STI and STD testing
- Material assistance such as diapers and baby clothes
- Referrals for additional medical care and community resources
- Educational classes including sexual risk avoidance and parenting skills
- Options counseling
- After-abortion recovery care and support
- Fatherhood programs

Pregnancy centers are run by dedicated staff and volunteers. According to a Charlotte Lozier Institute report, eight out of ten workers in 2019 were volunteers, including more than 6,400 medically licensed volunteers. PRCs and their workers are a critical lifeline for women who want to carry their babies to term instead of getting abortions, including women who are being pressured into abortion or who are facing difficult circumstances.

Millions of clients receive assistance at PRCs on an annual basis. A 2022 report, Hope for a New Generation, contains national survey data on pregnancy center services and is a collaboration of Charlotte Lozier Institute, Care Net, Heartbeat International, and National Institute of Family and Life Advocates. The report found that in 2022, "pregnancy centers met with clients over 16 million times, both in person and virtually, with an estimated total service value of at least $358 million annually." These numbers are astounding considering that most services are available at no cost and speak to the dedication of pregnancy center staff, volunteers, and donors.

Many pregnancy centers run on shoestring budgets, and a tax credit could help them significantly increase their valuable impact within their communities. An effective tax credit should:

- Equal to no less than 50% of contributions to pregnancy resource centers made during a taxable year, and
- Not have an upper limit less than $5,000 per year, or $10,000 for joint filers.

Senator Hyde-Smith's *Pregnancy Center Support Act* is a good framework for this. We also have a policy guide for our bill, the *Pregnancy Options Tax Credit Act*.

Proposal #2: Strengthen and expand the child tax credit

Over the years, there has been broad, bipartisan agreement around expanding the Child Tax Credit (CTC) to provide additional resources to children and families. Recently, there have been three major proposals have been made to reform the CTC: Chairman Smith and Senator Wyden's *Tax Relief for American Families and Workers Act of 2024,* Senator Romney's *Family Security Act*, and the Representative Hinson and Senator Rubio's *Providing for Life Act*. We believe all these proposals have good elements and have endorsed each one.

In our polarized times, few policy priorities both enjoy bipartisan agreement and promise to make a significant difference in the lives of millions of American children and their families. The CTC expansion is such a policy. We ask for your attention and prioritization of this important matter.

Another critical aspect of supporting mothers is recognizing the upfront costs of having a child. Ranging from prenatal care to building a nursery, these costs can be significant well before the child arrives. To help mothers and fathers prepare, we believe that the Child Tax Credit should be expanded to include children in the womb. Senator Daines' *Child Tax Credit for Pregnant Moms Act of 2023* provides such a model.

This bill allows a child tax credit for the tax year the child is in the womb if the child is born alive. It also allows the credit upon certification that a mother's pregnancy resulted in a miscarriage (the involuntary death of an unborn child who was carried in the womb for less than 20 weeks) or that the child was stillborn (the involuntary death of an unborn child who was carried in the womb for 20 weeks or more). It guards against abuse by prohibiting those who intentionally terminate the child in the womb from profiting by it.

Proposal #3: Allow Pregnant Mothers to Receive Child Support

Alongside financial concerns, one of the primary reasons women give for terminating the life of the child in her womb is a lack of a supportive relationship as they are often abandoned or coerced to terminate by the child's father. Without recourse, they are often left alone with the weight of responsibility for carrying a child. Ensuring that the other actor in the conception of the child is held accountable is a critical element of promoting a culture that values life.

One excellent way to support expecting mothers and their unborn children, is the *Unborn Child Support Act* that was reintroduced by Senator Kevin Cramer and Representative Claudia Tenney. This bicameral bill would allow mothers to receive child support from the father of the child during pregnancy.

By recognizing the burden of raising children starts at conception and not at delivery, this piece of legislation places the responsibility square on the shoulders of both the mother and the father. It also protects the child by directing all paternity tests be at the discretion of the mother and not to be conducted if the test puts the child at risk.

Proposal #4: Strengthen and expand the foster care and adoption tax credit

Every child deserves a family. We need to do everything we can to help more American families with the support they need to provide a permanent, loving home to children in the U.S. and around the world. Strengthening and expanding existing foster care and adoption tax credits is another great step in promoting the flourishing of these families.

Every year, more than 20,000 youth age out of the foster care system. We need to bring more vulnerable children and youth into permanent, loving families.

One proposal that could be enacted is Senator Casey's *Adoption Tax Credit Refundability Act*. This legislation will make the current adoption tax credit fully refundable to help make adoption a supported option for more families, removing income barriers to adoption for low and middle-income families, which represent the majority of families who adopt from the foster care system.

AUL stands ready and willing to assist in developing a more pro-life and pro-family tax system.

Thank you for your consideration of our request and your hard work defending life at all stages, from conception to natural death.

Sincerely,

John Mize
Chief Executive Officer
Americans United for Life

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BLUEPRINT FOR LIFE®

Supporting Children and Parents

in the Fourth Trimester and Early Years Campaign

The coalition supports the following policy pillars as a blueprint to build and strengthen a culture of life in our nation:

Providing Parents with Flexible Resources to Support Birth and Early Childhood:

Parents consistently report the financial burden of childbearing and childrearing, more than half of abortions take place among low-income families, and women choosing abortions consistently cite financial limitations as a reason for choosing to abort the child. A greater culture of life would minimize the financial burden on parents to underscore the moral and societal value of preserving such life. To do so, the coalition promotes two core policies: **extension and expansion of the child tax credit** (including greater levels of refundability) and institution of a **federal paid family leave policy** to get more resources in the hands of parents in the fourth trimester.

Making Childcare Possible:

Many pregnant moms and new parents face the dual stressors of being present for a new child and ensuring they have the resources to support their families. Safe and affordable childcare is essential to making this possible, particularly for low- and middle-income families who cannot meet their needs under a single earner. The coalition supports **increasing resources for childcare, ensuring that faith-based providers have access to such resources, and leveling the playing field for families that would prefer a stay-at-home parent or relative care.**

Meeting Healthcare Needs:

Healthcare challenges are at the forefront of pregnant moms' and new parents' minds. The coalition supports strengthening healthcare resources and services for children and parents, mainly by examining services available under SCHIP and the WIC program, expanding Medicaid to cover post-partum care, and greater support of community health **and pregnancy resource centers.**

Supporting Adoptive Parents:

Supporting adoption is one of the most important ways to create communities of care and a culture of life. The availability of adoptive services can be a significant motivator for mothers to carry a child to term. The coalition supports reducing the financial burdens of adoption by expanding **the adoption tax credit** and taking steps to **simplify and streamline the adoption process, strengthen the foster care system through nonprofit partnerships,** and **harmonize resources available to biological and adoptive parents with young children.**

Increasing Information Availability to Pregnant and New Mothers:

Many pregnant and new mothers are unaware of the array of federal, state, and local resources available to them to support them in their pregnancy and parenting journey. The coalition supports greater clarity and availability of resource information by creating **a national "one-stop" online resource website** and **increasing information available on college campuses and workplaces.**

Ensuring Information Access and Greater Partnership Between Government, Faith-Based, and Nonprofit Partners:

Churches, nonprofits, and other private organizations are essential players in a culture of life and already account for billions of dollars of care-related resources. These organizations provide crucial resources and offer relational networks needed to support new parents and children and set them up for lifelong growth and care. The coalition supports **greater information-sharing between government and faith-based/nonprofit organizations, resources to support nonprofit and faith-based social services initiatives,** and **more robust legal protections for faith-based organizations partnering with government actors.**

Strengthening mentorship opportunities and relational networks:

Research consistently shows that strong relational networks and dedicated mentoring are among the most effective means of advancing upward mobility and helping families navigate the complexities of post-pregnancy life. Children and new parents need these relationships, not just financial support, to ensure long-term flourishing. The coalition supports **mentoring initiatives in partnership with local and faith-based organizations and a greater focus on mentoring partnerships in schools and social services programs.**

The coalition supports robust advocacy for these pillars on both a federal and state level, recognizing that in many cases, states have greater capacity to pass laws suited to their residents and context than the federal government. As such, the coalition encourages states to examine these pillars and implement policies advancing them as they work to **protect and defend life.**

Mr. YAKYM. I want to start by saying what an honor and privilege it is to be here on my first Ways and Means Committee hearing. A seat on Ways and Means matters a great deal to the people of Indiana with two great Hoosiers having served before me, our dear late friend, Jackie Walorski, and Senator Todd Young before her. I hope to follow in their footsteps with hard work, compassion, and Hoosier common sense.

I look forward to working with my colleagues on both sides of the aisle toward pro-growth tax, regulatory and trade policy so that manufacturers, innovators, and job creators can expand, hire, and invest, so that agriculture producers can compete and win in markets new and old, and so that families have the best shot at achieving the American dream.

I am glad that we are kicking off the 119th Congress by highlighting the importance of making President Trump's tax cuts permanent. The Trump tax cuts have been transformational for families and small businesses in my district. If they expire, the average taxpayer in my district will see a 27 percent tax hike. That is $1,252 for the average family of four in my district. That cannot be written off as mere crumbs. It is real money for the average hardworking Hoosier family that is trying to live within its means.

Ms. Marple, I am a father of three, so I greatly appreciate your time here to testify today. I know it is no small task. I thought you were so spot on with your testimony when you called the Child Tax Credit a simple, significant way for the Tax Code to communicate the value of hardworking parents raising their children at a time of high inflation. That is why I am concerned that over 87,000 families in my district would see their Child Tax Credit cut in half if President Trump's tax cuts were allowed to expire.

Ms. Marple, my colleagues on the other side of the aisle like to talk about their enlarged Child Tax Credit as they temporarily created during the pandemic, but you mentioned that you and your husband have worked so hard to support your family and that you are not looking for a handout.

Can you talk more about the value and importance of work as a requirement for receiving the Child Tax Credit?

Ms. MARPLE. Thank you for your question.

Yes, I think there is a big difference between receiving an encouragement from the government and something that produces encouragement, and something that produces entitlement. And the truth is the desire of me and a lot of other parents is to work hard to provide for our family. There is a fulfillment there. And so, being uplifted and having that burden of supporting our family lightened, it goes a long way and——

Mr. YAKYM. All right. Thank you.

Ms. MARPLE. Yes.

Mr. YAKYM. And one more quick question. If the Trump tax cuts were to expire, not only would the credit be cut from $2,000 to $1,000, but a requirement for children to have a Social Security number would expire as well.

Now, after 4 years of the Biden-Harris administration's failed open-border policy that saw nearly 9 million illegal immigrants come across the southern border, do you think it is fair that your hardworking tax dollars that you worked hard for could potentially go to people who are not here in this country legally?

Ms. MARPLE. No.

Mr. YAKYM. Thank you.

Mr. Duke, you seemed to imply that families making over $400,000 a year shouldn't be able to claim the Child Tax Credit at all. Fair enough. I want to highlight an August 2024 article from Politico which reads, quote, "Upper income homeowners are scooping up billions of dollars in tax credits for making their residences more energy efficient while the poor are getting almost nothing under the same Biden administration effort."

Should the federal government be subsidizing people making over $400,000 who want to put solar panels on their roof?

Mr. DUKE. You know, I am not an energy expert, but I think that, you know, those credits are, you know, about creating, you know, a supply chain in an industry that really, you know, puts us forth into the 21st century——

Mr. YAKYM. You are not an energy expert, but you are a tax expert.

Mr. DUKE. Yeah.

Mr. YAKYM. So do you think that those tax credits should go to families who are making more than—wealthy families making more than $400,000 per year?

Mr. DUKE. I think it was designed well.

Mr. YAKYM. So what about the EV tax credit, which is capped at $300,000 a year? Do you think that that cap should be removed and we should pay for wealthy families' electric vehicles?

Mr. DUKE. Look, I think that Congress, you know—and we are going to see this when we talk about extending the 2017 tax law—obviously has a lot of different, you know——

Mr. YAKYM. What do you recommend?

Mr. DUKE. I would actually have to know more about EVs and, you know, wish to know, like, exactly what the right level would be for——

Mr. YAKYM. Thank you for your nonanswer.

Mr. Chairman, I yield back.

Chairman SMITH. Mr. Gomez.

Mr. GOMEZ. Thank you, Mr. Chairman.

Before I get started, I just want to say to Angelinas—I represent Los Angeles—I am committing to securing whatever resources necessary to fight these fires, but also help people rebuild their lives. I know it is going to be a long road ahead.

Also, I did go back, because of the fires, this weekend and I visited—I was in my district. And in my household, we do what other households do, we divide the chores, and one of my chores is to go grocery shopping. So I went to the store, and I picked up some of the basics, Cheerios, eggs, soup, nothing unusual, nothing fancy, no sparkling water or prime rib. It was the basics. And as I was leaving the store, I was looking at this receipt. And as I looked at the receipt, I was, like, $65, not too bad, but then I remembered I went to the store earlier that day and spent $20 for milk, bread, oranges, and strawberries. I have a toddler, and they eat a lot of strawberries. And a few days before that I spent $150 for groceries that included diapers. So, in one week, I spent $235. That is a lot of money. Unfortunately, my family isn't alone trying to pinch pennies and trying to watch what they are spending.

So as we start this debate, I will keep in mind all of those families that look at their receipts at how much they are spending. Families are feeling the pain of higher prices, families with children, families that work multiple jobs, mom and dads that go to a morning job and an evening job and a weekend job just to make ends meet, just to pay their rent.

And I want to be clear. Last November, families didn't vote to keep treading water. They voted for a government that will lower prices and help them get ahead. But what the Republicans are offering is more of the same, high prices and tax cuts for billionaires and the ultra-wealthy, while working people fall further and further behind.

So how do I know that? Let's just look at what they did in 2017. In 2017, Republicans had a choice, and they chose to give permanent tax cuts to corporations and gave temporary tax cuts to families and individuals. And if that wasn't true, then we wouldn't even be having this hearing today.

The benefits of the last great tax bill as the Republicans claim went to the top income earners. The top .1 percent got a $250,000 tax cut while working people got around 500 to 600 per year.

Mr. Duke, will extending the Republican tax plan, or the TCJA, do anything to lower costs?

Mr. DUKE. No.

Mr. GOMEZ. No. So, to my Republican colleagues, let's write a truly bipartisan bill that actually makes America affordable. Let's work to lower the costs of housing by cutting red tape, incentivizing building across the country. Let's lower the costs of childcare by investing in the workforce and the small business entrepreneurs that provide that care. Let's lower the cost of groceries by preventing monopolies from squeezing out the little guy.

I know Republicans often say that we don't have the money for these sorts of investments. But Mr. Duke, let me ask you this: If we made Elon Musk, Mark Zuckerberg, the ultra wealthy and the big corporations and all their billionaires pay their fair share in taxes, do you think we could afford these things that I just mentioned?

Mr. DUKE. Absolutely. The Biden budget contained a minimum tax on billionaires with reforms to how we tax capital gains for the highest income Americans, erased trillions of dollars.

Mr. GOMEZ. So, I would like to also point out that people talk about the establishment in D.C. You know, they say it is one day the blue establishment, the other day it is the red establishment. See, I don't think there is a blue establishment or a red establishment in D.C. I think it is the new green billionaire establishment. And it is our job to push back against those individuals that want to pass a tax structure that benefits themselves at the expense of the working class.

Mr. Chairman, I have a question for you.

Chairman SMITH. Yeah. That is kind of unusual, but go ahead, Mr. Gomez.

Mr. GOMEZ. Well, this is an unusual time. Let's say we actually get together in a room and negotiate a bipartisan tax plan that benefits the working people, invests in what we want, if Elon Musk tweets to you to throw that out, will you reject Elon Musk's request or will you guys capitulate like you did in December?

Chairman SMITH. Mr. Gomez, the only person that the Republicans are beholden to are the people that send them to Washington, and Elon Musk is not a constituent.

Mr. GOMEZ. Okay. Well, see, we—call me skeptical, but what I saw in December was dastardly. So, if you guys are wanting to negotiate a real bipartisan tax plan, let's do it and let's get something that helps lower costs for the American people.

With that, I yield back.

Chairman SMITH. Mr. Miller.

Mr. MILLER. Thank you, Mr. Chairman.

I am glad Mr. Gomez used his 5 minutes for a Twitter clip. Thank you. But thank you, Mr. Chairman, and thank you to our witnesses for their time and testimony today.

I am honored to be joining the Ways and Means Committee with a shared goal. That is to drive forward an economic agenda that ensures the United States remains the global economic leader.

Today, we are here to discuss the need to make the Trump tax cuts for working families permanent, ensuring prosperity for families and businesses across the nation. The Tax Cuts and Jobs Act championed by President Trump was a transformative bill that provided much-needed relief to businesses and spurred investment across the country as we have heard here today. It reduced the corporate tax rate, introduced full expensing for equipment purchases, and created a business environment that encouraged growth, innovation, and greater global competition. These provisions gave companies the certainty to reinvest in their operations, hire workers, and strengthen their local communities.

I proudly represent Ohio's 7th Congressional District, a region with a strong manufacturing and agricultural backbone. These policies drove significant job creation and economic revitalization to the area. Small businesses and farmers all benefited from the ability to reinvest their capital savings, expand their operations, and provide good-paying jobs for hardworking Ohioans.

But it wasn't just businesses that saw the benefits of this historic legislation. For individual taxpayers, the act expanded the standard deduction, simplifying tax filing and putting more money back into the pockets of working families. This simplification was transformative, especially in working-class communities where most taxpayers claim the standard deduction. By eliminating the need for a complex and time-consuming itemization process, the expanded standard deduction has made tax season far more efficient and far less stressful for millions, millions of Americans.

In my district alone, 93 percent, 93 percent of taxpayers and families claim the standard deduction when filing their taxes and underscoring its vital role in simplifying their financial interactions with the government. Maintaining the current standard deduction levels allows families to focus on their priorities, whether saving for the future or supporting your children or investing in their homes while enjoying greater financial security.

Ms. Gallagher, we know that the increased standard deduction significantly boosts disposable income for families directly benefiting individual taxpayers. However, it is clear to me that the advantages for households and businesses are deeply, deeply interconnected as stronger household finances drive broader economic growth and support local businesses.

Can you please comment on how the standard deduction affects disposable income for families, and have you observed any indirect impacts on small businesses or local economies with high reliance on this deduction?

Ms. GALLAGHER. Thank you for that question, my fellow Midwesterner.

Absolutely, the standard deduction has been a life-changer for individuals, and, frankly, my fellow tax preparers. As you were talking about tax season being made so much easier, for me, my staff, it has been a tremendous help from that perspective.

The taxpayers, however, on that side have received significant tax savings. Many of them were far under that level even when they itemized, and so the standard deduction gave them increased deduction; i.e., less taxes to pay and more money in their pocket to contribute to their communities and to their own households.

So I absolutely saw a direct impact on individuals and small businesses in my communities.

Mr. MILLER. Thank you for that answer, and I have as well. And as I will just restate, 93 percent of our constituents in the 7th District of Ohio use standard deduction.

Ms. Silver, in your opening testimony you highlighted how small- and medium-size manufacturers are leveraging the current TCJA and tax benefits to reinvest in their local communities and expand their workforce. However, with many of these provisions set to expire at the end of this year, we face the potential loss of nearly a quarter of a million jobs just in my home State of Ohio, as Congressman Carey earlier mentioned that to my right.

Could you elaborate on the specific negative impacts that businesses like yours and others across the country would encounter if these critical tax benefits are allowed to expire?

Ms. SILVER. Well, I will expand upon what I have been able to do because of TCJA. So when you think about that, it is like I am not going to be able to do this stuff when all of these tax policies expire. So one example is I was able to use the 199A pass-through deduction to reinvest in my company. We bought our first collaborative robot. It is integrated with one of our lathes. It is two spindles. It allows us to run this machine unattended at night. So it increases my throughput, my productivity, and so much so, I was able to go to my customer in the fluid motion control industry, come down on his price and then still have a healthy profit myself.

So it was a win-win for the manufacturing supply chain that I was able to use that deduction to reinvest in my company. So if it expires, these are the things I can't do.

I also can give you another example if you would like.

Mr. MILLER. It is up to the chairman.

Ms. SILVER. Okay.

Chairman SMITH. All right.

Mr. MILLER. Yes, ma'am.

Ms. SILVER. We created a high school internship program. It is a job shadowing program. Our local high school, 100 percent of the students are economically disadvantaged, and it allows the students to come in and job shadow on the factory floor. These are students that have never been exposed to manufacturing before. And I bought equipment so they can train on this, and it has impacted our community. It has impacted our culture. And now I have, you know, two full-time apprentices learning the machining trade.

Mr. MILLER. Thank you for sharing that, Ms. Silver. I am out of time, but thank you for sharing that with the American people. I truly appreciate your testimony and all the witnesses here today.

Thank you, Mr. Chairman. I yield back.

Chairman SMITH. Thank you.

Mr. Bean.

Mr. BEAN. Thank you very much, Mr. Chairman. Good afternoon to you. Good afternoon, Ways and Means. Our witnesses, what an honor to have you here. I know it is hard work to testify for going on, what, our fifth hour now.

First of all, this is my very first time to speak in the committee. It is indeed an honor and privilege to serve on this committee. I fought to serve on this committee for the same reason that I fought to serve in Congress. Our country is in trouble. I believe debt is one of our greatest challenges. We have got to fix it, and we continue to dig. We continue to go in the wrong direction.

So, Mr. Chairman, you and Ranking Member Neal, I look forward to working with each of you as we build a strong America that can once again be that shining city on a hill to serve as a beacon for countries around the world.

Ms. Marple, you have testified what a game changer the tax credit is. You have said that it has made a tremendous difference for the Marple household. Is that correct?

Ms. MARPLE. Yes.

Mr. BEAN. Okay.

So are you a billionaire?

Ms. MARPLE. No.

Mr. BEAN. Wait a minute. You must run a Fortune 500 company. Is that correct?

Ms. MARPLE. It is more like a small business.

Mr. BEAN. Okay. So wait a minute. I am confused, Mr. Chairman. All I hear is that Trump's tax cuts have only benefited billionaires, Fortune 500 companies. And I looked at your income, Ms. Marple, and it's part of your testimony. It is $75,000. Is that correct, about right?

Ms. MARPLE. That year, yes.

Mr. BEAN. That year. That year, but it is true then that you are not a billionaire. I don't understand how the Trump tax credits could help somebody like you making that amount of money, but yet it did. Was it a game changer for you, Ms. Marple?

Ms. MARPLE. We work for the wealthy, and they pay our paychecks.

Mr. BEAN. But getting that tax credit, that really made a big deal for you. I mean, in your testimony you said it is. And, by the way, we are all very proud of you. Who is very proud of you are those folks for raising those three boys. I too raised three boys, and before you know it, they are taller than you, they are out the door, and it is the most important thing that we do on this planet is to launch successful kids. You are doing the right thing, and we are proud of you so much.

Ms. Couch, you also have testified that—by the way, Ignite, I have watched you grow 200 clients. You are rocking it, too. You have testified that your clients have done so well. Is that correct?

Ms. COUCH. My clients are doing well, thanks to the tax credit.

Mr. BEAN. Very good. Now, wait a minute. So that means they are all billionaires. Is that correct?

Ms. COUCH. They are not billionaires.

Mr. BEAN. Wait. I don't—they are a Fortune 500—did you just do Fortune 500 exclusively? Is that right, Ms. Couch?

Ms. COUCH. No, far from it.

Mr. BEAN. Okay. So it is amazing because all we hear, it helps the rich, the top 10 percent, 1 percent, or whatnot, but yet we both know—and I can see the look in your eyes. You are the movers and shakers. That is who you do, the people that employ, put this country to work, that is your clients. And I know your folks are proud of you for rocking Ignite.

Ms. Silver, we are all proud of you of what you have done right now. I am going to go to a scary place. I want to go to a very scary place. It is a scary question, and that is this: If the qualified business income credit were to go away and you were faced with a 43 percent tax rate, your company and you, that rate, which, by the way, is much higher than Communist China, what does that look like? Is that a grim picture? Is that a scary question? What is going to happen?

Ms. SILVER. Yeah, it is not good.

Mr. BEAN. So you might have to lay off Mr. Robot that you bought. You might have to do some other big drastic decisions. You have got 20 employees that are depending on you whether or not food goes on their table. Can they depend on you if you are having to pay a 43 percent income tax rate?

Ms. SILVER. No. And so we——

Mr. BEAN. It is going to be challenging?

Ms. SILVER. Right. And we have been talking about, like, what we do with these tax policies, how we reinvest.

Mr. BEAN. Yes.

Ms. SILVER. But a contrasting example that I could give you——

Mr. BEAN. Yeah.

Ms. SILVER [continuing]. Is that, you know, there is economic downturns. There's normal business fluctuations and so——

Mr. BEAN. You are going to have to make hard decisions is what you are saying. Is that right, hard decisions? Hard decisions? Yes, that is hard. It is hard. It is scary to listen to it.

I would take you back to 2017. Let's remind everybody, because we have got the receipts of what happened in 2017. Adele's "Hello" was playing on the radio, "Dunkirk" was the top movie, and Trump had just passed tax cuts. Let me tell you what happened. Net worth among low-income families rose 37 percent, while middle-income families' net worth increased by 40 percent. Even the bottom 20 percent of earners' incomes rose—we saw the economy getting on fire. And that is what we are going to have to do. If we are going to solve our economic woes, yes, we have to have economic growth. We have to make cuts. I am making cuts. We are going to make cuts. But we also have growth in our economy.

And, good gravy, I have only got through page 1. It is going to be really tough to ask all of these questions.

So with that, Mr. Chairman, looking forward to working with you. Thank you again. I yield back.

Chairman Smith. Thank you.

Mr. Horsford.

Mr. HORSFORD. Thank you, Mr. Chairman, and to the ranking member for this important hearing and also to our witnesses for being here for what has been a long day for all of you.

Look, my colleagues have noted, and it is fact, that the top 1 percent of households received the most benefits from the TCJA. Let me put that in perspective, though. Data from the Center on Budget and Policy Priorities found that those making over $800,000 on average saved $61,000. Congress' own nonpartisan Joint Committee on Taxation says that millionaires saved over $78,000 each year.

Now, for someone living in Tonopah, Nevada, which is in a rural part of my district in the center of Nevada, that is double their median salary. The constituents in my district have called on me to help them cut household expenses, to put more money back in the pockets of hardworking people like them, and that is why I introduced the Tipped Income Protection and Support Act, no tax on tips. Tips is a gift, not a guarantee, and I hope that the chairman will agree and work with me on my bill. The TIPS Act would exempt income tax of tipped wages for many working-class families.

But let me be clear. I will work with anyone on this committee that wants to help working families keep more money in their pockets. However, working-class families can't afford a tax scheme that benefits the top 1 percent and doesn't help them.

Mr. Duke, when drafting the TIPS Act, I put income caps to ensure that only working-class families can receive the bill's benefits. Should we consider income caps on TCJA programs that predominantly benefit the wealthy, like 199A?

Mr. DUKE. That's right. Treasury—yes, that is right.

Mr. HORSFORD. Yes?

Mr. DUKE. Yes.

Mr. HORSFORD. Okay. Look, I am glad that we have so many small businesses here today, and that is intentional, because there was a choice made when they passed this bill in 2017. They made the tax breaks for the big corporations and the wealthy permanent, and they made the tax reductions for you temporary. And now they are here to say that unless we pass the entire bill, it is going to hurt you. Well, my question is why didn't they prioritize you to begin with? Why didn't we make the small business tax reductions permanent and the corporate tax reductions temporary? That was the choice they made.

Now, what is also important is that the bottom 90 percent of workers' wages were unaffected by changes in the corporate tax rate. I am glad, as I said, that we have business owners like Ms. Silver here in this discussion because we need to focus more on small business efforts, and I commend you for everything that you are doing, including your jobs program. You are the ones who have accounted for 62 percent of net new job creation since 1995, you, small businesses. Small businesses account for 98 percent of the firms in the State of Nevada.

Mr. Duke, the topic of this hearing is "The Need to Make Permanent the Trump Tax Cuts for Working Families." Given the information that I just shared, can you explain how reducing the corporate tax rate helps small businesses and working families?

Mr. DUKE. No, I cannot.

Mr. HORSFORD. Because——

Mr. DUKE. Cutting the corporate tax rate, you know, for one thing, it increases our debt, which increases interest rates, which, you know, makes it much harder for startups and, you know, small businesses to survive. And at the same time, you know, obviously, they have to compete with, you know, these big corporations, especially when they all say, you know, especially multinational corporations pay half the rate, corporate rate on their overseas profits. That is something that is not available to American small businesses.

Mr. HORSFORD. So here we are now. This is a tax scheme that if we renewed it with no changes would cost the American people $4.6 trillion. What can we do with $4.6 trillion? We could lower costs. We could expand the Child Tax Credit, which is not an entitlement. Working families, like Ms. Marple, deserve to get benefits from our Tax Code, not just big corporations. We could build more affordable housing. We could put more money into low income and affordable housing for all families, including veterans.

That is why I have introduced legislation to take on corporate landlords that are gouging renters and making housing less affordable, yet the TCJA isn't helping the housing market. Extending the bill doesn't help build up the supply of housing, nor is it helping lower housing costs for buyers and renters like my bill would do, the HOME Act.

So work with us. Let's come up with a more reasonable approach. Let's use the Tax Code to help small businesses, to drive the economy, to help families who are struggling. That should be our priority, not billionaires and big corporations.

I yield back.

Chairman SMITH. Thank you.

Mr. Moran.

Mr. MORAN. Thank you, Mr. Chairman.

For the panel, let me give you a little foundation about my district, the 1st District of Texas, 17 counties, rural northeast Texas. And let me provide this foundation of what the impact was of the TCJA back in 2017, and what would happen if it expired, and then I want to ask some questions.

Expiration of the TCJA in my district alone for our businesses there would put 12,000-plus family-owned farms in Texas 01 in jeopardy because of having their estate tax exemption slashed in half next year. 37,000-plus small businesses in Texas 1 would be hit with a 43 percent tax rate increase if the 199A small business deduction expires. And the failure to renew certain pro-manufacturing initiatives in the TCJA puts nearly 14,000 jobs in my district at risk.

These statistics underscore a larger theme that cross several industries. Whether it is agriculture, small businesses, or large manufacturers, the TCJA promotes the growth of business in America.

Now more than ever it is important to ensure that Congress continues to put Americans first by providing the tax incentives for American businesses to grow themselves. Restoring the immediate R&D expensing provision in the TCJA is a prime example of putting Texan and American businesses first. As you are aware, up until 2022, the Tax Code allowed manufacturers to immediately deduct 100 percent of R&D expenses in the year that they were incurred. At present, the U.S. is just one of two countries without this essential innovation incentive.

Meanwhile, China offers things like a super deduction for research spending, and is not the only nation providing more than that attractive R&D incentive. Over 15 other countries now offer deductions surpassing 100 percent of eligible R&D costs making the U.S. a less attractive and competitive environment for research and development.

Ms. Silver, I want to come to you first. Since you were the National Association of Manufacturers, Small Manufacturers chair, tell me, in your expert opinion, what impacts, if any, results from the U.S. having weaker R&D incentives than other countries, especially countries like our adversary, China?

Ms. SILVER. Well, R&D is what our country is built on. I manufacture parts. I machine parts that are built from companies' equipment, mainly equipment manufacturers who are using R&D tax policies, R&D money, R&D support to come up and innovate with new product lines. So this is what our country is built on is research and development and innovation.

Mr. MORAN. And it is critical to have that immediate 100 percent expensing in the year that those expenses were taken so that those businesses will be incentivized to innovate and grow. Is that right?

Ms. SILVER. Absolutely.

Mr. MORAN. Ms. Gallagher, you talked a little bit about the 199A provision. In your experience, what do most small businesses do with the money that they save from reduced tax rates using section 199A?

Ms. GALLAGHER. Reinvest it back into their businesses by way of either employees, hiring more employees or buying more equipment or increasing their infrastructure for future growth.

Mr. MORAN. Yeah. In your written testimony, you talked about how these companies that you work with, they will reinvest to pay for health insurance a lot of times for their employees or to buy new facilities or upgrade their equipment and their computers, things that they need to grow to innovate or expand production, all of which creates new jobs, correct?

Ms. GALLAGHER. Yes.

Mr. MORAN. And that is what we want is the economy to grow. We want more opportunities for American working families. Isn't that the point of 199A?

Ms. GALLAGHER. Absolutely.

Mr. MORAN. And if we take that away, then what happens if those businesses no longer pay that lower rate, that 21 percent rate, but are paying now a 43 percent rate that is more than 99 percent of the businesses in America would pay? What happens now for their ability to provide health insurance or upgrade their equipment or expand their production or to create new jobs?

Ms. GALLAGHER. Economic downturn is what happens.

Mr. MORAN. That is exactly what happens.

I want to end today by agreeing with Mr. Gomez when he argued that we should consider the impact of working families when we consider the tax policy this year. I absolutely agree. In my district we have a median yearly income of $61,000. A family receiving this yearly income would a see $1,142 tax increase should the Trump tax cuts expire at the end of year and we do nothing. For a family of four, this $1,142 is worth about 6 weeks' of groceries in my region. It is also enough money to cover about 27 full tanks of gas, even in our big old trucks. And that is based on the average pricing. Those are important things. Groceries and gas are important things to every American and every Texan that I represent. The Tax Cuts and Jobs Act cannot expire. We must continue those provisions to allow families to thrive and businesses to grow.

With that, Mr. Chairman, I yield back.

Chairman SMITH. Thank you.

Ms. Plaskett.

Ms. PLASKETT. Thank you so much, Mr. Chairman, and it is so good to be back here on the committee, to be a part of these discussions which affect so many Americans, the notion of taxes and trade. This is, in fact, the most important committee, and the work that we are doing is going to affect every American as we have said.

I am grateful to be a part of the debate on the ways and means of which we fund American government, and particularly fund businesses, fund how the mechanisms of our economy grow here in the 119th Congress.

I am eager to serve as one of three Democrats on the Budget Committee as well, which will no doubt be a place of fierce debate as we work in the next 2 years.

And I look forward to advancing shared priorities with my Republican colleagues. I, Mr. Chairman, share one of the—I am one of the few Members of Congress who actually worked on and was a member of the other party at one point. I worked in the Bush administration for a number of years after September 11. And so, I see myself in some ways as a bridge in the actual policy ideas that I put forward. And we come together here in both of these parties to try and make permanent and work on a way that supports the American dream.

But I have to say that I see the work on the 117th with President Trump's crowning achievement being the tax bill as an inequitable piece of legislation for all Americans. The achievement gave .01 percent an average of $252,000 of tax cuts, while the poorest fifth of Americans only received $70.

Ms. PLASKETT. It seems that the largest cups were filled, with no overflow going to those most in need. By a percentage, 56 percent of the tax cuts enriched shareholders, 44 percent lined the pockets of executives, and zero went to 90 percent of the workers in those businesses.

You know, in the early days of our Nation, a Native of my island, St. Croix, where I live and my family is from, our founding father, Alexander Hamilton, famously wrote, “A national debt, if it is not excessive to us, will be a national blessing.”

It is that phrase, “if it is not excessive” has always been important but never more important than today. The need for tax reform is critical for so many different people.

I have been listening to my colleagues, being myself and Mr. Suozzi and others just coming back to the committee. We are now at the end, so we get to listen to a lot of the discussion. And I thought some of the things that were discussed were very, very interesting.

We talk about the Child Tax Credit and how important it was. I have 5 children. I understand the importance of the tax credit. I was not always a Member of Congress. I was not always an attorney. I struggled for many years.

I worked a full-time job, went to law school at night, had small children. I understand the need for that.

But the children who need the most are not helped. By insisting on the earning requirements for the refundable tax credit, we are leaving out children who need those resources the most.

There is also, when we talk about manufacturing, manufacturing capacity actually contracted in the years following the passage of TCJA. I am so grateful that we do have individuals who did receive that manufacturing benefit, but so many did not.

According to the Federal Reserve, manufacturing capacity contracted a half percent each year on average from 2018 to 2021, and then expanded a half percent in 2022 and 1.2 percent in 2023. And manufacturing capacity is expected to grow by 1.3 percent in 2024.

Let’s get the facts correct. Research was published in 2022 by authors affiliated with the Joint Committee on Taxation and Federal Reserve found that the benefits of TCJA’s corporate tax reductions did not trickle down to workers.

In fact, the authors concluded that the earnings did not change for the workers in the bottom 90 percent of those corporations.

There is work that we can do. There are ways that we can come together. I think that supporting our businesses is important, not just our small businesses.

But when I listen to my colleagues say there will be cuts, we need to make sure that those cuts do not affect the people who need those resources the most.

I yield back.

Chairman SMITH. Thank you.

Mr. Suozzi.

Mr. SUOZZI. Okay. Thank you, Mr. Chairman, and thank you so much for sticking around. I really appreciate that. Mr. Ranking Member, thank you, Mr. Kelly.

And the witnesses, 5 hours you have spent here, we are very grateful to all of you for spending so much time. Thank you so much, and we know it has been very cold in here. It is a little warmer now. It has been cold here all day but thank you so much for being here.

So first I want to note something that was noted earlier today by one of my colleagues, Mr. Doggett, who said Steve Bannon, who is very much affiliated with the Republicans these days, is out there saying, we should increase taxes on the wealthy, we should increase taxes on corporations, so we can pay for tax cuts for the middle class. So I just want to point out that that is happening with some of your big supporters, Jason.

Okay. I am here to talk about the one thing I have learned since I have been in Congress, I guess we all know this, but I really learned it since being in Congress and talking to my colleagues—is how different it is for different people in different parts of the country, in different States, in different neighborhoods.

People's incomes are different in different parts of the country, but so is their cost of living and so is their property taxes and their income taxes. That is a very big difference.

Mr. Moran, when I was walking in, was saying that the average income in his district is $61,000, I think he said. I have one of the higher incomes in the country, but our property taxes are way higher as well, and our income taxes are much higher. I am from New York State.

And the 2017 tax law delivered a lot of benefits to some people in America, but it hurt the people in my district, and it hurt people in different parts of the country very badly.

So, I am concerned about especially the State and local tax deduction. The State and local tax deduction was put in place by the Federal Government over a hundred years ago when they first developed the progressive income tax in America, the Federal tax.

And when they were debating it, the governors and the mayors said, We don't want a Federal income tax because we want to be able to do—we want to be able to tax at the local level—at the State and local level, to pay for our police and our fire and our local services.

They said, no, don't worry, we are going to give you a State and local tax deduction, because we recognize it wouldn't be fair for you to pay Federal income taxes on the State and local taxes you have already paid. It is just not fair.

It is not fair that States like mine and other States throughout the country have relied on this tax deduction for a hundred years, up until 2017, and then it was capped at $10,000.

That is why when we passed three times, when I was previously in Congress, a restoration of the State and local tax deduction, it was supported by the U.S. Conference of Mayors, the National League of Cities, the U.S. Association of Counties, the firefighters, the teachers, the police throughout the country—all support restoring the State and local tax deduction, because it is not fair to pay taxes on the taxes you have already paid, because it is not fair that governments have relied on that deduction for such a long period of time, and then it was summarily taken away from them relatively quickly.

And it is not fair that people who did get tax cuts in some parts of the country, in some places, in some income levels, but in other places like mine they didn't get those benefits.

So I want to ask each of the witnesses here, if you recognize that the State and local tax deduction is important to a lot of taxpayers in the country.

Ms. Gallagher, you are—are you an accountant, I think?

Ms. GALLAGHER. Yes, I am a CPA.

Mr. SUOZZI. Yeah, I was a CPA too. I was trained as a CPA. I used to work for Arthur Andersen & Company.

Ms. GALLAGHER. Oh, very good.

Mr. SUOZZI. So do you think the State and local tax deduction was beneficial to a lot of people in the country at one time?

Ms. GALLAGHER. Yes, indeed. When it was fully deductible, it was a full tax deduction and impacted all taxpayers, probably higher income taxpayers more, just because they pay more tax.

Mr. SUOZZI. Well, that is a very interesting point because higher income, that is like a question we talk about. What is the middle class, okay?

So, in my district, if you are a police officer and you are married to a schoolteacher, you are making $200,000 a year.

Now, in some places in the country—Ms. Marple, when I said that, her eyebrows went up, right, and she is, like, wow, $200,000, a teacher and a cop, how is that possible?

But in other places if you are making $200,000 a year, you have got a—you are in a gated community, you have got an indoor pool, and you belong to the country club.

But where I am, you are just getting by, because your taxes are higher, your cost of living is higher, your property taxes are higher. So it is different.

That is why it is so much better if we work in a bipartisan fashion to try and find common ground, to try and find a way to address the different people throughout our country, and not just make it like it was the first time when they asked President Trump, they said, Hey, isn't this going to hurt the people in New York where you are from?

He said, Ah, they didn't vote for me anyway.

That is not the way we should be doing our business. We should be trying to work together.

So, I am not going to ask you, Ms. Marple, because you already answered with your eyebrows, but, Ms. Couch, do you know about the State and local tax deduction? Do you think that helped a lot of families in America?

Ms. COUCH. Yes, I am sure that it did. I think for Georgia, you know, being——

Mr. SUOZZI. A different place.

Ms. COUCH. It is very different, so.

Mr. SUOZZI. Where are you from, Ms. Silver?

Ms. SILVER. North Carolina.

Mr. SUOZZI. Yeah, different there too. A lot of people are leaving my district to go to Florida, South Carolina, North Carolina. And some of my Republican colleagues boast about that.

But when I asked Steve Mnuchin, who is the former Secretary of the Treasury, I said, When those people leave New York, who gets left behind to pay the remaining taxes?

He said, the people that are still living there. That is making taxes go up for people. He said, Well, you could cut their services.

But do we want to cut their police and their fire and their teachers?

All right, Mr. Chairman, thank you so much for allowing me to go a little bit over. I apologize.

Chairman SMITH. Thank you. I would like to thank all of our witnesses for appearing before us today. It has been a long day, and you have done a phenomenal job. We appreciate that.

Please be advised that Members have 2 weeks to submit written questions to be answered later in writing. Those questions and your answers will be made part of the formal hearing record. And with that, the committee stands adjourned.

[Whereupon, at 3:31 p.m., the committee was adjourned.]

MEMBER QUESTIONS FOR THE RECORD

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Congress of the United States
House of Representatives
Washington, DC 20515–0301

COMMITTEE ON
WAYS AND MEANS

JOINT ECONOMIC
COMMITTEE

January 28, 2025

To Ms. Alison Couch,

In my district and across the country, small business owners and self-employed individuals often pay for services like landscaping, cleaning, and IT support. These routine transactions should be straightforward, but under Section 6041 of the Internal Revenue Code, the $600 reporting threshold—established in 1954—creates significant paperwork burdens for entrepreneurs and small businesses alike. Think about how many times we pay independent contractors for various services – plumbing, landscaping, photography, cleaning or repairs. It wouldn't take much to eclipse the antiquated $600 threshold and bury hardworking Americans under a mountain of burdensome paperwork. In the face of today's economic realities, small businesses need a simplified and modernized compliance regime where their time can be better spent on creating jobs and growing their business. That's why I will be reintroducing the *Small Business Paperwork Savings Act* to raise the 1099 threshold to $5,000, which will provide long overdue relief to Main Street. I thank the Chairman and this committee for including this provision in the Smith-Wyden economic package and look forward to bipartisan collaboration to ensure its inclusion in reconciliation this year.

- Can you detail the challenges taxpayers and small businesses face with this antiquated threshold, and how bringing it into the 21st century would benefit entrepreneurs and job creators?

Sincerely,

David Schweikert

Questions for the Record for Alison Couch

House Committee on Ways and Means hearing on January 14, 2025
YHearing on the Need to Make Permanent the Trump Tax Cuts for Working Families.X

Congressman David Schweikert (R-AZ)
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Question 1 – Can you detail the challenges taxpayers and small businesses face with this antiquated threshold, and how bringing it into the 21st century would benefit entrepreneurs and job creators?

The 1099-NEC threshold of $600 has not been adjusted for decades. This has resulted in increased reporting requirements for small businesses. By adjusting the threshold small business owners will be able to focus on investing and growing their businesses rather than dealing with burdensome paperwork.

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Congress of the United States
House of Representatives

WAYS AND MEANS COMMITTEE
SUBCOMMITTEE ON TAX
SUBCOMMITTEE ON TRADE
SUBCOMMITTEE ON OVERSIGHT

January 16, 2025

Dear Ms. Courtney Silver,

Thank you for coming to testify before the Committee on Ways and Means during the hearing titled, "The Need to Make Permanent the Trump Tax Cuts for Working Families." Last Congress I introduced the *Apprenticeship Opportunity Act*, which would require states receiving Temporary Assistance for Needy Families (TANF) block grants to disregard income earned during the first year of an apprenticeship when determining eligibility for cash assistance. I plan to reintroduce and work to pass this bill so that people who are beginning their apprenticeship training can continue to receive assistance from TANF programs and support their families.

During the hearing, your testimony emphasized the meaningful impact of student internships, which enable pre-professionals to shadow experienced machinists, learn valuable trade skills, and prepare for careers and apprenticeships. Based on your experience I request answers to the following questions:

1. As President and Owner of Ketchie, Inc., would you agree that while apprenticeships are a proven path to good-paying jobs and financial stability, programs which involve classroom training periods where apprentices do not receive wages, pose significant financial strain, especially for those in their first year?

2. How would my bill, the *Apprenticeship Opportunity Act*, further help apprentices you know and the businesses they work with? Would you agree that creating exemptions for apprenticeship income from TANF would help boost participation and retention in apprenticeship programs?

Thank you for responding to these questions.

Sincerely,

Suzan DelBene
Member of Congress

PRINTED ON RECYCLED PAPER

Courtney Silver QFR Responses
President and Owner of Ketchie, Inc.
U.S. House of Representatives
Committee on Ways and Means
"The Need to Make Permanent the Trump Tax Cuts for Working Families"
January 14, 2025

1. As President and Owner of Ketchie, Inc., would you agree that while apprenticeships are a proven path to good-paying jobs and financial stability, programs which involve classroom training periods where apprentices do not receive wages, pose significant financial strain, especially for those in their first year?

   CS Response: In 2023, I created "Opportunity Knocks," an internship program for high school students that allows them to shadow experienced machinists in our factory while earning school credit. The local high school we partnered with consists of 70% minority students, and almost 100% come from economically disadvantaged situations. By shadowing at Ketchie, students are learning valuable trade skills while also preparing for careers that will bring them fulfillment and pride. The opportunities we provide at Ketchie allow individuals to be exposed to the manufacturing sector which they previously might not have had the ability to do.

2. How would my bill, the *Apprenticeship Opportunity Act*, further help apprentices you know and the businesses they work with? Would you agree that creating exemptions for apprenticeship income from TANF would help boost participation and retention in apprenticeship programs?

   CS Response: As a small manufacturer, I can only speak on my own experiences with my business. However, I can say from firsthand experience that the policies implemented by the *Tax Cuts and Jobs Act* allowed me to start a certified apprenticeship program, launch a high school internship program, and invest in equipment so that these individuals could have the most cutting-edge experience on our shop floor as they train and shadow. Congress should work towards reinstating the expired pro-growth tax policies from the TCJA and ensure the tax policies set to expire at the end of 2025 are preserved so that we can continue to invest in the next generation of manufacturers.

PUBLIC SUBMISSIONS FOR THE RECORD

AFFORDABLE HOUSING TAX CREDIT COALITION

Statement of the Affordable Housing Tax Credit Coalition

In Response to the House Committee on Ways and Means Hearing on The Need to Make Permanent the Trump Tax Cuts for Working Families

January 14, 2025

On behalf of the Affordable Housing Tax Credit Coalition (AHTCC), we extend our sincere gratitude to Chairman Smith and esteemed members of the U.S. House of Representatives Committee on Ways and Means for holding this hearing on the need to extend tax policy enacted under President Trump's first Administration. Established in 1988, the AHTCC is a leading trade association in the affordable housing industry, comprised of over 270 organizations and businesses[1] that advocate for affordable housing financed using the Low-Income Housing Tax Credit (Housing Credit). AHTCC members represent the full spectrum of stakeholders involved in providing affordable housing, including syndicators, developers, investors, state allocating agencies, and affiliated businesses and non-profits. Together, AHTCC members have financed or developed well over half of our nation's 4 million Housing Credit rental homes.

We commend the House Committee on Ways and Means for its critical efforts to address the challenges facing families, workers, and small businesses in today's economy. Pro-growth tax policies like the Housing Credit are essential to these efforts and remain the nation's most effective tool for producing affordable housing in rural, suburban, and urban areas. As housing needs continue to escalate, it is imperative to build on the program's 2018 expansion under President Trump—an expansion that, regrettably, was not extended during the previous Administration. Indeed, the Housing Credit was strengthened in several ways under President Trump's first term, with the establishment of a permanent minimum rate for the 4% credit,[2] enactment of a more flexible and common-sense approach to the income test by adding an "average income test" option[3], and a 12.5% increase in the annual Housing Credit allocation to states for the years 2018–2021.[4] However, the allocation increase enacted under President Trump has now been expired for several years, meaning our nation's primary affordable housing production tool is faced with a multi-year cut at a time when need has skyrocketed. In 2024 alone, homelessness rose by over 18%, after a 12% increase in 2023, attributed mostly to a lack of affordable housing.[5] The Administration's executive order on "Delivering Emergency Price Relief for American Families and Defeating the Cost-of-Living Crisis," which calls for

[1] See the full list of AHTCC members at https://www.taxcreditcoalition.org/about/member-organizations/
[2] Consolidated Appropriations Act, 2021
[3] Consolidated Appropriation Act, 2018, p. 811
[4] Consolidated Appropriation Act, 2018, p. 811
[5] U.S. Department of Housing and Urban Development Point-In-Time Count Report. (December 27, 2024) https://www.hud.gov/press/press_releases_media_advisories/hud_no_24_327

"pursuing appropriate actions to lower the cost of housing and expand housing supply," underscores the urgency of addressing these challenges.[6]

As millions of hardworking Americans struggle to afford rent and homelessness rising across the nation, the demand for affordable housing resources has reached a critical point. To that end, we would like to highlight proposed enhancements to the Housing Credit and urge the inclusion of key provisions from the bipartisan AHCIA in any upcoming tax legislation. These pro-growth, pro-worker provisions, if enacted, will not only help to address our nation's urgent affordable housing crisis but also improve surrounding communities and contribute to economic vitality.

A Proven Public-Private Partnership for Growth

The Housing Credit has been a pillar of pro-growth American tax policy and housing production since it was enacted under President Reagan in 1986 and has enjoyed bipartisan support since then. In anticipation of drafting the Tax Cuts and Jobs Act (TCJA) of 2017, the Republican "Unified Framework for Fixing Our Broken Tax Code" explicitly called for preserving the Housing Credit in the tax code as one of only "two areas where tax incentives have proven to be effective in promoting policy goals important in the American economy: research and development and low-income housing."

The Housing Credit was further strengthened under President Trump, establishing a minimum rate for the 4% credit[7], developing a more flexible and common-sense approach to the income test by adding an "average income test" option[8], and increasing the annual Housing Credit allocation to states by 12.5% for the years 2018 - 2021[9]. However, with the expiration of the allocation increase, our nation's primary affordable housing production tool is now facing a multi-year cut at a time when need has skyrocketed.

A core reason for the Housing Credit's success is that it is a market-based, public-private partnership that brings together private investors, syndicators, and developers, as well as state and local governments to address the country's housing needs in a fiscally responsible way. The Housing Credit is structured as a pay-for-performance model, ensuring the efficient use of government resources. For the tax benefits of the Housing Credit to flow to investors, properties must be built and serving income-qualified tenants. Though tax credits may be claimed over a period of ten years, they can be recaptured at any time in the first fifteen years of the life of the property, which has led to strong private sector oversight to ensure credit delivery. This structure ensures that taxpayers realize the maximum benefit of the tax credit while assuming no risks associated with the development process or performance.

[6] Presidential Actions. 2025. Delivering Emergency Price Relief for American Families and Defeating the Cost-of-Living Crisis – The White House
[7] Consolidated Appropriations Act, 2021
[8] Consolidated Appropriations Act, 2018
[9] Consolidated Appropriations Act, 2018

Over the past nearly 40 years, the Housing Credit has financed over 3.85 million affordable rental homes and served nearly 9 million families.[10] It has generated more than 6.3 million jobs, over $716 billion in wages and business income, and more than $257 billion in tax revenue at the federal, state, and local levels. The Housing Credit provides more than housing—it generates economic growth and stability for workers, families, and communities.

By providing affordable housing for essential workers such as those in emergency services, construction, restaurants, hospitality, education, childcare, retail, farming, and healthcare, Housing Credit developments play a crucial role in helping communities attract and retain a stable workforce. Where wages do not match the growing 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 promote the economic vitality of communities.

The Housing Credit also provides benefits beyond just stable housing. A recent study found that each additional year spent in Housing Credit housing as a child is associated with an average 4.3 percent increase in the likelihood of attending a higher education program for four years or more, and a 5.7 percent increase in future earnings.[11] Additionally, housing is one of the most well-researched social determinants of health and, among other social factors, influences the health of families across the nation.[12]

The Housing Credit also supports development in rural areas where there is often a shortage of housing of all types. According to Freddie Mac, one-quarter of the rural multifamily market is supported by the Housing Credit[13]. Housing Credit developments can also be adapted to fit all types of communities – they can be multi-story apartment buildings, garden-style apartments, townhomes, and even single-family scattered sites, which are often more appropriate for rural areas with less population density.

Most fundamentally, the Housing Credit provides meaningful savings to residents compared to market-rate housing. According to an AHTCC analysis of Moody's CRE data, average rents for Housing Credit homes are 38% lower than market-rate rents across 80 of the largest U.S. metro areas. Monthly rents for apartments financed using the Housing Credit in these areas are $653 lower than market rents on average, representing an average annual savings of over $7,800 per household compared to market.

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[10] ACTION Campaign National Fact Sheet
[11] Does Growing Up in Tax-subsidized Housing Lead to Higher Earnings and Educational Attainment? Elena Derby, 2021. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3491787
[12] "Housing And Health: An Overview Of The Literature," Health Affairs Health Policy Brief, June 7, 2018. DOI: 10.1377/hpb20180313.396577
[13] Freddie Mac Multifamily "Spotlight on Underserved Markets: LIHTC in Rural Persistent Poverty Counties," 2022. Available at https://mf.freddiemac.com/docs/lihtc_persistent_poverty_counties.pdf

The Growing Affordable Housing Crisis: Rising Costs, Rising Urgency

The nation faces an affordable housing crisis of unprecedented proportions, affecting communities in every corner of the country, in urban, suburban, and rural communities alike. Over the last decade, the rate of new home construction has been unable to keep pace with the rate of household formation, exacerbating housing costs. From 2012 to 2023 there were 17.2 million household formations in the United States[14], compared to only 13.4 million housing starts.[15]

Inflation and rising construction costs, including skyrocketing prices for materials, labor, land and insurance premiums, have only worsened this crisis. These costs, coupled with supply chain disruptions, have made it increasingly difficult to develop affordable rental housing, further limiting supply at a time when demand is surging, affecting homebuyers and renters at all income levels but especially those who earn low incomes. Without additional support, this crisis will continue to spiral, leaving more families unable to find safe, affordable housing in their communities, and making it more difficult for those communities to support a workforce.

It is also impossible to address inflation without addressing housing costs. According to the Bureau of Labor Statistics, shelter costs accounted for over two-thirds of the increase in core inflation in 2023.

The housing shortage is squeezing American households in all places and at all income levels, including seniors, veterans, and working families. For Americans earning the lowest incomes, there is a shortage of 7.3 million affordable and available rental homes. Over 12.1 million renter households (half of all renters) are considered severely cost-burdened, paying more than half of their income on rent, cutting into other essential expenses like childcare, health care, groceries, and transportation.[16] This degree of housing insecurity places millions at risk of detrimental health and social outcomes, including homelessness, which rose by an alarming 18% in 2024.[17]

AHCIA: A Path Forward to Increase Affordable Housing Supply

The AHCIA[18] offers a robust solution to these challenges. It is bipartisan legislation, supported by over half of Congress, that proposes several critical reforms to expand and improve the Housing Credit program. These changes are urgently needed to reinvigorate affordable housing production, especially in light of rising costs.

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[14] U.S. Census Bureau, Household Estimates [TTLHHM156N], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/TTLHHM156N, October 9, 2024.
[15] U.S Census Bureau, Housing Units Started (Annual Data, 2012-2023); https://www.census.gov/construction/nrc/data/series.html.
[16] Harvard's Joint Center for Housing: America's Rental Housing 2024: https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_Americas_Rental_Housing_2024.pdf
[17] U.S. Department of Housing and Urban Development Point-In-Time Count Report. (December 27, 2024) https://www.hud.gov/press/press_releases_media_advisories/hud_no_24_327
[18] H.R. 3238

The following AHCIA provisions are particularly important for addressing the nation's housing needs by directly increasing affordable housing supply:

- **Restoring and expanding upon the expired Housing Credit allocation increase**: Originally enacted in 2018 and expired at the end of 2021, a 12.5% increase in Housing Credit authority would be restored and further expanded by another 50% under the AHCIA. This provision is crucial as it would provide state housing agencies with the resources they need to meet rising demand, especially considering inflation and increased construction costs.

- **Lowering the private activity bond financing threshold from 50% to 25%**: Under current law, developers must finance at least 50% of a project with private activity bonds to qualify for 4% Housing Credits. Lowering this threshold to 25% would generate greater efficiency in the use of limited tax-exempt bonds and unlock significant additional private financing opportunities for affordable housing development. Further, it would allow states to make more efficient use of their bond volume caps and generate additional capacity to finance other priorities, including more affordable housing units. More than half of U.S. states are already fully using or oversubscribing their bond cap, making this reform essential for increasing housing production.

- **New basis boosts for underserved areas and populations**: The AHCIA proposes several targeted basis boosts to increase the financial feasibility of developments serving harder-to-reach areas and populations:
    - **Rural and tribal areas**: Up to a 30% basis boost for properties located on tribal lands or in rural areas, which often face unique challenges in securing financing. In these areas, lower population density and lower incomes often yield rental income that is insufficient to support the higher building costs associated with new construction, even as land values may be lower. These basis boosts would incentivize private development, offsetting some of the economic barriers to housing production in rural and tribal areas.
    - **Extremely low-income tenants**: Up to a 50% basis boost for units reserved for extremely low-income households, ensuring housing for the populations with the greatest needs, including homeless veterans and other groups that often need specific property features and on-site resources in order to remain stably housed.
    - **State discretionary boost**: Extension of the existing state discretionary basis boost (which currently only applies to 9% Housing Credit properties) to include 4% Housing Credit properties, giving states greater flexibility to address their specific housing needs.

These provisions, combined, would produce or preserve nearly 2 million[19] additional affordable rental homes over the next decade — homes that would not otherwise be developed due to the rising costs and limited resources available to housing agencies. This would not only address the

[19] Novogradac: "LIHTC, PAB Provisions of Newly Reintroduced AHCIA Could Result in Nearly 2 Million Additional Affordable Rental Homes Over a Decade"

growing housing shortage, but would also create millions of jobs and generate billions of dollars in wages and tax revenue, strengthening our national and local economies.

The Tax Relief for American Families and Workers Act included versions of two of these AHCIA provisions, which would have financed more than 200,000[20] affordable homes over the next ten years than otherwise possible: restoring the 12.5% allocation increase for 2023 – 2025 and lowering the 50% bond financing test to 30% for 2024 – 2025. The AHTCC strongly supports these policies, which would amount to the most significant investment in the Housing Credit in over two decades and applauds Chairman Smith and the Committee on Ways and Means for shepherding this legislation through the House of Representatives with overwhelming bipartisan support.

In addition to the AHCIA proposals listed above, the AHTCC encourages the House Committee on Ways and Means to consider additional policies to ensure a robust Housing Credit investment market, including the impact to affordable housing resulting from other changes elsewhere in the tax code. Examples of policies that could support Housing Credit investment include modifying Section 39 of the tax code to allow Housing Credits to be carried back three years (consistent with renewable energy credits), and easing the general business credit limitation on the ability to use Housing Credits by allowing investors to reduce their tax liability below the greater of the taxpayer's tentative minimum tax for the tax year, or 25% of the taxpayer's net regular tax liability plus $25,000 as outlined in Section 38 of the tax code. Robust investor demand for the Housing Credit ensures efficient delivery of the credit and ultimately increased affordable housing production.

Conclusion: Housing Credit as a Pillar of Economic Growth and Stability

The Housing Credit has been a cornerstone of affordable housing production and economic growth for nearly four decades, and it remains the most effective tool we have for addressing the affordable housing crisis. Its market-based approach, reliance on private investment, and state-administered flexibility make it a model of fiscal responsibility and effectiveness.

The affordable housing crisis continues to worsen, in urban, suburban and rural communities alike. The only way to truly address this supply problem is to increase supply by building on what works—the Housing Credit. By creating millions of shovel-ready affordable homes, supporting job creation and economic opportunity for families and communities nationwide, the proposals outlined above exemplify the kind of pro-growth agenda that will help build a stronger America. We respectfully urge the Committee on Ways and Means to prioritize Housing Credit expansion and the inclusion of AHCIA provisions in any tax efforts this year. These actions will ensure that the Housing Credit continues to be a driver of economic opportunity and a vital resource for millions of families, workers, and communities across the nation.

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[20] Novogradac: "Tax Legislation Announced by Tax-writing Chairs Wyden and Smith Would Temporarily Reduce 50% Financed-By Test to 30% for 2024-2025, Restore 12.5% LIHTC Boost for 2023-2025"

Thank you for your continued leadership and for considering the urgent need for affordable housing in America. The AHTCC stands ready to support your efforts and provide any additional information you may need as you move forward with tax legislation that addresses these critical issues.

Sincerely,

Emily Cadik

Emily Cadik
Chief Executive Officer
Affordable Housing Tax Credit Coalition
emily.cadik@taxcreditcoalition.org

Statement for the Record
House Committee on Ways and Means Hearing:
"The Need to Make Permanent the Trump Tax Cuts for Working Families"
January 14, 2025

The Honorable Jason Smith
Chair
Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

The Honorable Richard Neal
Ranking Member
Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

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

Arnold Ventures appreciates the opportunity to submit this statement for the record in relation to the Committee's January 14, 2025 hearing, "The Need to Make Permanent the Trump Tax Cuts for Working Families."

Arnold Ventures is a philanthropy dedicated to investing in evidence-based policy solutions that maximize opportunity and minimize injustice. Our work within the public finance sphere aims to advance tax and budget policies that promote both fiscal sustainability for governments—especially at the federal level—and economic opportunity, mobility, and security for Americans.

In pursuit of these goals, we focus on tax policies such as enhancing the Child Tax Credit for low-income families while preserving work incentives, protecting the U.S. tax base from erosion to overseas jurisdictions while preserving U.S. competitiveness in a global economy, evaluating and designing place-based policies that enhance opportunity in depressed regions while minimizing windfalls and waste, and closing loopholes utilized by the wealthy that violate horizontal equity while ensuring the tax system encourages investment and growth. We conduct our work in these areas with an eye on fiscal sustainability.

We at Arnold Ventures commend the Committee for emphasizing the significance of the Tax Cuts and Jobs Act (TCJA) in broadening the tax base, simplifying the tax code, and delivering relief to hardworking Americans. Permanently extending many of its expiring provisions will support long-term economic prosperity and financial security. Doing so without addressing the nation's unsustainable debt trajectory, however, could undermine that prosperity and jeopardize fiscal and economic stability.

The growing debt burden limits the government's capacity to fully realize the benefits of the TCJA's pro-growth policies and necessitates action on our ever-growing fiscal imbalance. Over the next ten years—*and assuming expiring TCJA provisions expire on schedule*—the national debt is expected to grow by $22 trillion, including $14 trillion in interest costs alone. By the end of this period, the debt is anticipated to reach 118% of GDP. If Congress makes the expiring provisions permanent without finding additional savings through some combination of cutting spending and closing tax loopholes, the debt will grow by $27 trillion and reach 129% of GDP in a decade. Even today, interest payments on the national debt exceed spending on national defense, reflecting a concerning misalignment of our national priorities.[i]

The increasingly dire fiscal environment demands a more measured approach than in previous legislative debates, such as the 2017 enactment of the TCJA. **Pairing TCJA extensions with thoughtful options to cut spending and close tax loopholes would maximize the impact of pro-growth policies, provide Americans with the improved tax code that they deserve, and set the groundwork for a sustainable fiscal outlook.**

Arnold Ventures seeks to support lawmakers in their efforts to permanently extend TCJA provisions by providing practical solutions that allow them to achieve both principled tax reform and fiscal responsibility. Below are a range of reforms—some within this Committee's jurisdiction and some outside of it—designed to address inefficiencies, inequities, and outdated policies within the existing tax and spending framework. They are grounded in rigorous analysis and aim to foster greater economic resilience, promote fairness, and enhance systemic efficiency.

The savings estimates presented assume that the TCJA provisions are extended permanently and calculate the fiscal impact of each option relative to that assumption. These estimates rely on traditional scoring methods, excluding macroeconomic effects or dynamic scoring, which are highly dependent on the totality of the legislative package.

Top Ten Spending Cuts

Higher Education & Student Loans

I. **Simplify Student Loan Repayment** by streamlining existing plans into just two, creating a more consumer-friendly repayment program, incentivizing higher repayment rates, and supporting those most in need. Different versions of this idea can be found in (1) Rep. Virginia Foxx's (R-NC*) College Cost Reduction Act* and (2) Senators Bill Cassidy's (R-LA) and John Cornyn's (R-TX*) Streamlining Accountability and Value in Education (SAVE) for Students Act*.

    10-Year Savings: Up to $210 billion, assuming the SAVE IDR plan has not been invalidated by the courts (Congressional Budget Office (CBO)).[ii]

II. **Reform Grad PLUS Loans** by establishing reasonable limits for graduate student loans to address out-of-control pricing in graduate programs caused by federal loan subsidies while still ensuring opportunity for students to access a graduate program of their choice. Rep. Virginia Foxx's (R-NC) *College Cost Reduction Act* addresses this by establishing reasonable limits for graduate student loans.

10-Year Savings: $40 billion (CBO).[iii]

III. **Create Performance Standards for Title IV Funding** to protect students' investment in their education by creating an accountability system that prohibits undergraduate, graduate, or certificate programs from receiving federal student aid if most of the program's former students are unable to earn a certain benchmarked wage. This reform is included in Senators Bill Cassidy's (R-LA) and John Cornyn's (R-TX) *Streamlining Accountability and Value in Education (SAVE) for Students Act*. Another approach would be to expand the existing Gainful Employment regulation, which sets performance requirements for some programs, to all programs and institutions.

10-Year Savings: Likely between $5 billion and $20 billion (derived from CBO estimates).[iv]

Public Finance

IV. **Repeal Limitation on Recapture of ACA Exchange Subsidy Overpayments** so that beneficiaries who receive subsidies to purchase health insurance receive only the subsidy amount to which their actual incomes entitle them.

10-Year Savings: From $47 billion (Penn Wharton Budget Model (PWBM)) to $96 billion (Tax Foundation and Bipartisan Policy Center (BPC)).[v,vi]

V. **Repeal IRA Expansion of Electric Vehicle (EV) Tax Credit** to limit the excessive cost of the subsidy of vehicles that would have been purchased anyway.

10-Year Savings: $100 billion (JCT 2023).[vii]

VI. **Eliminate Interest Rate Arbitrage in the Thrift Savings Plan G Fund** to remove the subsidy by federal taxpayers to federal employees through the federal retirement plan.

10-Year Savings: $47 billion.[viii]

Health Care

VII. **Advance Comprehensive Site-Neutral Payment Reforms** to reduce taxpayer and Medicare beneficiary spending by equalizing payments for a specific set of low-complexity, routine services across settings or, less comprehensively, by eliminating the grandfathering exemption for off-campus hospital-owned outpatient departments.

> 10-Year Savings: Up to $157 billion (CBO).[ix] Eliminating the grandfathering exemption alone saves about $30–40 billion (Committee for a Responsible Federal Budget (CRFB), CBO).[x,xi]

VIII. **Reduce the Payment Benchmark for Medicaid State Directed Payments** to reduce costs to taxpayers by aligning payment parameters in Medicaid fee-for-service and managed care and lowering the benchmark for state directed payments to what Medicare would pay.

> 10-Year Savings: As high as $120 billion (CBO).[xii]

IX. **Extend Drug Price Inflation Penalties to Commercial Plans** to discourage excessive drug price growth and limit price growth that exceeds the rate of inflation, similar to mechanisms used by Medicare and Medicaid.

> 10-Year Savings: About $40 billion (derived from several CBO publications).[xiii,xiv,xv] These are savings to the federal budget—savings for employers and families would be much greater.

X. **Modify Risk-Adjusted Payments to Medicare Advantage Insurers** to combat abusive and fraudulent billing practices that threaten Medicare's solvency by fully accounting for upcoding in Medicare Advantage, excluding health risk assessments and chart reviews as sources of diagnoses, and using two years of diagnostic data for risk adjustment.

> 10-Year Savings: Up to $1 trillion (CBO).[xvi] The coding intensity adjustment can be dialed. Excluding information from HRAs and chart reviews and using two years of data would alone save $124 billion (CBO).[xvii]

Top Ten Tax Loophole Closers

I. **Apply State and Local Tax Deduction (SALT) Cap to Businesses** to create parity between individuals, corporations, and pass-through businesses.

  10-Year Savings: Estimates range from $610 billion for extending the cap to corporations and ending state workarounds (Tax Foundation and BPC)[xviii] to $823 billion just for extending the cap to C corporations (PWBM).[xix]

II. **Repeal Employee Retention Tax Credit** to limit fraudulent claims that private estimates suggest could exceed $550 billion by expanding the statute of limitations for the IRS to pursue fraudulent or erroneous ERTC claims and prohibiting new claims after January 2024.[xx]

  10-Year Savings: $77 billion (PWBM).[xxi]

III. **Repeal Tax Deduction for Roundtripping** by limiting the lower rate for GILTI to the portion of such income derived from serving foreign markets, which would even the playing field between multinational corporations with round-tripping structures and Main Street businesses that must pay the full U.S. tax rate on their profits from sales to U.S customers.

  10-Year Savings: $69 billion (PWBM).[xxii]

IV. **Tax University Endowment Investment Income at Same Rate as Corporations** by raising the 1.4% endowment tax rate to the corporate rate, currently 21%. This approach mirrors the *Endowment Tax Fairness Act* recently introduced by Reps. Troy Nehls (R-TX) and Lauren Boebert (R-CO).

  10-Year Savings: $70 billion (Tax Foundation).[xxiii]

V. **Reduce Tax Preference for Stock Buybacks Over Dividends** by increasing the existing 1% excise tax on buybacks to 2% or 4% to mitigate further the current tax distortion that favors buybacks over dividends.

  10-Year Savings: Increasing the rate to 2% yields $88 billion, while raising it to a 4% rate yields $246 billion (PWBM).[xxiv]

VI. **Restore Original Intent of the Section 199A Deduction** by replacing the deduction with a separate rate structure for qualified business income (QBI), where rates on QBI are 80% of the ordinary rates. This change preserves the original legislative intent of Section 199A—a 20% rate reduction for pass-throughs—without allowing some businesses to receive excess tax relief over 20%.

    10-Year Savings: $82 billion (PWBM).[xxv] Note that this proposal is not a revenue raiser per se, but rather reduces the cost of making section 199A permanent by eliminating unintended, excess tax relief.

VII. **Impose Excise Tax on Buy-Borrow-Die Transactions** to establish horizontal equity between taxpayers and reduce the incentive to manipulate the realization requirement without triggering a tax obligation.

    10-Year Savings: BPC published a version of this policy that raises $93 billion, according to published BPC/Tax Foundation analysis.[xxvi]

VIII. **Repeal or Limit Qualified Small Business Stock Exemption** given that no compelling evidence exists that the policy has meaningfully reduced the cost of capital to eligible small firms and instead appears to provide a windfall to investors.

    10-Year Savings: $81 billion for full repeal (The Budget Lab at Yale).[xxvii]

IX. **Limit Mortgage Interest Deduction** to $500,000 from $750,000, to mirror the cap included in the House-passed version of the Tax Cuts and Jobs Act.

    10-Year Savings: $130 billion (CRFB).[xxviii]

X. **Repeal Head of Household Filing Status (and Increase Child Tax Credit)** to reduce unnecessary complexity in tax filing for parents while holding low-income single parents harmless.

    10-Year Savings: $346 billion (BPC and Tax Foundation) for repealing Head of Household filing status, most of which should be re-allocated to an enhanced child tax credit to protect low-income households.[xxix]

By prioritizing both smart, principled tax reform and fiscal responsibility, Congress can deliver both economic growth and financial market stability in this critical moment. The nation's long-term economic health and resilience depend on Congress adopting policies that balance the benefits of pro-growth tax reform with the imperative of sustainable debt management.

We look forward to partnering with the Committee to advance legislation that preserves the policy benefits of comprehensive tax reform and confronts our fiscal challenges.

Sincerely,

George A. Callas
Executive Vice President of Public Finance
Arnold Ventures

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[i] https://www.cbo.gov/system/files/2025-01/60870-Outlook-2025.pdf
[ii] https://www.cbo.gov/publication/60285
[iii] https://www.cbo.gov/publication/60285
[iv] https://www.cbo.gov/publication/60285. CBO estimates current Gainful Employment rule to save $9B over 10 years. Given this only applies to a subsection of programs, applying this savings across all programs could save somewhere in that range in additional savings.
[v] https://budgetmodel.wharton.upenn.edu/estimates/2025/1/13/remove-limitation-on-repayment-of-excess-premium-tax-credits
[vi] https://bipartisanpolicy.org/explainer/paying-the-2025-tax-bill-health-care-improper-payments/
[vii] https://www.jct.gov/publications/2023/jcx-29-23/
[viii] https://www.politico.com/f/?id=00000194-5115-d639-a395-7db5d6b70000. The document originated with the House Committee on the Budget. The savings might change under the new CBO baseline, which projects a different yield curve for Treasury debt.
[ix] https://www.cbo.gov/system/files/2024-12/60557-budget-options.pdf
[x] https://www.crfb.org/blogs/site-neutral-legislative-proposals-gaining-traction
[xi]https://www.cbo.gov/publication/56301#:~:text=Outlays%20under%20the%20President's%20proposals,at%2017.2%20percent%20through%202030
[xii] https://www.cbo.gov/system/files/2024-06/60039-Outlook-2024.pdf
[xiii] On August 5, 2022, CBO estimated the inflation penalty that included both Medicare and the commercial sector. The savings to Medicare were $52 billion and the increase in revenues were $38 billion, which resulted in a total of $100 billion reduction in deficits. When the commercial sector inflation penalty was removed, CBO estimated on September 7, 2022 that the savings to Medicare was $56 billion and the increase in revenues (with no commercial rebate) was just $6.8 billion, which results in a $60 billion reduction in deficits. We subtracted these two scores to get a $40 billion savings from the commercial inflation penalty as a standalone policy.
[xiv] https://www.cbo.gov/system/files/2022-08/hr5376_IR_Act_8-3-22.pdf
[xv] https://www.cbo.gov/system/files/2022-09/PL117-169_9-7-22.pdf
[xvi] https://www.cbo.gov/budget-options/60907
[xvii] https://www.cbo.gov/budget-options/60907
[xviii] https://bipartisanpolicy.org/explainer/paying-the-2025-tax-bill-salt-deductions/
[xix] https://budgetmodel.wharton.upenn.edu/estimates/2025/1/13/limit-corporate-deductions-for-state-and-local-taxes-to-10000
[xx] https://x.com/DonFSchneider/status/1749926620440199441
[xxi] https://budgetmodel.wharton.upenn.edu/issues/2023/6/14/tax-cuts-for-working-families-act
[xxii] https://budgetmodel.wharton.upenn.edu/estimates/2024/12/20/limit-gilti-benefits-no-round-tripping
[xxiii] https://taxfoundation.org/blog/taxing-endowments-revenue-analysis/

[xxiv] https://budgetmodel.wharton.upenn.edu/estimates/2025/1/13/raise-the-excise-tax-rate-on-stock-repurchases
[xxv] https://budgetmodel.wharton.upenn.edu/issues/2025/1/27/eliminating-excess-benefits-from-section-199a-deduction
[xxvi] https://bipartisanpolicy.org/explainer/paying-the-2025-tax-bill-step-up-in-basis-and-securities-backed-lines-of-credit/
[xxvii] https://budgetlab.yale.edu/research/budgetary-effects-modifying-qualified-small-business-stock-exclusion
[xxviii] https://www.crfb.org/blogs/options-reducing-revenue-loss-tcja-extension
[xxix] https://bipartisanpolicy.org/explainer/paying-the-2025-tax-bill-simplify-filing-for-parents/

Mormon Women for Ethical Government
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www.mweg.org

Statement for the Record
Submitted by Mormon Women for Ethical Government
To the House Ways and Means Committee
Hearing on the Need to Make Permanent the Trump Tax Cuts for Working Families
Date: January 14, 2025

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

Thank you for the opportunity to submit this statement on behalf of Mormon Women for Ethical Government (MWEG). We are a nonpartisan, faith-based organization committed to ethical governance, stewardship, and the promotion of policies that strengthen families, safeguard the vulnerable, and foster economic stability.

The Child Tax Credit (CTC) represents one of the most impactful pro-family policies of our time. The expansion of the CTC under the Tax Cuts and Jobs Act (TCJA) in 2017 was a welcome step forward, doubling the credit from $1,000 to $2,000 and offering meaningful support to many families. However, this expansion left critical gaps, particularly for lower-income families who were excluded from receiving the full benefit due to limitations in refundability.

At MWEG, we believe that moral governance requires prioritizing the well-being of families, and this includes ensuring that all working families—regardless of income—can access the full benefit of policies like the CTC. A robust, refundable credit is essential to alleviating child poverty, supporting caregiving parents, and empowering families to thrive in an increasingly uncertain economy.

We urge Congress to build upon the foundation of the TCJA with reforms that address its shortcomings and expand its benefits. Specifically, we recommend the following:

1. **Make the Child Tax Credit Fully Refundable:** Ensuring that low-income families receive the full benefit of the CTC is a moral imperative. Refundability ensures that families most in need—many of whom are disproportionately affected by economic instability—are not left behind.
2. **Increase Support for Families with Young Children:** The high cost of early childhood care and development must be addressed. Enhancing the credit for families with children under five would recognize the unique challenges and contributions of parents during these formative years.
3. **Preserve Investments in Safety Net Programs:** Policies like SNAP and childcare subsidies are vital complements to the CTC, ensuring families can meet basic needs. Congress must protect and strengthen these essential programs.
4. **Support Family-Friendly Work Policies:** Incentivizing businesses to offer paid family leave and flexible work arrangements is critical for enabling parents to balance caregiving responsibilities with workforce participation.

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5. **Reevaluate Corporate Tax Policy for Sustainability:** Corporate tax policies should support sustainable revenue generation to fund essential family programs while promoting responsible economic growth.

At MWEG, we hold that good governance is rooted in stewardship and care for the most vulnerable among us. By refining and improving the CTC and related policies, Congress has an opportunity to ensure that our nation's tax code reflects its deepest values: the importance of families, the dignity of caregiving, and the promise of opportunity for all.

We urge you to act swiftly to create a stronger, more equitable foundation for families, and we stand ready to support these efforts.

Thank you for your dedication to these critical issues.

Sincerely,

Mormon Women for Ethical Government

America's Credit Unions

Jim Nussle
President & CEO
202-508-6745
jnussle@americascreditunions.org

99 M Street SE
Suite 300
Washington, DC 20003

January 14, 2025

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

Re: The Value of the Credit Union Tax Exemption

Dear Chairman Smith and Ranking Member Neal:

I am writing on behalf of America's Credit Unions to remind Congress of the difference credit unions make in the lives of American working families every day in conjunction with the Committee's upcoming hearing: "The Need to Make Permanent the Trump Tax Cuts for Working Families." America's Credit Unions is the voice of consumers' best option for financial services: credit unions. We advocate for policies that allow the industry to effectively meet the needs of their over 142 million members nationwide.

As the Committee considers tax reform and extending the expiring provisions of the Tax Cuts and Jobs Act (TCJA) in 2025, we want to remind you of the valuable role credit unions play for working families and Main Street America and urge you to protect the current tax status of credit unions. We expect credit union opponents to continue to attack credit unions, distort the facts, make unsupported claims, and call on Congress to remove or change the credit union tax status to eliminate their competition and further their profits. That is why we believe it is important to remind Congress why credit unions were granted tax-exempt status, and why over 90 years since the passage of the Federal Credit Union Act (FCU Act), the work that credit unions do to serve those left behind by the big banks is more important than ever.

During the depths of the Great Depression, when banks and savings associations were closing across the country, Congress passed the FCU Act to charter federal credit unions, not-for profit financial cooperatives that provide safe, affordable financial services products for those left behind by the bankers who decided that serving working class Americans was not profitable and worth their time. The tax-exempt status afforded to credit unions allowed them to reach out in areas banks could not and serve those consumers that banks would not. By every account, this legislation has been an unparalleled success. Today, credit unions serve over 142 million Americans and still stick to that basic mission of providing safe, affordable financial services products to Main Street America.

The Credit Union Difference

At a time when the banking sector is experiencing noteworthy turmoil and consumers have real questions about financial stability, it is important to point out the key factors that differentiate

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credit unions from banks and make credit unions the best source of safe, affordable financial services for working families and Main Street America:

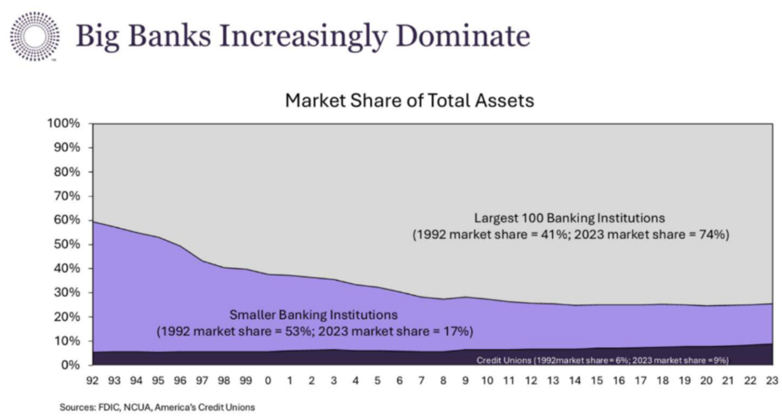
- **Structure:** Credit unions are mutually-owned not-for-profit financial cooperatives. A person who opens a credit union account is not just a customer—instead, they become an owner of that institution, joining with other members to elect the credit union's board of directors and have an equal say over how the credit union is run. Each member has one vote, regardless of the amount they have on deposit. And unlike banks, which focus on making money for shareholders, credit unions are not-for-profits that return their money to their members and the institution.
- **Affordability:** Because credit unions are not focused on paying profits to investors, they can focus on making financial services more affordable for their members. A credit union returns its earnings to its members in the form of reduced fees, lower interest rates on loans, higher savings rates, and institutional improvements. As an example, credit unions on average pay a higher rate on certificates of deposits of all term lengths than banks, and the average annual total value of fees collected by credit unions is less than that of large banks. Credit unions also frequently work with their members to waive fees when appropriate.
- **Membership:** People are eligible to join a credit union based on their employment; the community where they live, work, or worship; or other factors that create a common bond. The group of people eligible to join a certain credit union are known as the credit union's field of membership. Credit unions emphasize relationship banking, focusing on a high level of customer service and always placing people over profits.
- **Safety:** The credit union industry is well capitalized, and a much larger share of credit union deposits are covered by federal deposit insurance (through the National Credit Union Share Insurance Fund) than bank deposits. The average leverage ratio for credit unions is 10.8 percent, compared to only 9.2 percent for banks, and more than 90 percent of credit union deposits are insured, compared to approximately 60 percent of bank deposits.
- **Diversity:** More than half of credit union CEOs are women, while only 5 percent of banks have a woman CEO. And credit unions' commitment to diversity also shapes how they serve their members and communities. Additionally, three times as many credit unions as banks are minority depository institutions.
- **Accessibility:** Credit unions are far more accessible to their members than banks are to their customers. Banks of all sizes, and particularly the largest banks, have closed thousands of branches in the last decade, especially during the pandemic. Meanwhile, a report from the Philadelphia Fed found that while credit unions account for only about 20 percent of financial institution branches, they accounted for 36 percent of "cured" banking deserts since 2019.[1]
- **Community Focus:** Credit unions are focused on providing financial services to their local communities, and despite statutory limits on their business lending activities, credit

[1] https://www.philadelphiafed.org/-/media/frbp/assets/community-development/reports/banking-deserts-report-feb-2024.pdf.

unions are an important source of credit for small businesses. Many credit unions were the only ones who would help main street small businesses access Paycheck Protection Program (PPP) loans during the pandemic.

<u>Credit Unions Remain Only a Small Percentage of the Financial Institution Marketplace</u>

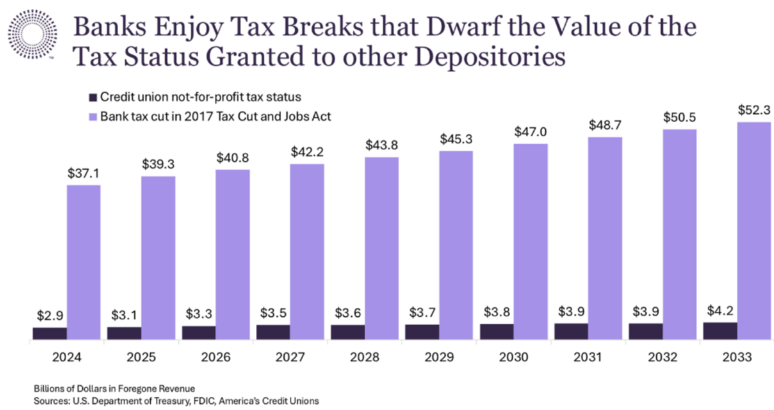
While bankers and their allies will attack credit unions and falsely claim they are growing out of control, the facts are that the market share of total assets in financial institutions that credit unions have remains in single digits, as it has always been. As the data shows, *the real competition for smaller banks actually comes from bigger banks*. This is outlined in the chart below.



<u>The Tax Breaks for Banks from TCJA Far Outweigh the Credit Union Tax Exemption</u>

As you consider tax reform as part of extending expiring provisions of the TCJA, you should be aware of the irony of bankers and their allies urging you to change the tax status of credit unions. The reality is that the Federal Deposit Insurance Corporation's (FDIC) own data shows that the permanent corporate tax breaks enjoyed by banks from the provisions of the TCJA dwarf any revenue that would be gained from changing the credit union tax status. Quite simply, banks have enjoyed hundreds of billions of dollars in benefit from the TCJA, and the majority of that benefit is locked in place in non-expiring provisions.

Any effort to change the tax status of credit unions as part of the tax reforms related to extending the expiring provisions of the TCJA would be Congress doubling down for big banks at the expense of a tax increase on 142 million Americans who are credit union members. This point is especially alarming when you compare the values of the credit union tax exemption and the TCJA bank tax breaks from 2024 through 2033, as depicted in the chart below.



Credit Unions Actually Pay Billions in Taxes

Credit union opponents would have you believe that credit unions pay nothing in taxes. That is a blatantly false misrepresentation of the credit union tax exemption. Credit unions actually pay billions in taxes to federal, state, and local governments in the forms of payroll and various excise taxes, not to mention the tax revenue they help generate from their employees as an employer. Furthermore, their economic activity and benefits passed on to their members indirectly leads to billions in tax revenues for federal, state, and local governments, as outlined in the chart below.

January 14, 2025
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Credit Unions Return Value from Their Tax Exemption to Their Members

Credit unions take their tax status seriously and use it to help the over 142 million Americans who are credit union members. Credit unions delivered an estimated total of $35 billion in financial benefits in 2024 for American consumers. These benefits arise from member-ownership and the absence of stockholders demanding a market return on investment, and they take the form of lower loan interest rates, higher savings yields, and fewer/lower fees. Furthermore, their presence as competition in the marketplace actually benefits the millions of American consumers who are bank customers by serving as a check on rates.

It is also important for Congress to recognize that, in addition to the hundreds of billions in tax breaks enjoyed by banks from the TCJA, nearly one-third of all banks enjoy their own special tax status as Subchapter S corporations. This just adds to the hypocrisy of banker attacks on the credit union tax exemption. Ironically, what the banks will not tell you is that studies have shown that Subchapter S banks do little to pass the benefits of their tax advantage on to their customers—a direct contrast to how credit unions operate with their tax exemption.[2]

The Joint Committee on Taxation (JCT) estimates the value of the credit union federal tax expenditure was $2.6 billion in 2023. With the benefits credit unions provide to the American consumer, the fact is the credit union federal tax exemption is one of the best returns on the tax expenditure dollar for the federal government.

[2] "Do tax benefits conferred to Sub-S banks affect their deposit or loan rates?" C.A. Depken II et al./Finance Research Letters 7 (2010) 238–245.

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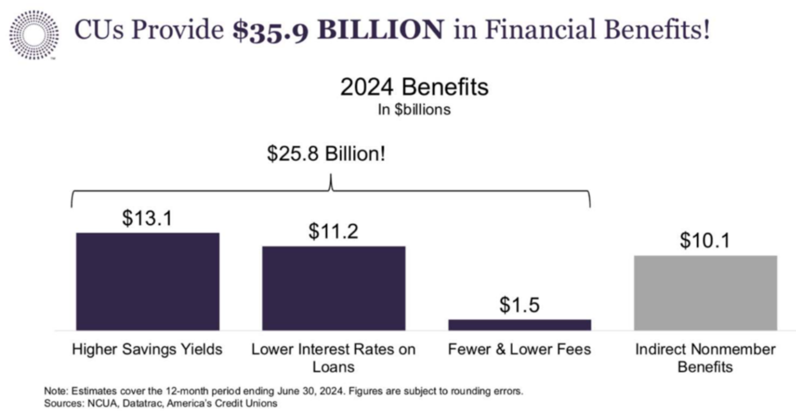

Credit Unions Have a Right to Operate in a Free Market

Many credit union opponents call for changing the credit union tax status because they do not agree with the way some credit unions run their business. In reality, they want to limit competition from credit unions and increase bank profits as much as possible. Credit unions and their member-owners have the right to operate their institutions—including marketing to their field of membership—in ways that they best see fit, not just in ways that banking trade groups believe they should. For some of these local financial institutions, that means sponsoring events, teams, and places that build a sense of pride in their local communities. It also includes stepping in when banks and other corporate entities abandon their communities because it does not help their profit motive. It is a shame that bankers and other credit union opponents focus on these activities to attack credit unions and ignore all the other key factors of what credit unions are doing for their members. We urge you not to fall for their tired, old tricks on this issue.

Furthermore, some in the banking community also attack voluntary bank and credit union combinations or mergers. What they conveniently leave out is that the bank is ultimately the one that makes the choice to dissolve and combine with a credit union. *These are not hostile takeovers fueled by the credit union tax exemption* as some would have you believe. Bank and credit union combinations are a win-win for a local community that may otherwise lose its community-focused financial services—including local employees and branches—if a mega-bank buys the local community bank. Credit union-community bank combinations often mean employees retain jobs and branches remain open with a focus on providing affordable access to financial products and services for members of the community.

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These mergers cannot occur without approval from the bank's board of directors and both bank and credit union regulators. This is a power that the National Credit Union Administration (NCUA) takes seriously. Credit unions that take over bank branches retain their credit union characteristics and are still subject to strict statutory prohibitions and limits on powers as set out in the FCU Act, including field of membership requirements for the newly acquired bank customers, limits on business lending, an interest rate ceiling on credit products and loans, and capital limitations. Finally, as noted above, there is actually an overall tax benefit to credit unions keeping an institution open in a community that may close otherwise from the payroll, property, excise, and other taxes that credit unions still pay and governments would lose if it would close.

In conclusion, as you consider tax policy changes and the extension of the expiring provisions of the TCJA, we urge you to keep these facts about credit unions in mind and protect the credit union tax exemption. We thank you for the opportunity to share our thoughts and look forward to working with you on policies that benefit America's credit unions and their more than 142 million member-owners. Should you have any questions or require any additional information, please contact me or Greg Mesack, America's Credit Unions' Senior Vice President of Advocacy, at gmesack@americascreditunions.org.

Sincerely,

Jim Nussle, CUDE
President & CEO

cc: Members of the Committee on Ways and Means

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January 28, 2025

The Honorable Jason Smith
Chairman
House Committee on Ways & Means
United States House of Representatives
1139 Longworth House Office Building
Washington, DC 20515

Dear Chairman Smith:

On behalf of the National Small Business Association[1] (NSBA) and its more than 65,000 members, we thank you for the opportunity to submit our comments to the House Ways & Means Committee regarding a recent hearing, *The Need to Make Permanent the Trump Tax Cuts for Working Families*.

Collectively, small businesses employ roughly half of all Americans and drive 43.5 percent of U.S. Gross Domestic Product. Our members are at the heart of local communities, contributing significantly to the economy, driving innovation, and making up the fabric of countless Main Streets across America. Put simply, small business is big business.

While the interests of our members – and those of the small business community as a whole – are extremely diverse, we write today to strongly encourage lawmakers to take action on five pro-growth policies: extension of the Section 199A Qualified Business Income (QBI) deduction, the reinstatement of the now-expired Section 174 Research & Experimentation (R&E) expensing regime, the reinstatement of 100-percent bonus depreciation, the fair treatment of state and local business tax deductions, and the extension of the current estate tax exemption.

Section 199A, which provides a 20-percent deduction for qualified business income, is a vital tax benefit for small businesses, and enables our member companies to reinvest in their operations, expand, and remain competitive. However, the provision is scheduled to expire at the end of this year, representing a significant tax hike that looms large over tens of millions of small businesses.

This tax hike does not exist in a vacuum. Whereas small businesses are forced to contend with the loss of Section 199A, the 21-percent rate paid by large corporations was made permanent. Should the 199A deduction be allowed to expire, it will be extremely difficult – if not impossible – for millions of small businesses to remain competitive. Moreover, without an extension of current individual tax rates, these entrepreneurs will face a "one-two punch," paying a higher percentage in tax on a higher proportion of their income. A system that so disproportionately favors large companies over their smaller counterparts is not just unfair, but threatens the very existence of our nation's job creators.

[1] Founded in 1937, NSBA is the nation's oldest small-business advocacy organization. We operate on a bipartisan basis to represent the interests of all American small businesses. We have 65,000+ members in every state and every industry across the country, including our numerous state affiliates. More information about NSBA and our priorities can be found on our website at: www.nsbaadvocate.org.

Similarly, the immediate expensing of R&E costs under Section 174 is essential for fostering innovation within small businesses. The ability to deduct research and experimentation expenses in full allows small businesses to invest in new technologies, improve products and services, and stay ahead in a competitive market. This provision is crucial for maintaining the innovative edge that small businesses bring to the economy.

One overlooked aspect of the shift from full expensing to multi-year amortization under Section 174 is the fact that seemingly ordinary business expenses are captured by the new regime. Activities such as process improvements, software development, project management, and other routine expenses are captured by these punitive requirements, meaning businesses of all shapes and sizes are harmed. Returning to the decades-old standard of immediate expensing would do away with this backdoor tax hike, and give small businesses the certainty they need to operate.

Notably, many of our member companies have continued these critical investments in R&E in recent years in the hopes of some form of relief, such as that provided under your *Tax Relief for American Workers and Families Act*, which received broad, bipartisan support in the House. We ask that you consider extending similar relief retroactively under any future tax package, as well as implementing the prior R&E expensing regime on a prospective basis.

In addition, we urge lawmakers to implement changes to the existing State and Local Tax (SALT) deduction cap, specifically as it pertains to business income. Whereas small businesses structured as pass-throughs remain subject to the $10,000 cap, corporations may deduct the SALT expenses in full. While many states have enacted legislative “workarounds” that give pass-through entities the ability to claim these deductions in full, few small businesses take advantage of these provisions, typically due to a lack of awareness or the inherent complexity of such statutes. We therefore ask that lawmakers consider ways to level the playing field and ensure fairness when it comes to business SALT deductions.

The current estate tax exemption thresholds are another critical issue for small businesses and family-owned enterprises. The temporary higher exemption levels have provided much-needed certainty and flexibility for many small business owners who rely on the ability to transfer their businesses to the next generation without undue financial burdens. However, the scheduled reduction in these thresholds will disproportionately harm small businesses, which often have significant illiquid assets tied up in land, equipment, or other operational necessities. Lowering the exemption could force many owners to sell off parts of their businesses or even close their doors to meet tax obligations, a devastating outcome for local economies and job creation.

To preserve the ability of small businesses to thrive across generations, we strongly encourage Congress to extend the current estate tax exemption thresholds or make them permanent. Doing so would not only provide long-term certainty but also ensure that family-owned businesses, which form the backbone of communities across America, are not penalized for their success. Addressing this issue is a vital step toward fostering economic growth and sustaining entrepreneurship nationwide.

Finally, we respectfully point out that the small business community was largely shut out of the 2017 tax debate leading to the enactment of the Tax Cuts and Jobs Act (TCJA), despite our critical role in the economy. However, under your leadership we have seen various efforts to engage with key stakeholders in the small business community – including through the Tax Teams process and this month’s committee hearings – for which we are incredibly grateful.

In conclusion, as you consider ways to make the existing tax code simpler and more equitable, we look forward to working with you and stand ready to assist in any way necessary to advance these priorities.

Should you have any questions or comments, please do not hesitate to reach out to Reed Westcott, at rwestcott@nsbaadvocate.org.

Thank you,

Todd McCracken
President & CEO
National Small Business Association

Reed Westcott
Senior Director of Government Affairs &
Federal Policy
National Small Business Association
Executive Director
Small Business Exporters Association

January 14, 2025

The Honorable Jason Smith Chairman House Committee on Ways and Means Washington, DC 20515	The Honorable Mike Crapo Chairman Senate Committee on Finance Washington, DC 20510
The Honorable Richie Neal Ranking Member House Committee on Ways and Means Washington, DC 20515	The Honorable Ron Wyden Ranking Member Senate Committee on Finance Washington, DC 20510

Dear Chairman Smith, Chairman Crapo, Ranking Member Neal, and Ranking Member Wyden:

We are writing to share our support for the extension of Section 199A and to ask that it be expanded to remove the "specified service trades or business" (SSTB) designation that limits the ability of certain independent financial services professionals to fully benefit from the deduction.

The Tax Cuts and Jobs Act (TCJA) created §199A, a 20% deduction on "qualified business income" for owners/shareholders of pass-through businesses, such as S corporations, partnerships, and sole proprietorships. Congress intended for all small businesses to benefit from the deduction to promote economic growth across the country. However, guidance from the Department of Treasury on §199A-5 limits owners and shareholders of SSTBs from taking advantage of the 20% deduction if their overall taxable income exceeds certain thresholds. Unfortunately, financial professionals, financial planners, investment advisers, and retirement planners currently fall under this definition.

We believe it would be sound public policy and beneficial to the American economy to allow all eligible hard-working small business owners to fully benefit from this deduction in whole. Accordingly, we urge Congress to not only extend Section 199A but also to include a provision that would allow all independent financial services professionals to benefit from the deduction. This provision would clarify that the SSTB designations of "financial services," "brokerage services," "investing and investment management," "trading," and "dealing in securities" do not apply to independent financial services professionals providing advice to retail investors.

This clarification would provide parity between financial services professionals and insurance brokers. Currently, insurance brokers can enjoy the benefit of the 20% pass-through deduction regardless of income because of an exemption under the definition of "brokerage services" (§199A-5(2)(x)). We believe that this disparity is clearly unfair because financial services professionals and insurance brokers, although providing similar products and services to retail clients, face the same financial and regulatory burdens and challenges that all small business owners must deal with.

In addition to being drivers of the economy, financial advisors, financial planners, investment advisers, and retirement planners are a vital solution to the retirement savings crisis that America currently faces. They may be local entrepreneurs who choose to do business through independent contractor relationships with affiliated national broker-dealer firms. They act as local providers of financial advice, working with retail investors to build savings and prepare for retirement. Many of those eligible to take advantage of the deduction have reported using the tax savings to reinvest in their businesses by hiring more employees, providing additional worker benefits and upgrading technology to better serve clients.

We urge Congress to extend Section 199A and expand its applicability to additional hardworking small business owners by clarifying that all independent financial services professionals shall be categorized as qualified trades or businesses rather than as specified service trades or businesses.

Thank you for your attention to this important issue. We look forward to continuing to work with you and serving as a resource on this significant issue. Please do not hesitate to contact us if we can provide further information.

Sincerely,

The Financial Services Coalition for 199A Fairness

American Securities Association
Cetera Financial Group
CFP Board
Commonwealth Financial Network
Financial Planning Association
Financial Services Institute
Investment Adviser Association
LPL Financial
National Association of Personal Financial Advisors
Raymond James

NATIONAL ASSOCIATION OF REALTORS®

HEARING BEFORE THE

HOUSE WAYS AND MEANS COMMITTEE

ENTITLED

"THE NEED TO MAKE PERMANENT THE TRUMP TAX CUTS FOR WORKING FAMILIES"

WRITTEN COMMENTS

BY

THE NATIONAL ASSOCIATION OF REALTORS®

JANUARY 14, 2025

Chairman Smith, Ranking Member Neal, and members of the Committee, thank you for holding this important hearing today on the need to make permanent the tax cuts for working families enacted by the Tax Cuts and Jobs Act (TCJA) of 2017, which are commonly referred to as the "Trump Tax Cuts." I greatly appreciate the opportunity to comment on this important issue.

On behalf of the more than 1.5 million members of the National Association of REALTORS®, I urge the Committee to make permanent key tax-reduction provisions in the Tax Cuts and Jobs Act that have been vital to the growth of the economy, the creation of new jobs, and the well-being of millions of American households over the past seven years.

In particular, we support the permanence of the lower income tax rates, the permanent extension of the 20 percent qualified business income deduction, and the renewal and expansion of Opportunity Zones.

By reducing income tax rates for both individuals and businesses, the TCJA boosted the economy by increasing incentives to work, save, and invest. It also resulted in a lower cost of investment for businesses, which has and will result in higher output and the creation of jobs. Further, lower income tax rates make it easier for prospective homeowners to afford to purchase a first home.

The Tax Cuts and Jobs Act also included section 199A of the Internal Revenue Code, which created a 20 percent deduction from qualified business income for self-employed entrepreneurs and owners of pass-through businesses. This new deduction helped to equalize the tax rate between large corporations and small businesses and independent contractors – including the vast majority of real estate professionals. With this provision set to expire at the end of this year, NAR strongly believes it must be extended. An expiration of this provision would disproportionately harm America's small business owners and negatively impact crucial economic sectors, including real estate, which makes up nearly 20 percent of the U.S. economy.

Opportunity Zones have been especially important, not only in the revival of the economy, but also in providing extra incentives for the creation of new housing units. However, to gain the maximum growth potential from this innovative program, the OZ capital gains incentives should be reset and extended to attract even more new capital to distressed areas where it can be the most useful.

Along with the necessity of extending these tax cut provisions on a permanent basis, there is another crucial element for America's families that we believe must also be addressed in tax reform in 2025. This is to address the lack of availability and affordability of housing in our Nation, both of which have reached crisis levels.

Based on various studies, the United States faces a critical shortage of as many as 7 million homes. Over the past several years, America's supply problem has worsened, and housing has grown increasingly expensive and out of reach for more and more Americans. As champions serving at the front of the housing cause, REALTORS® can attest that most areas of the Nation remain in a housing crisis.

According to NAR's Housing Affordability Index for November 2024, the ability of typical families to afford to purchase a median-price home is still below 100, which means that a family with a median income had less than the income required to afford a median-priced home, even if such a home can be found that is for sale. The index spent much of 2024 below this level.

A June 2024 study by the Joint Center for Housing Studies of Harvard University concluded that the U.S. home price index is 47 percent higher than it was in 2020, with the median sales price of homes at about five times the median household income. In the rental market, meanwhile, rents are up 26 percent since 2020 and are rising in most markets. Also, the number of people experiencing homelessness is still increasing, according to a 2023 HUD report.

Unfortunately, there is no one simple "magic bullet" solution to America's housing plight. Rather, policymakers at every level of government must pursue changes in different areas to increase the affordability and availability of homes. NAR believes Congress can begin to turn around the housing availability and affordability crises by including in the Internal Revenue Code through tax reform various measures designed to improve the supply of housing units and facilitate increased homeownership possibilities for Americans.

Specifically, to increase the supply of homes for rent and sale, we recommend that any tax reform package this year include the following legislative proposals:

- The bipartisan **Affordable Housing Credit Improvement Act** would encourage investment in creating and preserving affordable housing by expanding the low-income housing tax credit (LIHTC).
- The bipartisan **More Homes on the Market Act** would alleviate the home sale inflation tax and incentivize more longer-term owners to sell their homes by increasing the maximum amount of capital gains a homeowner can exclude on the sale of a principal residence and annually adjusting it for future inflation.
- The bipartisan **Neighborhood Homes Investment Act** would attract private investment for building and rehabilitating owner-occupied homes by offering tax credits that create a pathway to neighborhood stability through sustainable homeownership. Providing this powerful incentive to build and rehabilitate homes for low- and moderate-income homeowners can fill the gap in areas where it is often more expensive to develop or rehabilitate than appraisal values will support.
- The bipartisan **Revitalizing Downtowns and Main Streets Act** would encourage the development of new housing units by incentivizing the conversion of under-used commercial buildings to residential properties with a tax credit for qualified property conversion expenditures. Many commercial properties in both rural and urban areas can be adapted to better suit the needs of communities and create job opportunities, including adding multifamily and affordable housing as well as mixed-use spaces.
- A proposal to increase the supply of starter homes by reducing the capital gains tax rate for small investors of rental houses who sell to owner-occupants instead of another landlord. If provided a higher after-tax return by selling to a first-time buyer, many selling investors would move them to the top of the list of bidders, thus making it much easier for them to buy a home.

Also, because the price of homes has increased so rapidly, many prospective home buyers are having trouble saving enough money for the necessary down payment and closing costs and to afford the monthly mortgage payments, even if more properties were available to purchase. To assist them, we believe that tax reform should also include:

- Tax incentives to make it easier for those saving for a first home to amass the funds necessary for a sufficient down payment. This could include tax-preferred savings plans similar to Individual Retirement Accounts or 529 educational accounts where funds can grow faster and possibly be matched by contributions from parents, employers, or others.
- A homeownership tax credit for those who do not itemize and are thus not able to utilize tax incentives such as the mortgage interest and property tax deductions. Unlike the situation for most of the past century, the vast majority of today's prospective home buyers get no assistance from the current tax law in buying a home.
- Increasing the $10,000 limit on the state and local tax (SALT) deduction and eliminating the marriage penalty for taxpayers filing jointly, who have the same maximum deduction as single filers. This change would help current and prospective homeowners who are facing increased property tax payments that have gone up simply because the value of their home is higher.

NAR is committed to working with the Ways and Means Committee to create new and innovative ways that our Federal tax law can help ensure the American Dream of homeownership remains within reach for millions who are presently at risk of not attaining it. We believe tax reform is an ideal place and time to take major steps to turning around the housing crisis.

Sincerely,

Kevin M Sears

President, National Association of REALTORS®

January 14, 2025

The Honorable Jason Smith
Chairman
U.S. House Committee on Ways and Means
1139 Longworth House Office Building
Washington, DC 20515

The Honorable Richard Neal
Ranking Member
U.S. House Committee on Ways and Means
1129 Longworth House Office Building
Washington, DC 20515

Dear Chairman Smith and Ranking Member Neal:

The Exhibitions & Conferences Alliance (ECA), a coalition of leading professional and industry associations from across the business and professional events industry, thanks you for holding today's hearing on *The Need to Make Permanent the Trump Tax Cuts for Working Families*.

ECA and its members know that the tax code has an outsized impact on the U.S. business and professional events industry's ability to create jobs. In 2025, our industry will employ 2.63 million American workers and drive $426.1 billion in spending nationwide. Our industry also pays $51 billion in federal taxes and $79 billion in state and local taxes in communities across the country.

Business and professional events—including trade shows, conferences, meetings, conventions, and expositions—drive demand for restaurants, hotels, travel services, and Main Street commerce, which further contributes to U.S. job creation. They also support small businesses: 99% of all business and professional events organizations are job-creating small businesses, and more than 80% of all exhibitors at these events are also small businesses and entrepreneurs. In summary: <u>We are America's small businesses supporting America's small businesses</u>!

ECA encourages the U.S. House Committee on Ways and Means to urgently take up and pass comprehensive federal tax legislation that is pro-growth, pro-investment, pro-impact, and pro-workforce development to ensure that our industry's small businesses can continue to drive economic growth, create jobs, and empower other U.S. small businesses from coast to coast.

<u>Pro-growth</u>: Business tax rates uniquely affect our industry. These rates not only affect our small businesses' hiring capacity, but they also influence the number of exhibitors and attendees at business and professional events, which further impacts booth building, venue staffing levels, contractor hiring, labor hours, local tax revenue, and much more. ECA supports maintaining a competitive business tax rate that enables the growth of the industry and ensures that we continue to create good-paying jobs for American workers.

<u>Pro-investment</u>: Private capital has been vital to the sustainability and growth of the business and professional events industry for years. Many of our small businesses have received support from private equity investors, including during the dark days of the pandemic when our entire industry was closed for business for 12-18 months in some large U.S. states and cities. ECA opposes any changes to the tax treatment of private equity profits and interest deductibility that would negatively impact job levels as well as an important source of investment in our industry's future growth.

The Honorable Jason Smith
The Honorable Richard Neal
Page 2

Pro-impact: Nonprofit associations host more than 272,000 events annually that attract nearly 52 million attendees, support 342,000 U.S. jobs, and drive $42 billion in spending in communities nationwide. Changes to their tax-exempt status, or the unrelated business income tax (UBIT) exemption for their events, would jeopardize mission-driven work funded by event proceeds and the $35.1 billion in federal, state, and local tax revenue they contribute each year. ECA opposes any alteration to the tax-exempt status of nonprofit associations and their events that could disrupt the critical work of these organizations to those that they serve.

Pro-workforce development: Expanding qualified expenses under Section 529 savings plans to include postsecondary training and credentialing, such as licenses and professional certifications, would transform these plans from college savings plans into *career* savings plans and help U.S. workers secure in-demand, good-paying jobs like those that our industry offers. That's why ECA enthusiastically supports including Section 3 of last year's *Education and Workforce Freedom Act* (H.R.8915 – 118th Congress) in any 2025 comprehensive tax package.

ECA strongly believes that comprehensive tax legislation that is pro-growth, pro-investment, pro-impact, and pro-workforce development will ensure that our industry's small businesses will continue to thrive and support robust job creation going forward. If you have any questions, or if ECA can provide you with any additional information on its views, please contact me at any time.

Thank you for your ongoing commitment to America's workers and small businesses.

Sincerely,

Thomas F. (Tommy) Goodwin, FASAE, CAE, PMP, CMP
Vice President

ICCFA
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January 28, 2025

The Honorable Jason Smith
Chairman
House Ways and Means Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Smith:

On behalf of the International Cemetery, Cremation and Funeral Association, which was founded in 1887 and today has over 9,000 members representing over 25,000 deathcare professionals who serve hundreds of thousands of families each year, we submit this letter as testimony for the record of the January 14 hearing on "The Need to Make Permanent the Trump Tax Cuts for Working Families." We very much appreciated the goal of the Tax Cuts and Jobs Act to lower tax rates, increase the standard deduction, and streamline the tax filing process for working families. As an industry that uniquely utilizes trusts for consumer and taxpayer protection very distinctly from traditional guarantor trusts, we seek to correct an unintended consequence of the 2017 tax reform bill by very narrowly restoring the deduction for trust investment advisory fees for qualified funeral and cemetery trusts.

Section 67(g) of the Tax Cuts and Jobs Act of 2017 suspended the option for individuals and trusts to deduct fees for investment advice, which qualified as a miscellaneous expense for purposes of the deduction. Now, funeral and cemetery trusts cannot deduct investment advisory fees but can continue to deduct management fees. Reinstating the deduction for investment advisory fees for funeral and cemetery trusts would enable the trusts to retain more income so funeral homes and cemeteries can meet their contractual obligations and protect consumers and taxpayers.

Last Congress, Representatives Drew Ferguson (R-GA-3) and Linda Sanchez (D-CA-38) introduced H.R. 5251, the Funeral and Cemetery Trust Modernization Act. They also introduced the legislation during the 117th and 116th Congresses. The bill would benefit consumers and businesses in the deathcare industry by reinstating and expanding certain tax benefits for funeral and cemetery trusts. The bill has two specific provisions. In addition to allowing funeral and cemetery trusts to continue to claim a deduction for investment advisory fees, it would also update a specific tax provision for the benefit of cemetery endowment care funds.

In 1976, Congress, recognizing the need to be sensitive to the tax treatment of cemetery trusts, created Internal Revenue Code Section 642(I), which allows such trusts a $5 per gravesite distribution deduction for each gravesite purchased prior to the start of the taxable year for which care and maintenance are provided. The $5 distribution deduction was never indexed for inflation and the value is greatly diminished from what it was 48 years ago. In today's dollars, it would be nearly five times higher. H.R. 5251 would raise the value to $25 and index the gravesite distribution deduction for inflation so cemetery trusts can reclaim the full value of tax assistance Congress intended to provide them so many years ago.

Today, we write to express our strong support for the inclusion of the "Funeral and Cemetery Trust Modernization Act," in any comprehensive tax legislation considered by the House Ways and Means Committee in 2025. As the Committee begins to address the expiration of numerous tax provisions from the 2017 Tax Cuts and Jobs Act, we urge you to prioritize policies that provide certainty and stability for consumers and businesses.

The "Funeral and Cemetery Trust Modernization Act" provides a critical opportunity to modernize outdated tax laws that hinder the ability of families to plan for end-of-life expenses. By allowing for reasonable growth within funeral trusts, the bipartisan legislation ensures that families can adequately prepare for future costs, relieving financial burdens on loved ones during an already difficult time. Furthermore, it provides much-needed clarity and consistency for funeral homes and cemeteries, enabling them to serve their communities better and plan for long-term stability.

Like all industries, inflation impacts our operations and the cost of funeral goods and services we provide. However, the deathcare industry is uniquely affected by inflation because of the significant role trusts play in the business operations of both funeral homes and cemeteries. State laws mandate funeral homes and cemetery authorities utilize pre-need and endowment care funds for consumer and taxpayer protection. The trusts protect consumers' investment in pre-need funeral planning because the cost of funeral and cemetery goods and services is expected to rise over time, and they ensure the availability of funds to maintain cemeteries in perpetuity. And, while funeral and cemetery trusts are integral to deathcare business operations, they are subject to the highly accelerated tax brackets for trusts, under the individual tax code – not corporate rates.

This legislation would help insulate consumers' investment in pre-need funeral planning from high inflation rates and help with increased costs of maintenance and other fiduciary responsibilities that are straining many cemetery endowment care funds.

The ICCFA urges the House Ways and Means Committee to include the provisions of the "Funeral and Cemetery Trust Modernization Act" in any tax package considered in the 119th Congress. This common-sense legislation provides necessary updates to the tax code that will benefit consumers, funeral homes, and cemeteries alike. By enacting these provisions, Congress can ensure that families can plan for end-of-life expenses with greater certainty and that the deathcare industry can continue to provide essential services to communities nationwide. We appreciate your attention to this important matter and welcome the opportunity to discuss it further.

Sincerely,

NBaddeliyanage

Nadira Baddeliyanage || Executive Director
International Cemetery, Cremation, and Funeral Association

AMERICAN ACADEMY of FAMILY PHYSICIANS

Statement of the American Academy of Family Physicians

By

Steven Furr, MD, FAAFP
Board Chair, American Academy of Family Physicians

To

U.S. House Ways and Means Committee

On

"Hearing: The Need to Make Permanent the Trump Tax Cuts for Working Families"

January 28, 2025

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AAFP

AMERICAN ACADEMY of FAMILY PHYSICIANS

Dear Chairman Smith and Ranking Member Neal:

On behalf of the American Academy of Family Physicians (AAFP), representing more than 130,000 family physicians and medical students across the country, I write in response to your recent hearing entitled, "The Need to Make Permanent the Trump Tax Cuts for Working Families." As this Committee and your colleagues in Congress continue discussions around tax reform this session, I wanted to provide feedback on various tax reform policies that could impact family physicians across the country.

Historically, the dominant practice model for family physicians was in independent, physician-owned practices that played a central role on the main streets of communities, be it urban, suburban, or rural. In recent years, however, that practice model has started to disappear. The number of independent, physician-owned practices has dwindled while the proportion of family physicians who are employed continues to grow each year. Seventy-three percent of all AAFP members and 91% of new family physicians (one to seven years post-residency) report working as employees in a wide range of practice settings. This shift is dramatic considering only 59% of AAFP members reported being employed in 2011.[i]

Market consolidation, physician payment cuts, and administrative burden are just a few of the factors that have contributed to this practice model shift. The closure of community-based primary care practices has impacted access to care for many patients, especially in rural and medically underserved areas, and dissuaded family physicians from or hindered their ability to practice in the areas with the highest need. However, there are numerous tax-related policies within this Committee's jurisdiction that, if adopted or reformed, could protect current independent physician practices, incentivize other family physicians to work high-need communities, and invest in the health and well-being of patients. In particular, the AAFP urges the Committee to consider:

- Protecting independent and small family physician practices;
- Extending the Affordable Care Act (ACA) enhanced premium tax credits;
- Ensuring access to affordable care for patients with chronic conditions by codifying current IRS guidance;
- Incentivizing physicians to participate in federal programs that provide care to rural and medically underserved communities; and
- Upholding the tax-exempt status of non-profit entities that support physicians and their patients.

Tax Incentives for Independent Family Physician Practices

Family physicians have changed the way they practice significantly in recent years. In 2011, 37% of AAFP members surveyed reported that they are sole or partial owners of their practice. In 2024, that number has fallen to 21%.[ii] Many factors have contributed to this shift. Underinvestment in primary care, overwhelming administrative burden, rising practice costs, and inadequate payment are just some of the primary variables fueling the loss of small and solo practices. Increasingly, family physicians report that independent practice is unsustainable. In addition to addressing the aforementioned factors, maintaining or expanding existing small business tax credits, such as pass-through income deductions or maximizing tax deductions for improvements to small businesses, can be a crucial part of maintaining the independent ownership model for family physicians.

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Some provisions included within the Tax Cuts and Jobs Act, such as Section 199A and 179 expensing, should be maintained or expanded to continue to protect the tax incentives for maintaining small physician-owned practices. The AAFP currently has an open survey out to members to gather specific data on the percentage of independent practices and partial owners that take advantage of these small business tax credits, and we look forward to sharing the results of that survey with the Committee soon.

In addition to the existing small business tax credits that many independent family physician practices utilize, there are other tax incentives to consider that could bolster the primary care workforce, especially in rural communities. One innovative idea to consider is providing income or property tax credits for primary care physicians who serve or work in rural communities. Specifically, primary care physicians who care for Medicare and/or Medicaid patients in a rural community should be eligible for a $50,000 tax credit on their federal income taxes in each year that they meet the qualifying requirements. Additionally, if the physician provides prenatal, obstetrical and postpartum services, they should be eligible for an additional $25,000 tax credit in each year that they meet the qualifying requirements. Providing these tax credits would provide additional capital to further encourage primary care physicians to practice and stay in rural communities.[iii]

Permanently Extending ACA Enhanced Premium Tax Credits

The Inflation Reduction Act (IRA) extended the ACA's advanced premium tax credits (APTCs) through 2025 and expanded eligibility, particularly for lower-income families and individuals. This has led to significant coverage gains for individuals and families across the country, with enrollment of lower-income individuals in ACA plans increasing by 115% since 2020[iv]. APTCs also support access to health care for middle class families.[v] In 2024, middle income families saved around $4,248 annually due to APTCs.[vi]

Because of our steadfast belief that all people should have affordable access to comprehensive health care, **the AAFP has supported the extension and expansion of APTCs. These tax credits ensure that millions of low- and middle-income families continue to have access to affordable health coverage, which has been shown to have a positive influence on a nation's economic growth and alleviate economic burdens.[vii]** Unfortunately, if there is no Congressional action to extend the APTCs beyond the end of this year, premiums will increase dramatically for many individuals who cannot otherwise afford coverage. Without APTC enrollment, numbers are likely to decline thus leading to a patient pool of sicker enrollees.[viii] If healthier enrollees leave the marketplace, the expected costs per enrollee would increase and premiums may rise to offset those costs.[ix] Lapses in coverage are also likely to lead patients to utilize more expensive care downstream, resulting in additional costs to the federal government and our health care system.

Therefore, as we look towards this approaching expiration, the Academy strongly urges Congress to make the enhanced premium tax credits permanent. Specifically, the AAFP has endorsed legislation which would make APTCs permanent. We hope to work with you to ensure that we continue to protect our most vulnerable citizens while also accounting for the need to be fiscally responsible for *all* citizens.

Improving Access to Care Under High Deductible Health Plans (HDHPs)

In recent years, family physicians have been providing care for more patients, including those with chronic conditions, who are enrolled in HDHPs. From 2010 to 2021, enrollment in employer-sponsored

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AAFP AMERICAN ACADEMY of FAMILY PHYSICIANS

HDHPs increased from 13 percent to 28 percent.[x] However, the escalating costs of deductibles have become increasingly problematic for patients, often causing them to forgo needed health care due to upfront costs. This can be particularly problematic for patients with chronic conditions, who often require more frequent and expensive care but face higher out-of-pocket pockets. While HDHPs are subject to the existing requirement for most payers to provide first-dollar coverage of preventive services before a patient hits their deductible, some services and items related to the management or prevention of chronic conditions that plan sponsors would like to cover pre-deductible have not been clearly encompassed in the definition of preventive services.

In July 2019, the Internal Revenue Service (IRS) issued a notice expanding its interpretation of preventive care to include certain items and services that are prescribed to individuals with certain chronic conditions, if the items and services are low-cost and prevent the worsening of a chronic condition or development of a secondary condition. After the IRS issued their updated guidance, 76 percent of employers with over 200 employees and almost half of employers with over 5,000 employees chose to expand pre-deductible coverage, which did not result in significant premium increases.[xi]

Congress must take steps to keep this guidance in place and ensure continued access to care by addressing financial and coverage barriers for individuals with chronic conditions. The AAFP has supported the Chronic Disease Flexible Coverage Act, which codifies this IRS guidance, and we applaud the Committee and the House for advancing this legislation in previous years to help ensure that HDHPs can permanently provide patients access to critical chronic care services and treatments without cost sharing before meeting their deductible. We share your bipartisan goal of creating a healthier nation and commit to working with you to address the needs of, and to find treatment solutions for, those with chronic health conditions.

Additionally, the AAFP supports direct primary care (DPC) and sees it as a model of care that provides a pathway to continuous, comprehensive and coordinated primary care for patients. Individuals with chronic conditions, in particular, may benefit from the enhanced access and touch points with their primary care physician that DPC arrangements enable. However,
there are identified barriers that may prevent some patients with HDHPs from realizing the full potential of the DPC model. One of those barriers is the prohibition on the permissible use of health savings accounts (HSAs) funds to pay for participation in a DPC practice. Under existing interpretation of the Internal Revenue Code, patients with HSAs are prohibited from engaging in DPC arrangements with a family physician or other primary care clinician.

A growing number of family physicians are choosing to practice in the DPC model and patient demand for DPC practices is growing. Additionally, employers and labor unions are driving growth in the model, further necessitating changes in law that allow patients to benefit from this primary care delivery model. The AAFP supported the Primary Care
Enhancement Act in the last Congress, which would allow individuals who participate in DPC agreements to contribute to and utilize HSAs. The Academy applauded the Committee for favorably reporting out language that supports this policy, and its inclusion as part of a larger package, in the 118th Congress. **We continue to urge Congress to take further action to ensure that patients can more easily and affordably access primary care services suited to their unique needs, including management of chronic conditions.**

AMERICAN ACADEMY of FAMILY PHYSICIANS

Taxes on Loan Repayment Programs and Tax Credits Supporting Rural Medical Education

The average student loan debt for four years of medical school, undergraduate studies and higher education is on average between $200,000 and $250,000.[xii] Research has shown that loan forgiveness or repayment programs directly influence physician practice choice. The rising level of educational debt disproportionately affects underrepresented and low-income students and limits their representation in the health workforce. Reducing student debt, especially through the utilization of federal loan repayment programs, can help reduce physician shortages, particularly in rural and medically underserved communities. Mitigating student debt also frees up capital for family physicians who wish to pursue the independent practice model.

In addition to expanding funding for federal loan repayment programs, any loan repayment funds received from these repayment programs should not be subject to federal income tax. This could provide an additional incentive for physicians to participate in them. The AAFP supports legislative efforts to exempt federal loan repayment programs from taxable income, including the Strengthening Pathways to Health Professions Act, a bipartisan bill that would exempt some Health Resource and Services Administration (HRSA) loan repayments from taxable income.

The AAFP also supports tax credits for medical residency preceptors. Preceptors provide a one-on-one relationship with a resident to help the student develop the needed clinical skills and practical experience working with patients. Preceptors are usually not members of a school or residency program's faculty but are often practicing clinicians at clinical sites or in some cases, private offices, which are often the most valuable type of preceptorship.[xiii]

However, many preceptors are concerned about increased time commitments from teaching that takes them away from their patients, leading to lower productivity in their role as physicians. It is especially important to attract preceptors to residency programs located in rural districts. That is why the AAFP has supported the Rural Health Preceptor Tax Fairness Act, a bipartisan bill from last Congress that would provide a $1,000 tax credit to preceptors in health professional shortage and rural areas. We strongly encourage the Committee to consider both of these proposals in order to address our nation's growing health care workforce crisis.

Tax-Exempt Status for Non-Profit Organizations

The AAFP and our state chapters are all non-profit organizations with the shared mission of supporting family physicians and their patients throughout the country. Many of our state chapters are also small businesses that provide stable, rewarding jobs in their communities. Our association, along with our state chapters, support family physicians by providing an array of unique resources, such as necessary continuing medical education, clinical guidelines and materials, practice advice to manage administrative burden, and education on how to navigate new state and federal rules and regulations.

Being a tax-exempt non-profit entity allows the AAFP and state chapters to make meaningful investments back into the organization and the success of our members and their patients. Without this robust institutional support, family physicians, especially independent practices, would have to seek out

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AAFP AMERICAN ACADEMY of FAMILY PHYSICIANS

resources that likely would not be tailored to their unique specialty and circumstances and would add an additional cost to their overhead.

As Congress considers policy options to fund tax reform policies, the Academy urges the Committee to ensure that the important role that we and our state chapters play in supporting our family physician workforce and access to care for patients in all communities is not undermined. The AAFP, along with numerous other non-profit organizations, urge you to consider alternative offsets as tax reform discussions continue. We understand the budget constraints that Congress faces as it develops a large tax package, and we look forward to working with you to explore fiscally responsible ways to achieve our collective goals.

Thank you again to the Committee for taking the time to consider these policies as discussions around tax reform continue. The Academy looks forward to partnering with you and the rest of the Committee on these issues to ensure that we best support family physicians and the patients they serve. If you have any questions, please contact Megan Mortimer, Manager of Legislative Affairs at mmortimer@aafp.org.

Sincerely,

Steve Furr, M.D., FAAFP

Steve Furr, MD, FAAFP
American Academy of Family Physicians, Board Chair

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[i] Physician Employment in an Era of Market Consolidation | AAFP
[ii] Physician Employment in an Era of Market Consolidation | AAFP
[iii] 7 bold policies to reshape rural healthcare | Healthcare Dive
[iv] Inflation Reduction Act Health Insurance Subsidies: What is Their Impact and What Would Happen if They Expire? | KFF
[v] HEALTH INSURANCE MARKETPLACES 2024 OPEN ENROLLMENT REPORT
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AARP

STATEMENT FOR THE RECORD

for the

UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON WAYS AND MEANS

ON

THE NEED TO MAKE PERMANENT THE TRUMP TAX CUTS FOR WORKING FAMILIES

January 14, 2024

Washington, DC

For further information contact:
Rhonda Richards
AARP Government Affairs

AARP, which advocates for the more than 100 million Americans age 50 and older, appreciates the opportunity to submit testimony for the record for today's hearing, "*The Need to Make Permanent the Trump Tax Cuts for Working Families.*" As the committee considers policies to support hardworking American families, we urge you to recognize the vital contributions of working family caregivers. Nearly 48 million people in the United States provide care to an adult family member or friend, with 61 percent of them working full- or part-time. The *Credit for Caring Act* would allow Americans who are juggling both work and caregiving responsibilities to keep more of their hard-earned dollars by creating a non-refundable tax credit of up to $5,000 to help offset caregiving expenses.

Family caregivers are selfless individuals, often unacknowledged, who dedicate themselves to caring for aging parents, spouses, veterans, and others in need. They assist with daily activities such as eating, bathing, dressing, meal preparation, finding and coordinating care, managing medications, transportation to medical and other appointments, performing complex medical/nursing tasks, supporting their loved one through care transitions such as from hospital to home, managing finances, paying out-of-pocket for caregiving costs, and so much more. Make no mistake: these hardworking Americans are not only holding their families together, they are holding our nation's economy together. The care they provide not only allows their loved ones to stay in their homes and communities, but it helps delay or avoid costly, taxpayer-subsidized nursing home care and hospitalizations. Without the sacrifices of America's family caregivers, the economic cost to the US health and long-term care systems would skyrocket.

While caregiving is often an act of devotion, it comes at a steep personal cost. Many caregivers are forced to cut back on work or leave their jobs entirely, sacrificing income, retirement savings, and financial security to provide care. A recent survey from AARP and S&P Global found that two-thirds (67 percent) of family caregivers have difficulty balancing their jobs with caregiving duties. For many, this has resulted in disruptions to their work, including taking a leave of absence (32 percent), shifting from full- to part-time work or reducing hours (27 percent), and turning down a promotion (16 percent).

On average, family caregivers spend over $7,200 annually—26% of their income—on out-of-pocket costs. For those supporting veterans, that figure rises to $11,500. They also face considerable challenges when navigating the health care system. Over half (56 percent) of family caregivers advocate with care providers, community services, or government agencies on behalf of their loved one. Among those coordinating care, 30 percent find it difficult to do so.

The care that families and friends provide is invaluable for those receiving it and is a precious resource for communities wrestling with the realities of an aging population. This is especially true in rural America where communities face unique challenges. Caregivers of those in rural areas often have lower household incomes than caregivers of those living in a suburban or urban area. Many have to drive long distances to provide care. These caregivers frequently experience high levels of financial strain and face greater financial impacts due to caregiving. Additionally, they often struggle to maintain their own health and are less likely to have health insurance. Supporting these dedicated individuals is crucial for sustaining our rural communities and ensuring that our aging population receives the care they need.

The *Credit for Caring Act,* sponsored by Representatives Carey and Sánchez, offers a practical, fiscally responsible solution to help address these challenges. By creating a non-refundable federal tax credit of up to $5,000, eligible working family caregivers caring for loved ones of all ages would have much needed help to address the significant financial impact of caregiving. To meet strict eligibility requirements, caregivers must be working at least part-time, be caring for someone who meets specific functional or cognitive limitations and must only use the credit for expenses directly related to caregiving. The credit amount would be 30 percent of the qualified expenses paid by the caregiver above $2,000, up to a maximum credit amount of $5,000. The credit would help working caregivers offset the costs of some caregiving expenses such as a home care aide, home modifications, assistive technology, transportation, or other supports that help them or their loved ones. This tax credit would help working family caregivers regardless of whether they live with their loved one or if their loved one is a dependent. The bill includes provisions to help prevent double-dipping with existing tax provisions and individuals with higher incomes would be ineligible for the tax credit.

Additionally, AARP supports legislation sponsored by Representatives Buchanan and Thompson, the *Lowering Costs for Caregivers Act*, which would allow caregivers to expand the use of their health savings accounts and flexible spending accounts to pay for qualified medical expenses for their parents or parents-in-law, and not just spouses or dependents. Passing this bill would not only provide much-needed financial relief but also recognize and honor the vital role caregivers play in our families.

Conclusion

We urge the committee to include the *Credit for Caring Act* and the *Lowering Costs for Caregivers Act* in any tax package this year and look forward to working with you in support of millions of working family caregivers across this country.

January 14, 2025

The Honorable Jason Smith
Chairman
Committee on Ways and Means
1139 Longworth House Office Building
Washington, DC 20515

The Honorable Richard Neal
Ranking Member
Committee on Ways and Means
1129 Longworth House Office Building
Washington, DC 20515

On behalf of Associated Builders and Contractors, a national construction industry trade association with 67 chapters representing more than 23,000 members, I write to applaud the U.S. House Committee on Ways and Means for holding a hearing on the significance of making permanent the Tax Cuts and Jobs Act for America's working families. We also appreciate the opportunity to submit comments as the committee considers legislative action to make provisions of the TCJA permanent.

The Tax Cuts and Jobs Act included important tax relief for contractors. The scheduled expiration of many of these policies would have grave effects, not only for our contractor members, but for the construction market more broadly. We urge the committee to support these critical tax policies, which are vital to the continued success and economic prosperity of our industry.

Maintaining Parity for Pass-Through Entities

One of the most significant achievements of the TCJA, alongside establishing an internationally competitive corporate tax rate, was its innovative approach to pass-through business taxation. As you know, pass-through entities comprise 95% of businesses, more than 60% of private employment and more than half of all business activity in the United States. The TCJA provided the pass-through sector crucial relief via two key mechanisms: an across-the-board reduction in individual tax rates and the introduction of a new 20% deduction for qualified business income. Together, these provisions reduced the effective marginal tax rate for pass-through entities to 29.6%, moving Main Street toward a level playing field with their corporate counterparts.

Recent analysis by EY reveals the stark consequences of allowing these provisions to sunset: the combination of the top individual rate returning to 39.6% and the expiration of the Section 199A deduction would trigger a 20% effective rate hike for pass-through businesses. To preserve the vitality of America's Main Street businesses, ABC strongly urges Congress to make these critical tax provisions permanent and maintain the competitive balance that has enabled small, family-owned and closely held businesses to flourish in construction and across the economy.

In 2024, ABC participated in several events with other Main Street businesses and organizations nationwide, advocating for section 199A deduction permanence. These events included roundtables with Ways and Means Committee members in Florida, Oklahoma, Tennessee and Texas. These events were part of the process initiated by Chairman Smith to create various tax teams tasked with identifying legislative solutions to avert the 2025 fiscal cliff—including the expiration of section 199A.

Continuation of TCJA Estate Tax Treatment

The TCJA's estate tax provisions were implemented with the understanding that family-owned businesses, including those in the construction industry, face unique challenges in transitioning from one generation to the next. To prevent the breakup or sale of family businesses due to estate tax burdens, the TCJA increased the estate tax exemption amount, thereby preserving jobs and maintaining the continuity of these important economic contributors. And by indexing this figure to inflation, the TCJA ensured that rising costs would not allow a creeping death tax to entrap more and more family businesses.

The estate tax provisions under the TCJA have been crucial for family-owned construction businesses. These provisions have allowed for the smooth transition of businesses from one generation to the next, ensuring continuity and preserving jobs. The increased estate tax exemption should be made permanent, and Congress should resist any attempts to repeal stepped-up basis.

Since TCJA was enacted in 2017, subsequent Congresses allowed several of the TCJA's important provisions to expire, while passing other problematic policies. These changes have taken the code in the wrong direction and should be addressed in 2025.

Revived Expensing of R&D Costs

The policy of allowing businesses to expense research and development costs immediately, rather than amortizing them over several years, is a longstanding feature of the tax code dating back to 1954. The construction industry benefits both directly and indirectly from the code's robust historical preference for R&D. Specifically, the combination of immediate cost recovery and incentives has allowed contractors to embrace innovative new tools, technologies and materials that continue to improve the efficiency, safety and sustainability of the construction process. From building information modeling and 3D printing to robotics, drones and AI, the construction industry is continually investing in and adopting cutting-edge practices that help contractors attain the highest standards of performance.

In addition to innovations in project delivery, the tax treatment of R&D is also a driver of new construction, as new technologies spur investments in everything from advanced manufacturing facilities and energy generation to storage and more efficient buildings. Unfortunately, despite bipartisan support for the expensing policy, R&D costs were required to be amortized over five years beginning in 2022, an unwelcome surprise to many contractors. Restoring immediate expensing of R&D should be a top priority.

Restoration of 100% Bonus Depreciation

Immediate expensing via 100% bonus depreciation was enacted in TCJA as a powerful incentive for businesses to invest in new equipment and technologies. This policy was based on the understanding that allowing immediate expensing of capital investments would encourage businesses to modernize their operations, increase productivity and, ultimately, drive economic growth. It was particularly aimed at capital-intensive industries like construction, where equipment investments can be substantial.

For the past five years, construction businesses have been able to expense or write off the purchase of tools, equipment and machinery the same year in which they were purchased. Unfortunately, since the end of 2022 this incentive has been phasing out and is slated to be eliminated altogether after 2026. Restoring the additional first-year depreciation allowance to 100% is crucial during this fraught time for the U.S. economy. Preserving this beneficial tax policy is essential to guaranteeing the success of key construction projects funded by bipartisan congressional legislation, including the Infrastructure Investment and Jobs Act and the CHIPS and Science Act.

Opposition to Exclusionary Labor Mandates in IRA Green Tax Credits

The Inflation Reduction Act dramatically altered the landscape for clean energy project tax incentives, significantly affecting ABC members. Many of our members have successfully built all aspects of "clean" and renewable energy projects under the pre-IRA tax code, which generally provided tax incentives of 30% for qualifying projects. However, the IRA reduced these incentives to a baseline of 6% for various clean energy projects covered under sections 30C, 45, 45L, 45Q, 45U, 45V, 45Y, 45Z, 48, 48C, 48E and 179D of the updated Internal Revenue Code.

To receive the full 30% incentive—five times the new baseline—developers must now meet onerous and unclear prevailing wage and apprenticeship requirements. These requirements include paying Davis-Bacon prevailing wages and utilizing apprentices from government-registered programs for 15% of all construction labor hours. All contractors with four or more employees on a jobsite must utilize at least one registered apprentice and comply with applicable apprenticeship ratios thereafter. This represents an unprecedented expansion of these requirements onto private construction projects through the federal tax code, disadvantaging ABC members who are otherwise qualified to build these projects.

The IRS's Increased Amounts of Credit or Deduction for Satisfying Certain Prevailing Wage and Registered Apprenticeship Requirements final rule, issued on June 18, 2024, outlines punitive correction and penalty procedures for noncompliance. Developers face substantial fines and back pay requirements for any failure to meet these standards. Notably, the rule suggests that developers can avoid severe "intentional disregard" penalties by requiring contractors to sign project labor agreements. This effectively coerces owners into mandating PLAs, which are widely viewed within the construction industry as inflationary and discriminatory towards nonunion contractors and workers.

This policy change arbitrarily establishes unequal treatment between union and nonunion contractors. The exclusionary nature of these policies is more evident when considering that 89.3% of the construction industry does not belong a union. Given that the overwhelming majority of the construction workforce is nonunion, these requirements will dramatically limit the pool of qualified contractors for clean energy projects. Further, the enhanced tax incentives pushing PLA mandates on private development will needlessly increase construction costs, which will ultimately be passed on to taxpayers and energy ratepayers.

ABC strongly opposes exclusionary labor mandates in the IRA green tax credits. They unfairly restrict the ability of merit shop contractors to participate in renewable energy projects and limit competition in the marketplace. These requirements not only harm our members but also hinder the efficient and cost-effective development of clean energy infrastructure. We urge Congress to reconsider these restrictive policies and ensure that all qualified contractors, regardless of labor affiliation, have the opportunity to contribute to our nation's green energy future.

Thank you for your consideration of these critical issues. ABC stands ready to provide the committee with any additional information or insight that may be helpful as it deliberates these important decisions. ABC looks forward to working with you to extend and build on the pro-growth policies of the Tax Cuts and Jobs Act.

Sincerely,

Kristen Swearingen
Vice President, Legislative & Political Affairs

BREAD FOR THE WORLD

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January 14, 2025

House Committee on Ways and Means
1139 Longworth House Office Building
Washington, DC, 20515

Re: Hearing on Tax Relief for American Families

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

Thank you, Chairman Smith and Ranking Member Neal, for the opportunity to submit this statement for the record. Bread for the World is a Christian advocacy organization urging our nation's decision-makers to do all you can to pursue a world without hunger. This year, as we celebrate our 50th anniversary, Bread for the World is launching a Nourish Our Future campaign which seeks to ensure all children have access to the nutrition they need to flourish. We appreciate the Committee's attention to tax policy that strengthens American families and helps children develop into productive members of society.

We write today to emphasize the critical importance of expanding the child tax credit (CTC) as part of any comprehensive tax legislation.

The CTC has demonstrated strong bipartisan support, with expansions occurring under both Republican and Democratic congressional majorities in 2017 and 2021. The 2021 expansion proved particularly effective and immediately yielded positive outcomes across the country. That expansion enabled families to receive monthly payments of the credit instead of waiting until they filed their taxes. We note with encouragement that during the 2024 presidential campaign, President Trump and Vice President Vance signaled their support for a strong CTC.

Recent data from the USDA paints a concerning picture of hunger in America. In 2023, 47.4 million people lived in food-insecure households, an increase from 42 million in 2022. 7.2 million children lived in food-insecure households.

Last year, the House of Representatives took an important first step by passing the bipartisan Tax Relief for American Families and Workers Act. That bill, which would have lifted 400,000 children out of poverty and benefited nearly 3 million children, failed to pass the Senate. Congress cannot continue to leave these families behind.

We strongly urge this Committee to prioritize permanently expanding the CTC with two key provisions that proved so successful in 2021:

1. **Monthly Payments.** Families face ongoing expenses for food, healthcare, and other basic needs throughout the year, not just at tax time. Monthly payments better reflect families' financial realities and more effectively reduce hunger.

2. **Full Refundability.** An estimated 19 million children currently receive less than the full credit because their families' incomes are too low. Full refundability ensures that the families most in need of support can access the same benefits available to higher-income families.

While federal nutrition programs provide essential support, they alone cannot end hunger. With food prices continually increasing largely due to inflation, parents struggling to feed their children need additional income support. The CTC is a proven, effective tool for addressing this need.

When the CTC was temporarily expanded in 2021, it helped reduce food insufficiency among families with children by approximately 20 percent and child poverty to the lowest rate on record – 5.2 percent. These dramatic improvements demonstrate the immediate and substantial impact an expanded CTC can have on reducing child hunger and poverty.

At Bread for the World, we view the child tax credit not merely as a sound fiscal policy - it is a moral imperative for us to support the most vulnerable among us. The CTC's impact improves the lives of millions of children and ensures they have the resources they need to thrive. We urge this Committee to seize the opportunity to make lasting, positive change for America's families and children by including a robust and permanent expansion of the child tax credit in any tax legislation.

Thank you for your consideration of this statement and may God bless your work.

Respectfully submitted,

Eugene Cho

Rev. Eugene Cho
President & CEO

CFP BOARD | IAA Investment Adviser Association | Financial Services Institute | NAPFA | FPA Financial Planning Association

Restore and Expand Tax Incentives for Financial Advice

RESTORE: Financial advisors assist clients in making informed financial decisions to achieve their goals, whether purchasing a home, planning for retirement, supporting elderly parents, funding their children's education, or addressing other day-to-day financial matters. Congress recognized the value of professional investment and financial planning advice by providing a tax deduction for those services (26 U.S.C. § 212). However, the provision was unfortunately repealed in 2017 when Congress passed the Tax Cuts and Jobs Act (TCJA). This decision has left too many American households and workers without access to competent and ethical financial advice. Restoring this incentive is not just a matter of sound policy, but a step towards a more financially secure future for all Americans.

EXPAND: As Congress considers extending the expiring provisions of the TCJA, we ask that Congress expand tax incentives for financial advice, including for moderate-income Americans who need it most. Such tax incentives may include:

1) Establishing a tax credit for financial advice, including financial planning;
2) Broadening the expenses that qualify for a tax deduction or credit to include financial planning fees that are not for investment management or tax planning; and/or
3) Eliminating the 2% Adjusted Gross Income threshold that was part of the pre-2017 deduction. All taxpayers, regardless of income, need help to obtain the critical financial advice they need now.

We strongly urge Congress to restore and expand the tax incentives for financial advice, including financial planning, to encourage everyday Americans to seek advice and guidance from financial professionals to better navigate their retirement, college plans, home buying, medical emergencies, caring for aging parents, or even everyday basic needs. It's time to make financial advice more accessible and affordable for all.

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

Thank you for the opportunity to submit this statement for the record. *Students for Life of America* is a national pro-life organization dedicated to fostering a culture of life in our nation by advocating for policies that support women, children, and families. We have more than 1,500 groups operating in all 50 states, and, our sister organization, *Students for Life Action* engages in grassroots activism from local matters to national. On behalf of the Pro-Life Generation and the Youth Vote, who showed in force in this election, I write to you in favor of an expansion of the *Child Tax Credit* as an investment in our nation's future. Every parent knows that it's a labor of love and a worthy sacrifice to raise up young children, and it is the duty and privilege of our elected leaders to support this noble effort.

In 2017, under the leadership of President Donald Trump and Congressional Republicans, the *Tax Cuts and Jobs Act* (TCJA) included a historic expansion of the *Child Tax Credit* (CTC). Nearly doubling the credit and raising income phase-out thresholds, this policy provided direct financial relief to families, reduced child poverty, and reinforced the pro-life, pro-family, and pro-worker values that are foundational to a thriving society. It was a clear demonstration of conservative leadership, strengthening families and promoting economic growth by investing in those raising the next generation.

The results of the 2017 expansion were profound. The increased credit empowered parents to meet their children's needs, reduced tax burdens for middle-income families, and allowed parents to invest in their children's futures. As the TCJA nears its expiration, this Committee has a critical opportunity to preserve and expand on this success by reinforcing the pro-family ethos of our tax code.

As we have before, *Students for Life of America* urges Congress to prioritize the following:

1. **Strengthening the Child Tax Credit:** Increasing the credit's refundability and ensuring it reaches lower-income families would extend its benefits to the most economically vulnerable, further reducing child poverty and supporting working families.
2. **Encouraging Paid Family Leave:** Expanding tax credits for employers offering paid family leave would enable parents to care for their newborns without sacrificing financial stability, all while avoiding excessive regulatory burdens.
3. **Eliminating the Marriage Penalty:** Addressing disparities in the tax code that penalize married couples would promote family stability and strengthen the communities that depend on them.

4. **Enhancing Dependent Care Tax Credits:** Providing greater financial relief for childcare expenses would help parents participate in the workforce while ensuring quality care for their children.

These policies reflect the principles that made the 2017 TCJA a transformative moment for families, strengthening their financial foundations and supporting a culture of life.

The pro-life movement recognizes that building a culture of life requires more than protecting life in law—it demands proactive policies that reduce financial pressures on families and ensure they have the resources needed to succeed. A majority of abortions occur among financially struggling families. Expanding the Child Tax Credit and advancing pro-family tax reforms are essential to addressing this challenge, creating a culture where life is always the most viable and supported choice.

President Trump's leadership in 2017 demonstrated the power of bold, pro-family policies to transform lives and create opportunities for families. This Committee now has the chance to build on that legacy by preserving and expanding the Child Tax Credit and pursuing complementary reforms. Families are the foundation of our nation, and their flourishing ensures America's long-term economic and social success.

We urge the Committee to act decisively to secure a pro-family, pro-worker tax code that builds on the success of 2017. Together, we can create a future where every family thrives, and a culture of life becomes a reality.

Sincerely,

Kristan Hawkins

Kristan J. Hawkins

President
Students for Life of America

IOWA SOYBEAN ASSOCIATION
1255 SW Prairie Trail Pkwy. Ankeny, IA 50023

United States House Committee on Ways and Means
1100 Longworth House Office Building
Washington D.C., 20515

January 28, 2025

Dear Honorable Chairman Jason Smith,

The Iowa Soybean Association (ISA) submitted an Ernst & Young (EY) report to your Rural Tax Team in October of 2024, underscoring the urgent need to extend key provisions of the 2017 Tax Cut and Jobs Act (TCJA), set to expire in 2025. The specific comment letter provided high-level findings that depict the impact of Iowa's soybean farmers.

In the EY report, Iowa's soybean farmers would see an effective tax rate (ETR) decrease of 6.1% if key provisions are extended. Certain provisions impact different sizes of operations, as outlined in this letter.

For small and medium-sized producers (farms generating less than $250,000 or $250,001 to $1,000,000 of gross cash farm income, respectively), the largest impact on their ETR is from the repeal of step-up in basis, increasing their tax rate by 2.6 percent and 3.8 percent, respectively. Maintaining a step-up in basis is a top priority of ISA to help Iowa farmers transition their farms to the next generation.

The four key TCJA provisions greatly benefit Iowa's agricultural economy, supporting 4,420 jobs, $140 million in labor income and $205 million in gross state product.

The combination of historically high input costs and sharp decline in soybean prices have resulted in a significant drop in farm income across Iowa. According to the Food & Agricultural Policy Research Institute's 10-year baseline projections at the University of Missouri, net farm income in 2024 is expected to drop by $9 billion from 2023, with even further reductions in 2025 cash receipts. These trends emphasize the urgent need for this Committee to act swiftly to extend key provisions to support rural America.

Regards,

Brent Swart
Iowa Soybean Association President

Executive summary

This report analyzes the economic and tax effects of key TCJA-related provisions for soybean farms in four Midwestern states: Iowa, Indiana, Missouri, and Ohio. The key tax provisions analyzed are four tax provisions enacted under the Tax Cuts and Jobs Act (TCJA) – a new deduction for pass-through business income (Section 199A), an increased estate tax exemption, an increased individual Alternative Minimum Tax (AMT) exemption, and 100% bonus depreciation – as well as step-up in basis at death.

This analysis consists of two parts:

1. tax impacts are estimated for small, medium, and large soybean prototypical farms in each of these four Midwestern states, and
2. the economic activity supported by the use of the TCJA-related provisions by soybean farms is estimated, also in these four Midwestern states.

Soybean production in four Midwestern states

Soybeans are the second-most planted crop in the United States after corn. Across the four Midwestern states, there were more than 94,000 farms producing at least some soybeans in 2022, which represents 31% of all farms in these states. Soybean production also comprised about a third of total farm acreage and crop sales across the four states. Additionally, in 2022, there were an estimated 170,000 soybean farm producers, defined as household members working on the farm, along with an additional 73,000 hired workers in the four states.

Table ES-1. Soybean production in four Midwestern states, 2022

	Soybean production	All crop production	Soybean share
Farms	94,400	304,400	31%
Acres	25.8 million	85.3 million	30%
Crop sales	$18.8 billion	$52.0 billion	36%
Producers*	170,000	551,000	31%
Hired workers*	73,000	204,000	36%

Soybean production by state

INDIANA
- 18,700 farms
- 5.7 million acres
- $4.5 billion sales
- 34,000 producers*
- 15,000 hired workers*

IOWA
- 36,700 farms
- 9.5 million acres
- $7.4 billion sales
- 66,000 producers*
- 32,000 hired workers*

MISSOURI
- 16,200 farms
- 5.7 million acres
- $3.5 billion sales
- 29,000 producers*
- 9,000 hired workers*

OHIO
- 22,900 farms
- 4.8 million acres
- $3.6 billion sales
- 41,000 producers*
- 17,000 hired workers*

*Soybean producers and hired workers are estimated. Specifically, producers and hired workers for all farms are included and then prorated to the share of their acreage producing soybeans. For example, if a farm has 50 acres of soybeans and 50 acres of corn then 50% of the producers and hired workers for that farm are included in the soybean production estimates.
Note: Figures are rounded.
Source: USDA and EY analysis.

Prototypical farms: Tax impacts on Midwestern soybean farmers

Tax impacts for the prototypical farms are summarized with an effective tax rate (ETR) defined as the present value of federal income and estate taxes divided by the present value of a soybean farmer's household income over the remainder of the farmer's lifetime. This approach captures tax provisions that apply during a farmer's life and upon death (e.g., estate tax and repeal of step-up in basis).

Tax impacts on Midwestern soybean farmers are displayed in Table ES-2 for each of the four states analyzed, farm size, and operation type. Operation type reflects whether a farm is operated by its owner or rented by a farmer.

- If the four key TCJA provisions were permanently extended, the largest reductions in tax liability would be for soybean farm households with large owner-operated farms. For these large soybean farm households, their ETR would decrease by between 6.1 (Iowa) and 11.9 (Missouri) percentage points. Renter-operated large soybean farm households would experience a decrease of between 5.9 (Iowa and Missouri) and 6.2 (Indiana) percentage points. The effects on small and medium soybean farm households would be more moderate.
- The repeal of step-up in basis by taxing gains at death would result in a significant tax increase for small, medium, and large owner-operated soybean farm households (a 2.4 to 5.1 percentage-point increase in the ETR) with smaller effects for renter-operated soybean farm households due to their smaller amounts of owned capital assets.

Table ES-2. Tax impact of key tax provisions, by state and soybean farm size

State	Farm size	Operation	Current law ETR	%-point change in ETR from extending four key TCJA-related provisions	%-point change in ETR from repeal of step-up in basis by taxing gains at death
Iowa	Small	Owner-operated	14.3%	*	2.6%
	Medium		24.8%	-2.8%	3.8%
	Large		29.4%	-6.1%	3.4%
	Large	Rent	30.1%	-5.9%	1.1%
Indiana	Small	Owner-operated	15.6%	*	3.0%
	Medium		19.7%	-2.9%	2.4%
	Large		43.1%	-9.0%	4.1%
	Large	Rent	34.3%	-6.2%	0.9%
Missouri	Small	Owner-operated	15.4%	*	3.4%
	Medium		20.7%	-1.9%	5.1%
	Large		34.0%	-11.9%	4.7%
	Large	Rent	28.9%	-5.9%	1.4%
Ohio	Small	Owner-operated	16.0%	*	2.7%
	Medium		22.3%	-2.7%	3.7%
	Large		33.5%	-9.1%	3.4%
	Large	Rent	31.4%	-6.0%	1.1%

*Less than 0.05% in magnitude.

Note: These prototypical farms reflect the average characteristics of a small, medium, and large farm where the majority of production on the farm is from soybeans in each of the four states. Any particular farm can, of course, differ from an average farm's characteristics. Likewise, any particular farm household can differ from an average farm household. The ETR reflects the present value of federal income and estate taxes divided by the present value of a soybean farmer's household income over the remainder of the farmer's lifetime. This approach is used because some provisions only apply at the farmer's death (e.g., estate tax and repeal of step-up in basis). Additionally, the ETR approach is used to standardize results across soybean farm sizes. Generally, as the soybean farm size increases both the soybean farmer's household income and the share of that household income that is from a soybean farm increase. The average soybean farmer is approximately age 59 and is assumed to live until age 81 (based on Social Security Administration actuarial tables). The soybean farm is assumed to be operational until the soybean farmer's death and then transferred to an heir. Current law refers to the law as currently scheduled for a given year. Figures are rounded.

Source: EY analysis.

Economic activity supported by key TCJA-related provisions

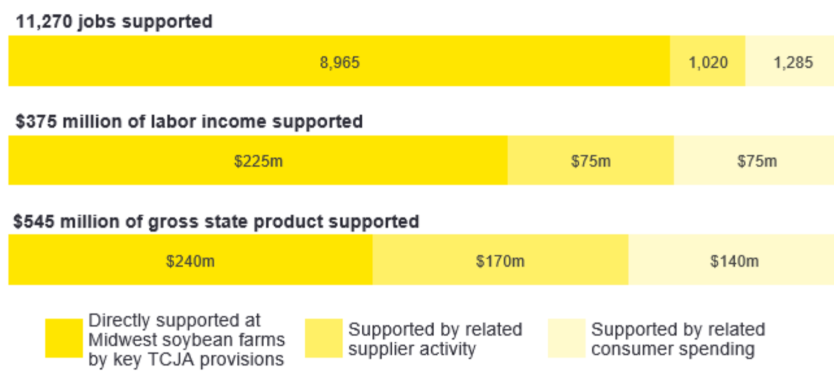
This analysis estimates a snapshot of the economic activity supported in the four Midwestern states due to soybean farms located in these four states making use of the key TCJA-related tax provisions. Specifically, below are estimates of the economic activity supported by: (1) four key TCJA-provisions, and (2) step-up in basis at death.

Economic activity supported by the four key TCJA provisions

As displayed in Figure ES-1, the four key TCJA provisions support an estimated 11,270 jobs, earning $375 million in labor income and generating $545 million of gross state product (GSP) in the four states. This includes the economic activity at soybean farms directly benefiting from the four key TCJA provisions, as well as the related supplier activity and consumer spending.

- *Soybean farms directly benefiting from the four key TCJA provisions.* The four key TCJA provisions are estimated to support 8,965 workers, earning $225 million in labor income and generating $240 million of GSP at soybean farms directly benefiting from the key TCJA provisions.
- *Related supplier activity.* The four key TCJA provisions are estimated to support 1,020 workers, earning $75 million in labor income and generating $170 million of GSP at suppliers to soybean farms directly benefiting from the key TCJA provisions.
- *Related consumer spending.* The consumer spending of supported workers at businesses directly benefiting from the four key TCJA provisions and their suppliers supports an additional 1,285 workers, earning $75 million in labor income and generating $140 million of GSP.

Figure ES-1. Economic activity supported by four key TCJA provisions
Estimates are relative to the size of the 2024 state economies



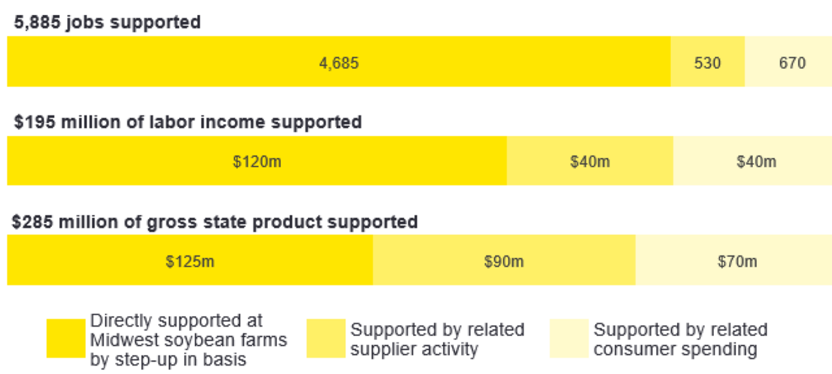
Note: This figure provides a snapshot of the economic activity supported at soybean farms directly benefiting from the four key TCJA provisions, as well as the economic activity connected to these businesses (i.e., supply chain activity and related consumer spending). The four key TCJA tax provisions are: 1) the 20% deduction for qualified pass-through business income, 2) an increased estate tax exemption, 3) an increased individual Alternative Minimum Tax (AMT) exemption, and 4) 100% bonus depreciation. Labor income is a component of GSP. Figures are rounded.
Source: EY analysis.

Economic activity supported by step-up in basis at death

As displayed in Figures ES-2, step-up in basis at death supports an estimated 5,885 jobs, earning $195 million in labor income and generating $285 million of GSP in the four states. This includes the economic activity at soybean farms directly benefiting from step-up in basis at death, as well as the related supplier activity and consumer spending.

- *Soybean farms directly benefiting from step-up in basis at death.* Step-up in basis at death is estimated to support 4,685 workers, earning $120 million in labor income and generating $125 million of GSP at businesses directly benefiting from step-up in basis.
- *Related supplier activity.* Step-up in basis at death is estimated to support 530 workers, earning $40 million in labor income and generating $90 million of GSP at suppliers to soybean farms directly benefiting from step-up in basis.
- *Related consumer spending.* The consumer spending of supported workers at soybean farms directly benefiting from step-up in basis at death and their suppliers support an additional 670 workers, earning $40 million in labor income and generating $70 million of GSP.[i]

Figure ES-2. Economic activity supported by step-up in basis at death
Estimates are relative to the size of the 2024 state economies



Note: This figure provides a snapshot of the economic activity supported at soybean farms directly benefiting from the step-up in basis, as well as the economic activity connected to these businesses (i.e., supply chain activity and related consumer spending). Labor income is a component of GSP. Figures are rounded.
Source: EY analysis.

[i] Factors such as changes in farming conditions, shifts in consumer preferences, macroeconomic fluctuations, and other policy changes and events can drive significant changes in employment or production at soybean farms. Accordingly, this analysis estimates the effects of specific tax provisions relative to a baseline scenario without these provisions. Note that, in contrast to the approach used for this analysis, looking at economic aggregates over time to determine the impact of a policy change is often misleading because it does not isolate the effects of the policies being examined since it does not control for other factors that affect the economic variables being examined.

FINANCIAL SERVICES INSTITUTE | VOICE OF INDEPENDENT FINANCIAL SERVICES FIRMS AND INDEPENDENT FINANCIAL ADVISORS

STATEMENT FOR THE RECORD
On
The U.S. House Committee on Ways & Means
"The Need to Make Permanent the Trump Tax Cuts for Working Families"
January 14, 2025

On behalf of the Financial Services Institute (FSI), I write to express our support for making the Tax Cuts and Jobs Act (TCJA) permanent while demonstrating the need to expand certain provisions to correct unintended consequences that resulted from them. As discussed in further detail below, we are concerned that the TCJA unintentionally disincentivized Main Street Americans from working with a financial professional and unfairly diminished those financial professionals' ability to invest in and build their businesses. Specifically, we ask that Congress restore tax incentives to encourage savers to seek advice and guidance from financial professionals. Further, we ask that you reclassify financial advisors[1] as qualified trades or businesses rather than as specified service trades or businesses under Internal Revenue Code §199A.

By way of background, the independent financial services community has been an important and active part of the lives of American investors for more than 40 years. In the United States, there are more than 160,000 independent financial advisors, who account for approximately 52.7 percent of all producing independent financial advisors.[2] These financial advisors are self-employed independent contractors, rather than employees of independent financial services firms. Independent financial advisors own and operate their own small businesses. They are job creators with strong ties to their communities.

Due to their unique independent business model, these financial advisors are especially well positioned to provide Main Street Americans with the affordable financial advice, products, and services necessary to achieve their investment goals. These financial advisors provide comprehensive and affordable financial services that help millions of individuals, families, small businesses, associations, organizations, and retirement plans. Their services include financial education, planning, implementation, and investment monitoring.

FSI's financial advisor members in particular serve ordinary Americans across all income levels in every state. They provide financial advice that helps their clients save for common financial needs such as college tuition, homeownership, retirement, and support for their aging parents. We are pleased that the Committee is discussing the impact of the TCJA on working families. As you

[1] The use of the term "financial advisor" or "advisor" in this letter is a reference to an individual who is a registered representative of a broker-dealer, an investment adviser representative of a registered investment adviser firm, or a dual registrant. The use of the term "investment advisor" or "advisor" in this letter is a reference to a firm or individual registered with the SEC or state securities division as an investment adviser.
[2] Cerulli Associates, Advisor Headcount 2019, on file with author; NERA Economic Consulting, The Role of Independent Contractors in the Finance and Insurance Sectors (Nov. 2022).

consider the need to make the TCJA permanent, we suggest expanding the following provisions in order to help more Main Street American savers benefit from working with a financial professional.

Restore and Expand Tax Incentives for Professional Financial Advice

Congress recognized the value of professional investment and financial planning advice by providing a tax deduction for those services (26 U.S.C. § 212). However, Congress repealed that limited deduction under the TCJA. In doing so, this unintentionally raised the cost of financial advice. Unfortunately, too many American households and workers lack access to competent and ethical financial advice as they plan for their retirement, college plans, home buying, and other financial goals.

The repeal of this deduction may have appeared inconsequential in light of 2017's rising stock market, sustained job growth and slowly increasing real wage growth. However, the economic volatility resulting from the COVID-19 pandemic illustrated that having access to affordable, professional advice from trusted financial professionals is even more important in turbulent, uncertain times. Throughout the market fluctuations, millions of Americans, including many near retirement, watched the money they worked so hard to earn and to save disappear. At the end of the first quarter of 2020, the average 401(k) balance was down 19% from the fourth quarter of 2019.[3] Many were confused and unsure about how to navigate the challenging market conditions, which demonstrates the tremendous immediate benefits Main Street investors realize when they have access to affordable, professional financial advice to help them manage their finances.

As Congress considers extending the expiring provisions of the TCJA, we ask that Congress restore and expand tax incentives for financial advice and planning. In particular, we ask that you restore the pre-2017 tax deduction for investment advisory fees and without the previous 2% Adjusted Gross Income (AGI) threshold. This threshold, which permitted tax deductions only to the extent they exceeded 2% of a taxpayer's AGI, benefitted upper-income households more than middle income households. Taxpayers of every income level benefit from access to the critical financial advice of financial professionals. Thus, this tax incentive should be widely available to all American households that work with an advisor.

Allow Financial Professionals to Benefit from the §199A Pass Through

One of the most popular provisions of the TCJA is the expanded §199A pass through deduction, which allows small businesses, such as S corporations, partnerships and sole proprietorships, to benefit from a 20% deduction on "qualified business income." Congress intended this provision to allow small businesses to benefit from a similar tax rate to larger corporations. However, certain types of businesses, the "specified service trades or businesses," cannot apply the deduction if their overall taxable income exceeds certain thresholds. Unfortunately, financial advisors, financial planners and investment advisors currently fall under this definition.

As mentioned above, independent financial advisors are small business owners and job creators with strong ties to their communities. Across the country, they employ hundreds of thousands

[3] Fidelity Q1 2020 Retirement Analysis, April 24, 2020, *available at:* https://www.businesswire.com/news/home/20200424005080/en/Fidelity%C2%AE-Q1-2020-Retirement-Analysis-Retirement-Savers-%E2%80%9CStayed-the-Course%E2%80%9D-Despite-Economic-Crisis

of individuals and help millions of working families plan for a secure financial future. In fact, these advisors' services are especially important in underserved minority and rural communities that lack access to a robust financial-services market, because they frequently offer a comprehensive array of affordable services in one place such as investment advice, tax preparation, financial education, and estate planning. The current statutory language disadvantages financial advisors by diminishing their ability to invest in and build their businesses. While real estate brokers and insurance brokers currently benefit from the expanded deduction, the small business owners in the financial services industry who face the same burdens and challenges do not.

It would be sound policy to allow these hard-working business owners to fully benefit from the §199A deduction. As you consider making the TCJA provisions permanent, we urge Congress to reclassify financial advisors as qualified trades or businesses rather than as specified service trades or businesses under Internal Revenue Code §199A.

We thank the Committee for holding this hearing and for the work it is doing to support Main Street Americans by extending the TCJA. Should you have any questions or would like more information on FSI and our position on this important issue, please contact our Director of Legislative Affairs, Hanna Laver, at (202) 499-7224.

Statement for the Record

Submitted by
Blue Diamond Growers

To the
Committee on Ways & Means
U.S. House of Representatives

Regarding
The Need to Make Permanent the Trump Tax Cuts for Working Families

Chairman Smith, Ranking Member Neal, and members of the committee, Blue Diamond Growers appreciates the opportunity to provide a statement for the record in response to the January 14, 2025, hearing entitled, "The Need to Make Permanent the Trump Tax Cuts for Working Families."

The approximately 3,000 almond growers that together own Blue Diamond Growers, the world's leading non-profit, farmer-owned almond processing and marketing cooperative, strongly support making section 199A permanent.

Blue Diamond employs over 1,600 team members with net sales of almonds and almond products of over $1.3 billion annually. The average family farmer member farms less than 100 acres. Founded in 1910, Blue Diamond's headquarters in Sacramento, California and has processing plants in Sacramento, Salida, and Turlock.

Farmer cooperatives across the country are integral to the farming operations of their members—operations that are millions of small businesses across rural America. For more than 114 years, our co-op has been a proven tool to help individual family almond farmers through the ups and downs of weather, commodity markets, and technological change. We strive to give our farmer-owners a fair chance to compete.

The benefits of farmer co-ops go well beyond the farm gate, directly supporting rural America. The profits of the co-op are returned to the farmer members, in the form of a patronage dividend, in proportion to the amount that each farmer has transacted with the cooperative.

Patronage income is taxed once. The income is either retained and taxed at the cooperative at regular corporate rates or is distributed to the patrons and taxed at their individual rates. In this way, the farmer and their cooperative should be viewed as an economic unit.

This structure makes co-ops unique in how we have also benefited from the Section 199A deduction (specifically subsection (g)) provided through the Tax Cuts and Jobs

Act. Section 199A was passed to put co-ops and small businesses on an even footing with big corporations, which saw a significant decrease in their tax rate in 2017.

Section 199A has been a success and was critical in seeing farmer co-ops and their members thrive through a pandemic, unrest around the globe, and the highest inflation in a generation. The co-op may choose to keep all or part of the deduction at the co-op level to offset tax liabilities or it may be passed through to their members. This flexibility by design has benefitted our co-op and many others across the country.

Based on a 5-year average, Blue Diamond Grower's members could reduce their tax due from Section 199A by $0.12 per meat pound. Assuming a 60-acre grower who obtains an average crop yield of 2,170 pounds per acre would be able to apply a 199A deduction of $15,624. Taking this deduction away from a grower without any other change will result in a tax increase for the grower.

Our farmers face risks very few industries encounter. Investing in America's farming families and communities is a smart economic policy. Extending these tax provisions will remove an important piece of uncertainty as producers start planning future investments.

Should the Section 199A deduction expire, rural America would see billions of dollars flowing out of struggling communities across the country, money that would otherwise be spent generating local economic activity and jobs.

Congress should stand up for agriculture and extend this important tax provision.Blue Diamond Grower's looks forward to working with the committee and stand ready to serve as a resource.

CHILDREN'S HealthWatch

January 28, 2025

The Honorable Jason Smith
Chairman
Committee on Ways & Means
U.S. House of Representatives
Washington, DC 20515

The Honorable Richard E. Neal
Ranking Member
Committee on Ways & Means
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Smith, Ranking Member Neal, and Distinguished Members of the US House Ways and Means Committee:

Thank you for the opportunity to submit written comments for the hearing record on *The Need to Make Permanent the Trump Tax Cuts for Working Families*, held on January 14, 2025. On behalf of Children's HealthWatch, a national network of pediatricians and child health researchers, we appreciate the focus on the Child Tax Credit (CTC) and write in strong support of its expansion.

As the Committee considers tax reform amid the expiration of the 2017 Tax Cuts and Jobs Act (TCJA), we encourage you to pass the following expansions that center the needs of children and families with low incomes, and respond to financial realities they face across the country:

1. Pass a permanent, fully refundable, and inclusive CTC that ensures all children are eligible for the full credit, including 17 million children under the age of 17 whose families don't earn enough to qualify for the full amount;[1]
2. Increase the maximum CTC for all children, with a further boosted credit available to young children;
3. Index the CTC to inflation, thereby protecting its value over time;
4. Allow families to receive the CTC in reliable, monthly payments;
5. Reduce structural barriers to the CTC and other family tax credits by investing in effective, community-driven outreach efforts and providing adequate resources to the Internal Revenue Service (IRS) to improve customer service and operations.

Children's HealthWatch seeks to achieve health equity for young children and their families by advancing research to transform policy. We accomplish this mission by interviewing caregivers of young children on the frontlines of pediatric care in urban emergency departments and primary care clinics in four cities: Boston, Minneapolis, Little Rock, and Philadelphia. Since 1998, we have interviewed over 80,000 caregivers and analyzed data from those interviews to determine the impact of public policies on the health and development of infants and toddlers.

The TCJA included several changes that strengthened the CTC for working low- and middle-income families. These included doubling the maximum credit from $1,000 to $2,000 per child, lowering the phase-in threshold from $3,000 to $2,500, and increasing and indexing the refundable portion of the credit, now capped at $1,700 per child. These changes reduced taxes for all eligible families and provided an average of $60 in additional tax benefits to families with children in the lowest one-fifth of the income distribution.[2]

While the changes to the CTC under TCJA delivered meaningful relief for families, the phase-in rate and earnings threshold continued to exclude millions of children because their families did not earn enough to receive the full credit. Arguably, these are the children and families most in need of the CTC and the important health benefits it provides.[3] As of 2023, one in four children in the United States under the age of 17 were excluded from the full credit because their family incomes were too low to qualify.[4] Disproportionately, these are young children, children in rural areas, children in larger families, and children in single parent families. In 2023, 33 percent of children in large families and 30 percent of rural children were ineligible for the full CTC because their family income was too low.[4] Furthermore, in 2023, 87 percent of children living below the federal poverty line and 32 percent of those living between 100 percent and 200 percent of the federal poverty line were ineligible for the full CTC, compared to 5 percent of children living above 200 percent of the federal poverty line.[4]

Pass a permanent, fully refundable, and inclusive CTC that ensures all children under the age of 18 are eligible for the full credit.

We appreciate efforts by the Committee in 2024 to target and improve the CTC to those 19 million children who are currently left out of the full credit. The provisions passed in the Tax Relief for American Families and Workers Act of 2024 – moving to a "per-child" phase-in to ensure families with low incomes receive the same credit for each of their children, as higher income families already do; increasing and ultimately eliminating the refundability cap; and allowing families to use their earnings from the prior tax year when calculating CTC – would have had a profound effect for families with the lowest incomes, fluctuating incomes, and with multiple children.[5]

The American Rescue Plan Act of 2021 (ARPA) temporarily eliminated the phase-in threshold and made the CTC fully refundable, enabling previously ineligible children in poverty to receive the full credit for 2021. This provision addressed long-standing inequities in the tax code and ensured that children in families with the lowest incomes were supported. Coupled with a boosted maximum credit that newly included children aged 17, this provision has been credited with cutting child poverty by nearly half.[6] We appreciate Chairman Smith's reference to this as the lowest poverty rate on record and encourage the Committee to return to such a structure that permanently cuts child poverty. Furthermore, research from Children's HealthWatch found that the expansion reduced food insufficiency by 26 percent, helped families catch up on rent, and improved parental mental health.[7,8] While the provisions passed by the Committee and House in the Tax Relief for American Families and Workers Act of 2024 would provide a meaningful first step in delivering tax relief for working families with low incomes, we encourage the Committee to use TCJA expiration as an opportunity to return to the ARPA structure – fully refundable, bigger, and inclusive of children age 17 – to reach children and families in the greatest need.

Increase the maximum CTC for all children, with a further boosted credit available to young children.

TCJA temporarily expanded the maximum CTC from $1,000 to $2,000 per child. ARPA built on this improvement, increasing the maximum credit to $3,000 for each child aged 6-17, and $3,600 for each child under age 6. As stated above, this change – in conjunction with full refundability – had a profound impact on all families, particularly those with the lowest incomes. The boosted resources supported financial stability at a time of economic uncertainty, and allowed families to afford necessities and other resources that help children thrive.[9] The further boost for young children recognized both the increased costs for families – from formula to child care – and the critical window of child growth and development, in which poverty has severe short- and long-term consequences.[10] We encourage the Committee to make a meaningful investment in our children by restoring these benefit levels. Further, we encourage the Committee to consider an additional boost for newborns, regardless of the month they were born, that recognizes increased costs and often simultaneous loss of income, particularly for women.[11] We appreciate that this need was highlighted by witnesses at the hearing.

Index the CTC to inflation, thereby protecting its value over time.

Indexation is essential to prevent erosion of the CTC over time. Increases in inflation over the last several years have especially affected families with children and underscore the need to index tax credits and other benefits to inflation. Since 2018, the Niskanen Center reports that the CTC has lost 15 percent of its real value to inflation.[12] We appreciate the Committee's recognition of this with the inclusion of modest indexation in the House-passed Tax Relief for American Families and Workers Act of 2024 and encourage its continued commitment to this provision.

Allow families to receive the CTC in reliable, monthly payments.

As part of the ARPA CTC expansion, the IRS automatically delivered up to half of the credit through advance, monthly payments (July-December 2021) as an alternative to an annual lump sum. This allowed families to incorporate the additional income into their monthly budget and better afford basic needs. A study found that nearly half of families with children who received the advance CTC payments preferred the monthly structure; this preference increased among families with incomes under 200% federal poverty line.[13] Many families reported that the monthly payments allowed them to purchase basic needs like food and diapers, afford rent and utility costs, and cover educational costs like tutoring and extracurriculars.[14] Contrary to concerns around the will to work, this research found no differences in employment among families receiving the ARPA CTC. In fact, families with low- to moderate-incomes who received the advance CTC were more likely to gain new professional skills – an outcome that supports family economic mobility and the economy as a whole. Finally, new research shows that the payments were associated with a decrease in tobacco use among parents, demonstrating a further health benefit for the whole family.[15]

We recommend that the Committee directs the IRS to restore the option for monthly payments, allowing families to choose the structure that best fits their needs, and authorizes a "safe harbor" to protect low- and moderate-income households from being required to remit excess payments that could arise from changes in the number of qualifying children and marital status, and events affecting employment or income.

Reduce structural barriers to the CTC and other family tax credits by investing in effective, community-driven outreach efforts and providing adequate resources to the Internal Revenue Service (IRS) to improve customer service and operations.

The benefits of the CTC can only be fully felt when accessible. Unfortunately, not all families eligible for the CTC claim the credit. This disproportionately affects families with low incomes who may not have tax filing obligations and therefore may not know to file to receive the credit. Investing in robust efforts to increase awareness of the CTC is essential for equitable implementation and delivery of the credit. In addition to community-based outreach efforts, we encourage the Committee to provide and maintain dedicated resources to modernize the IRS, including the permanent establishment an accessible, simplified filing system (e.g. Direct File) and increased capacity for customer service. With additional resources provided through the Inflation Reduction Act (IRA), the IRS significantly increased its capacity and customer service during the 2024 tax filing season. Specifically, the IRS reported modernized and improved phone service – including improved phone service, more calls answered, faster response time, and more callback options – expanded in-person hours and help, additional support at volunteer tax filing sites, higher usage of the agency's website, and an uptick in chat bot use.[16] Maintaining such investments enables more taxpayers to engage and build trust with the government while accessing free services to accurately pay and file taxes.

Improve the Earned Income Tax Credit to support low wage workers.

The Earned Income Tax Credit (EITC) is a powerful tool to reduce poverty and boost wages for low wage workers and their families. In 2023, the credit kept 4 million people out of poverty.[17] Families who receive the EITC primarily use the credit to pay for necessities like food, rent, clothing, and school supplies.[18] In addition to supporting financial stability, the EITC is associated with health benefits across the lifespan. Previous expansions in the EITC have been strongly associated with a decrease in infants born with low birth weights among pregnant women eligible for the credit.[19] This relationship is notable because low birth weight is damaging to the long-term health and developmental potential of children and costly to the health system, yet few medical interventions are available that effectively reduce the risk of low birth weight. In addition to benefits for infants, children in families receiving the EITC have fewer behavioral health problems, such as anxiety and depression.[20]

ARPA significantly expanded the EITC for workers not claiming dependents – many of whom are noncustodial parent and caregivers. The maximum credit for these workers nearly tripled to just over $1,500, and, for the first time, younger workers (aged 19-24) and older workers (aged 65 and older) became eligible. As a result, the number of recipients without dependent children nearly doubled, providing this population with more than 5 times the total credit dollars compared to previous law in 2019.[21] This change boosted incomes for eligible low-wage workers by an average of $823, helping them afford rent, groceries, and transportation to and from work.

As the Committee considers tax legislation, we encourage you to expand the EITC – specifically to restore benefit levels for workers without dependent children who currently receive minimal support or are left out altogether because of their age. In addition, we urge the Committee to consider increasing the narrow income limits for workers without dependent children (currently limited to $18,600 for single filers, and $25,500 for married filers).

Establish a minimum credit for unpaid caregivers.

Caregiving is some of the most important work performed in our country, but many caregivers are excluded from valuable work tax credits simply because their work is unpaid. Approximately 38 million family caregivers (11.5% of the population) provide an estimated $600 billion of care each year in America – all uncompensated by the traditional wage and salary model.[22] Mothers providing unpaid care to minor children, parents, and spouses forego an average of $237,000 over their lifetime in compensation and retirement benefits.[23] Providing a caregiver credit through the EITC, as proposed in the Worker Relief and Credit Reform Act of 2021, would make caregiving pay by providing a credit to those taking care of young children, aging relatives, or family members who are unable to care for themselves. We urge the Committee to consider this improvement that will support families and the caregiving economy – an essential component of our economy that often goes unrecognized and unpaid.

Do not pass tax cuts at the cost of other benefit programs for families.

As pediatricians, we are alarmed by threats to pay for the tax package by cutting critical public health and public benefit programs, including Medicaid and the Supplemental Nutrition Assistance Program (SNAP). Taking away health care and food benefits to pay for tax breaks for billionaires and corporations will widen inequities and harm the health and well-being of children nationwide. Moreover, cutting family tax credits like the EITC and Child and Dependent Tax Credit to fund improvements to the CTC would disproportionately harm children and families with low incomes, and undermines improvements.

As the Committee considers comprehensive tax reform, we urge it to target support to children and families with the lowest incomes. Expanding the CTC and EITC to support access for children and caregivers is a meaningful investment with the power to permanently cut child poverty, improve individual and community financial well-being, and promote health. However, it is not a solitary fix. We encourage the Committee to leverage opportunities to raise revenue

CHILDREN'S HealthWatch

through the tax code to invest in the care economy and other family support programs, like child care and nutrition, that support the health and economic mobility of families nationwide.

Sincerely,

Stephanie Ettinger de Cuba, PhD, MPH
Executive Director, Children's HealthWatch

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U.S. House of Representatives Committee on Ways and Means
Hearing Entitled: The Need to Make Permanent the Trump Tax Cuts for Working Families
Innovator Alliance Submission for the Record

January 14, 2025

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The Innovator Alliance[1] represents the U.S. innovation ecosystem, supporting entrepreneurs that start and build growth-stage businesses, the employees who help build them, and the investors who back them from idea to IPO. We advocate for policies that bolster the innovation economy, driving capital, talent and investment to these transformative companies.

The U.S. economy is the largest, most dynamic in the world because of the American entrepreneurial spirit and its power to drive economic growth, innovation, and opportunity. This innovation ecosystem is the engine that broadens opportunity to more American families, creating jobs and economic value for so many across this nation. Importantly, the innovation ecosystem not only benefits American families, but it is driven by their participation — Americans across the country launch and work at transformative companies that are building the future. Tax policy can help bolster their efforts and expand their benefits to more people and families.

Innovation, Job Creation and Economic Opportunity
Startups and growth businesses have long been the backbone of the American workforce. Research in recent years has demonstrated that new businesses are disproportionately responsible for the innovations that drive productivity growth[2] and economic growth, and account for virtually all net new job creation.[3] Economic Prosperity and expanding opportunities are the result when entrepreneurship thrives.

Today's entrepreneurs are not just creating jobs, they are building the future—turning a concept into a company and solving global problems. Expanding access to capital for these entrepreneurs and businesses is critical. Too often startups and young businesses are unable to access bank lending, so must turn to alternative means such as raising equity capital — providing an investor an equity stake in the company in exchange for capital. This equity financing typically comes from friends and families, angel investors, and venture capital firms. The foundation of this

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financing model is what makes it unique and effective. Private capital and private markets provide long-term, risk-forward capital to startups and growing businesses. Starting and building a company is hard and takes time. The result of this work, however, is undeniable: seven out of the ten most valuable companies were venture backed; 87% of the top ten companies by market capitalization have been created by VC-backed companies; 75% of the total market value comes from VC-backed companies.

Startups, growth businesses, and their investors drive job creation, economic growth, innovation, and U.S. competitiveness. The policy framework should support this engine. This is especially true of tax policy, which affects nearly every aspect of the economy. Driving a tax regime that maintains competitive tax rates for corporations, individuals, and pass-through entities while attracting capital to the U.S. and incentivizing investment will be critical. Beyond this, there are key pillars that would, if adopted, bolster the innovation ecosystem and expand the value of ownership.

Preserve and expand innovation ecosystem
Startups and growth businesses are a vital part of the American economy but depend heavily 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 growth businesses to access the financing they need to succeed in today's economy.

- *Expand QSBS treatment.*
  Congress enacted the qualified small business stock (QSBS) exclusion[4] (section 1202 of the Internal Revenue Code (IRC)) 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 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 helps entrepreneurs pursue innovative ideas and companies that fuel continued economic growth.

  The QSBS exclusion is vital to the innovation economy and American competitiveness. We urge policymakers to expand eligibility to more businesses, making it easier and cheaper for entrepreneurs to raise capital and provide more flexibility in financing options.

- *Preserve capital gains rate and carried interest tax treatment.*
  Long-term capital gains offer favorable tax treatment to investors that provide longer term capital (greater than one year). This capital spurs job creation, new businesses, economic growth—all of which are favorable policy outcomes. We encourage policymakers to maintain this lever to incentivize asset investments with longer holding periods.

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Carried interest helps align the interests of investment fund managers with its investors—the pension funds, university endowments, and other investors—by tethering the majority of the fund manager's compensation to the fund's performance. When the investors in the fund benefit, the fund manager benefits. 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 fewer assets under management and rely on carry and its tax treatment 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. Supporting emerging managers helps build and broaden a more robust ecosystem.

- *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 Tax Cuts and Jobs Act (TCJA) repealed the option to expense R&D under section 174 of the 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—including tax liability on federal grants awarded through Small Business Innovation Research and Small Business Technology Transfer programs. The consequence of this fiscal bias against R&D is not merely theoretical; it is having tangible, negative effects compared to the pre-TCJA policy. Since the amortization requirement took effect in 2022, R&D spending has experienced a sharp decline. While R&D spending grew at an average annual rate of 6.6% in the five years prior to the amortization requirement, it expanded less than 1% in the 12 months ending in March 2024. 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.

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new technology, computer software, and machinery that help them to grow, hire, and expand.

- *Modernize net operating loss treatment to support startups*
  Calibrating treatment of net operating losses (NOLs) to reflect the unique nature of startups will spur investment and help startups grow. Building a business, bringing a product to market, and developing beneficial medical treatments all require investment. And that investment can incur losses that the tax code enables businesses to write down, as reflected in section 382 of the IRC, often referred to as NOLs. Policymakers appropriately sought to prevent loss trafficking where companies acquire failing firms with enormous losses for the sole purpose of using those losses to offset other income. Implementation of this policy has had unintended consequences that penalize startups. Startups and certain private companies that invest to build their businesses accrue NOLs, often still raising capital to continue to develop products and services and achieve growth. These ongoing investments can limit a startup's ability to use the NOLs as intended.

  We encourage policymakers to modernize the NOL-related rules (sections 382 and 383) to better reflect the unique nature of startups by establishing a safe harbor for startups that are fundraising that would enable this category of businesses to maintain their NOL treatment during ongoing investment.

Expand value of ownership
Equity ownership drives performance, innovation, and economic opportunity. Our tax code should incentivize 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 building 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 equity ownership meaningful.

- *Align taxation to time of sale*.
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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 the Committee for its work to date and continued leadership in modernizing the tax code. We look forward to working together towards our common goal of creating innovation and economic growth for more Americans.

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Autos Drive America
Jobs. Trade. Growth.

January 28, 2025

The Honorable Jason Smith
Chairman
Committee on Ways and Means
U.S. House of Representatives

The Honorable Richard Neal
Ranking Member
Committee on Ways and Means
U.S. House of Representatives

Dear Chairman Smith and Ranking Member Neal:

On behalf of Autos Drive America, an association representing the U.S. operations of 13 international automakers and suppliers who operate 31 manufacturing plants, employ over 156,000 Americans, and support an additional 2.4 million American jobs, I appreciate the opportunity to comment on the Committee's recent hearing entitled, "The Need to Make Permanent the Trump Tax Cuts for Working Families."

The Tax Cuts and Jobs Act (TCJA) has been a key driver for the U.S. automotive industry to secure new investments toward U.S. manufacturing and create additional jobs for hardworking Americans to support their families. Critical provisions of the 2017 tax law have already sunset with more set to expire at the end of 2025, driving up costs and imposing a tremendous tax burden on original equipment manufacturers. Autos Drive America advocates for the continuation, modification, and modernization of vital policies to ensure the strong manufacturing capabilities of the U.S. and continued growth of U.S. jobs in the auto industry.

Commitment to America

International automakers are dedicated to U.S. manufacturing and have invested $109 billion into U.S. operations and support more than 2.4 million jobs that have revitalized communities throughout America. International automakers remain committed to providing Americans with affordable options in the vehicles they choose to drive to work, drop their children off at school, and travel with their families.

The engine of growth fueled by the TCJA enabled international automakers to increase investments, support American workers through additional job opportunities and workforce development programs, and expand manufacturing capabilities within the U.S. auto industry. According to the U.S. Department of Commerce Bureau of Economic Analysis, following passage of the TCJA, from 2017-2022, foreign direct investment in the U.S. jumped from $4.025 trillion to $5.39 trillion, and investment in manufacturing increased from $1.6 trillion to $2.2 trillion.

As Congress debates key policies to extend and modify a pro-growth tax code, Autos Drive America also supports additional policies that encourage investment in U.S. manufacturing, grow jobs for hardworking Americans, and ensure affordability of autos for millions of American families.

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Bonus Depreciation

Under TCJA, manufacturers were able to immediately expense 100% of the cost of capital equipment purchases. However, this provision began to phase out in 2023 to 80% and will continue to fall 20% annually until it expires in 2027. International automakers make significant investments in new machinery, plant upgrades, robotics and other critical equipment needed for increased production.

In 2023, international automakers produced 4.9 million vehicles across nine states accounting for 48% of all U.S. vehicle production, and are expanding their production in 2025 and beyond, opening six new manufacturing and assembly plants in the U.S. from 2025-2030.

Extending the 100% bonus depreciation will allow manufacturers to continue these critical investments while reinvesting funds into research and development, workforce programs and other critical needs to help working families in the U.S. auto industry.

Research and Development

International automakers operate in an intensely competitive global industry and must make strategic choices about investments around the world. In 2023, international automakers had 76 R&D facilities located in 15 states and employed nearly 8,800 workers.

Prior to 2022, manufacturers in the U.S. were able to fully deduct their R&D expenses in the year incurred. With the five-year amortization of domestic R&D and 15-year for foreign R&D in place for more than two years, annual growth in R&D investment dropped from 6.6% to 3.4% and has placed international automakers in the U.S. at a competitive disadvantage in the global marketplace where countries like China incentivize R&D more aggressively.

International automakers and their U.S. employees need immediate action to allow for immediate expensing that will accelerate innovation, advance new technologies and ensure the U.S. auto industry remains globally competitive. Automotive manufacturers are known for high R&D investments, allocating billions of dollars annually due to the industry's focus on innovation in areas like autonomous driving, advanced safety systems, and electric vehicles.

Additionally, many smaller suppliers to international automakers rely on R&D expensing to support investments in innovation and new technologies. Without full R&D expensing, many of these smaller suppliers will have no choice but to shut down or be sold to larger companies, impacting the diverse supply chain needed to support the U.S. auto industry and our facilities in the U.S.

It is critical that immediate expensing of R&D is restored to ensure the future of the U.S. auto industry and the development of new, safer technologies for vehicles on the road.

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Foreign-Derived Intangible Income (FDII)

The TCJA shifted the U.S. towards a territorial tax system for international automakers, ensuring that foreign-sourced income and foreign subsidiaries of U.S. companies are not subject to U.S. taxes on their earnings. This made the U.S. a more competitive and affordable destination for manufacturing investment from international automakers. Ensuring that any modifications to international tax provisions continue to make the U.S. attractive for investment will be key to the success of auto manufacturing in America.

The scheduled elimination of the 37.5% FDII deduction would diminish the competitive advantage of international automakers exporting from the U.S. and further attribute to the United States' global trade deficit.

In the 118th Congress, Reps. Michelle Steele, R-CA, and Joe Morelle, D-N.Y., introduced the Growing and Preserving Innovation in America Act to permanently preserve the 37.5% FDII deduction. Autos Drive America urges the inclusion of this bill or similar language to extend the FDII in any TCJA extension package.

Conclusion

The success of the U.S. auto industry is a key driver of our economy by contributing to the resurgence of America's manufacturing prowess and providing jobs for tens of thousands of hardworking Americans. Autos Drive America remains committed to working with the 119th Congress and the Trump administration to preserve, extend, or modify key tax policies that will allow the U.S. automotive industry to continue to thrive and assist American families with affordable vehicles.

Sincerely,

Jennifer M. Safavian

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President and CEO
Autos Drive America

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Submitted electronically to: WMSUbmissions@mail.house.gov

Statement for the Record

Submitted by
Kanza Cooperative Association

To the
Committee on Ways & Means
U.S. House of Representatives

Regarding
The Need to Make Permanent the Trump Tax Cuts for Working Families

January 14, 2025

Chairman Smith, Ranking Member Neal, and members of the committee, Kanza Cooperative Association is please to provide a statement for the record in response to the January 14, 2025, hearing entitled, "The Need to Make Permanent the Trump Tax Cuts for Working Families."

Kanza Cooperative Association is an agribusiness cooperative, providing inputs and grain marketing services to our nearly 3,000 farmer members in south central Kansas. Since 1915, our organization has grown to 28 grain elevators and provides grain marketing, agronomy, fuel, feed and other farm products to our members in 26 communities.

Today, our organization has over $300 million in annual sales. We are an economic driver in all of the rural communities we serve, employing 200 full-time employees and around 50 part-time or seasonal workers. Our organization is deeply committed to the communities we serve providing financial and resource support to 4-H, FFA, local schools, chambers and non-profit organizations. The benefits of cooperatives like ours can be seen well beyond the farm gate, as we are deeply committed to the communities we serve providing financial and resource support to 4-H, FFA, local schools, chambers and non-profit organizations.

We strongly support the Main Street Tax Certainty Act of 2025, legislation to make permanent the 20-percent deduction for small- and family-owned businesses (Section 199A). Section 199A deduction is scheduled to sunset at the end of 2025, even as our industry struggle with low commodity prices, rising input prices, labor shortages, and supply chain disruptions. This

KANZA COOP

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legislation would provide certainty to the millions of S corporations, partnerships and sole proprietorships that rely on the Section 199A deduction to remain competitive.

Section 199A is vital to our industry as it helps to put small businesses and cooperatives on an even footing with big corporations which saw tax rate decreases in 2017. Through Section 199A(g), cooperatives invest in their operations or pass on the deductions to farmer members to reinvest it into their operations, benefiting the economy through job creation, increased spending on ag production, and investment in rural communities.

We appreciate the flexibility of section 199(A) as we have both kept the deduction at the co-op level to offset tax liabilities, and in other years passed the deduction through to our members. In profitable years, money saved through this deduction was used to increase grain storage capacity at several of our facilities or increase our ability to serve members with new dry fertilizer facilities. These investments improve our ability to meet members' needs. In other years, market conditions made passing the deduction through to our members a better option allowing our farmer members to potentially make the same types of investments in their small businesses.

Section 199A, including provisions related to farmer co-ops, expires at the end of 2025. The reduced corporate tax rate reduction was made permanent in 2017. The Section 199A deduction should be made permanent to help cooperatives remain competitive and on par with corporate and non-corporate businesses. We are asking Congress to save the Section 199A deduction because America's farm families are counting on it. We appreciate your introduction of this important legislation. Thank you for allowing us to provide this statement for the record.

LINCOLN AVENUE COMMUNITIES

January 9, 2025

Chairman Jason Smith
1011 Longworth House Office Building
Washington, DC 20515

Ranking Member Richard Neal
372 Cannon House Office Building
Washington, DC 20515

RE: Lincoln Avenue Communities Comments on The Need to Make Permanent the Trump Tax Cuts for Working Families Hearing

Dear Chairman Smith and Ranking Member Neal:

Thank you for the opportunity to contribute feedback to the House Ways & Means Committee as you study the significance of making permanent the Trump Tax Cuts for American's working families.

Lincoln Avenue Communities (LAC) is one of the fastest growing mission-driven affordable housing developer in the country. We own over 150 affordable housing rental communities in twenty-eight states and provide high-quality affordable rental homes for more than 28,000 households. Additionally, we currently have more than 5,000 affordable rental apartments under construction that will deliver in 2025 or 2026.

As the Ways & Means Committee is aware, the need for affordable housing has skyrocketed—at the end of 2022, our country was 3.8 million homes short of meeting the general housing needs of Americans and 7 million homes short of housing to serve extremely low-income renters. The Harvard Joint Center for Housing Studies estimates that 12.1 million low-income households – half of all renters – spend more than half of their monthly income on rent, burdening working families and forcing them to make difficult budgeting decisions impacting their ability to for critical expenses like childcare, medicine, groceries, and transportation.

As Congress considers its tax priorities it is critical that it solidify and expand its support of the Low-Income Housing Tax Credit (LIHTC). Since enacted in the Tax Reform Act of 1986 the LIHTC has been the primary tool affordable housing developers use to develop and preserve affordable housing. For more than a generation the LIHTC has proven to be effective, efficient, and accountable by leveraging private sector capital and capacity while empowering state governments to determine their unique housing needs in how they allocate resources.

We ask the Ways & Means Committee to prioritize several items related to strengthening the LIHTC and making administrative changes to the tax code that will promote housing supply:

1. **Reduce the 50 Percent Bond Financing Test.** We commend the House Ways & Means Committee and the House of Representatives for passing the Tax Relief for American Families and Workers Act of 2024 (HR 7024) which temporarily decreases the bond financing threshold for developments using 4% LIHTCs from 50%to 30%. While we still hold out hope that the Senate will pass this critical legislation before the end of the 118th Congress, we urge the Committee to recommend a permanent reduction of the bond financing test from 50% to 25%. This would align with the language in the Affordable Housing Credit Improvement Act. Estimates from Novogradac & Company estimate that reducing the bond test to 25% would produce more than 710,000 additional affordable rental homes over the next ten years.
2. **Increase the Housing Credit Allocation**. We commend the House Ways & Means Committee and the House of Representatives for passing the Tax Relief for American Families and Workers Act of 2024 (HR 7024) which increases the LIHTC ceiling by 12.5% for calendar years 2023-2025. While we still hold out hope that the Senate will pass this critical legislation before the end of the 118th Congress, we urge the Committee to recommend a substantial and permanent expansion of the LIHTC. We suggest that the phased expansion of the LIHTC ceiling included in the Affordable Housing Credit Improvement Act (HR 3238) is appropriate and had broad-based bipartisan support in the Congress.
3. **Eliminate the "Ten-Year Rule."** Low Income Housing Tax Credits (LIHTCs) are not available for the acquisition of properties placed in service during the last ten years. This rule dates to 1986, when Congress was concerned about "churning" real estate to take advantage of property appreciation due to the accelerated depreciation rules enacted in 1981. Decades later, with longer depreciation rules in effect the Ten-Year Rule is no longer relevant. Legislative modifications enacted in 2008 to streamline and modernize the rule fell short because of drafting limitations and lack of regulatory definitions. Reforming the "Ten-Year Rule" today will facilitate more affordable housing preservation, reduce overall transaction costs, and provide more regulatory certainty for affordable housing preservation developers. In its current form, the rule unnecessarily prevents the acquisition of properties that would otherwise be eligible for preservation and has become a significant barrier to preserving at-risk affordable housing assets. Eliminating this section of the tax code will facilitate more affordable housing preservation across the broadest number of scenarios.
4. **Extending Bonus Depreciation**. Bonus Depreciation accelerates a low-income housing tax credit investors return on investment, which directly results in a higher price per credit and more equity investment in affordable housing. The passage of the Tax Cuts and Jobs Act (TCJA) in 2017 significantly changed the rules for bonus depreciation by allowing businesses to immediately write off 100% of the cost of eligible property acquired and placed in service after September 27, 2017, and before January 1, 2023. Prior to TCJA, it was 50%.

   An investment in the Low-Income Housing Tax Credit requires all tax benefits, including operating losses and depreciation, to flow through to the eventual user of the credit in that respective taxable year. Depreciation is beneficial to investors as it reduces their corporate taxable income (21% benefit) thus boosting return / yield targets, which are key drivers in determining equity pricing / equity proceeds. The ability to depreciate 100% of the cost associated with site improvements (15-year property) and personal property (5-Year property), collectively referred to as "Bonus Depreciation," benefits the investor's time value of money on their investments, by allowing those tax benefits to be received in the first calendar year of their investment, rather than proportionally over a five- and fifteen-year horizon. This acceleration of benefits, translates directly into an increase in the investor's internal rate of return, collectively referred to as the investor's "yield". This increase in yield directly impacts tax credit equity pricing and ultimately the total equity that the project receives and provides for greater feasibility of affordable housing projects. We estimate that in today's market, allowing 100% bonus depreciation to expire will decrease LIHTC equity pricing by 3-4 cents per dollar of tax credit, creating additional financial gaps and reducing overall affordable housing production.

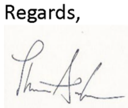
5. **Enhance Opportunity Zone Incentive to Align with Affordable Housing Programs**. We urge Congress to extend the Opportunity Zone incentive and/or make it a permanent part of the tax code. Additionally, the program should be reformed to give opportunity zone investors more flexibility so that it can pair better with LIHTC investment capital. Tax credit equity tends to be funded into projects in installments based on projects meeting defined benchmarks (i.e., financial closing, construction completion, lease-up, etc.…). The timing of these installments may not align with the realization of capital gains and as result can cause timing issues or diminish the value of the incentive`. Congress can remedy this by allowing LIHTC investors as well as general partners to fund opportunity zone investments in LIHTC properties with cash. This will allow investors that do not have capital gains to shelter to partially benefit from the incentive and still support affordable housing development.

   Additionally, we urge Congress to expand the number of opportunity zones generally and/or to allow additional census tracts that are not designated by the state to be eligible as opportunity zones if paired with a Low-Income Housing Tax Credit transaction. Lastly, to facilitate the use of opportunity zones with LIHTC preservation transactions, we urge Congress and/or the IRS to revisit the "substantial improvement test." This test does not align with the typical rehabilitation scope of a LIHTC resyndication and as result makes it difficult to leverage opportunity zone incentives on projects that preserve existing affordable housing communities. Additionally, given the limited availability of private activity bond volume cap (which is necessary to leverage 4% LIHTCs) most states limit the amount of volume cap available to preservation projects. This in turn constrains the amount of rehabilitation scope of work that can be financed to a point where it is usually impossible to meet the Opportunity Zone incentives "substantial improvement test." We suggest the test be revised so that LIHTC and other affordable housing assets located in opportunity zones must only improve the property by an amount equal to 30 percent of the adjusted basis.

Conclusion

Lincoln Avenue Communities appreciates the opportunity to work with the Ways & Means Committee as you consider your tax reform priorities in the 119th Congress. We welcome the opportunity to discuss them with you further at your leisure and/or answer any questions you may have regarding our feedback. I can be reached at 646-585-5526 or tamdur@lincolnavenue.com.

Regards,



Thom Amdur
Senior Vice President, Policy & Impact

About Lincoln Avenue Communities

Lincoln Avenue Communities is one of the nation's fastest-growing developers, investors, and operators of affordable and workforce housing, providing high-quality, sustainable homes for lower- and moderate-income individuals, seniors, and families nationwide. LAC is a mission-driven organization that serves residents across 28 states, with a portfolio of 150 properties comprising 28,000+ units.

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United States House Committee on Ways and Means
1100 Longworth House Office Building
Washington D.C. 20515

Dear Honorable Chairman Jason Smith,

Re: The Need to Make Permanent the Trump Tax Cuts for Working Families

The Missouri Soybean Association (MSA) submitted an Ernst & Young (EY) report to your Rural Tax Team when comments were open in 2024, underscoring the urgent need to extend key provisions of the 2017 Tax Cuts and Jobs Act, set to expire in 2025. This specific comment letter provided high-level findings that depict the impact on Missouri's soybean farmers.

In the EY report, Missouri's soybean producers would see an effective tax rate (ETR) decrease of 11.9 percent if key provisions are extended. Certain provisions impact different sizes of operations, as outlined in this letter.

For small and medium-size producers (farms generating less than $250,000 or $250,001 to $1,000,000 of gross cash farm income, respectively), the largest impact on their ETR is from the repeal of step-up in basis, increasing their tax rates by 3.4 percent and 5.1 percent, respectively. One of MSA's strategic priorities is helping rural Missouri transfer the over 90,000 family farms to the next generation. Ensuring the protection of family farms is not only vital for rural prosperity but also a cornerstone of our national security, safeguarding our domestic food supply.

For larger farming operations—those generating over $1,000,000 in gross cash farm income—the most significant benefits come from the extension of the Section 199A business income deduction and the estate tax exemption. The extension of Section 199A supports 1,140 jobs, $35 million in labor income, and $54 million in gross state product for Missouri alone.

As stated above, the rise and steady hold of historically high input costs coupled with sharp declines in soybean prices have resulted in a significant drop in soybean-based farm income. According to the Food & Agricultural Policy Research Institute's 10-year baseline projections at the University of Missouri, net farm income in 2024 is expected to drop by $9 billion from 2023, with even further reductions in 2025 cash receipts. These alarming trends highlight the critical need for this Committee to act swiftly to extend key provisions supporting rural America.

Sincerely,

Renee Fordyce
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Executive summary

This report analyzes the economic and tax effects of key TCJA-related provisions for soybean farms in four Midwestern states: Iowa, Indiana, Missouri, and Ohio. The key tax provisions analyzed are four tax provisions enacted under the Tax Cuts and Jobs Act (TCJA) – a new deduction for pass-through business income (Section 199A), an increased estate tax exemption, an increased individual Alternative Minimum Tax (AMT) exemption, and 100% bonus depreciation – as well as step-up in basis at death.

This analysis consists of two parts:

1. tax impacts are estimated for small, medium, and large soybean prototypical farms in each of these four Midwestern states, and
2. the economic activity supported by the use of the TCJA-related provisions by soybean farms is estimated, also in these four Midwestern states.

<u>Soybean production in four Midwestern states</u>

Soybeans are the second-most planted crop in the United States after corn. Across the four Midwestern states, there were more than 94,000 farms producing at least some soybeans in 2022, which represents 31% of all farms in these states. Soybean production also comprised about a third of total farm acreage and crop sales across the four states. Additionally, in 2022, there were an estimated 170,000 soybean farm producers, defined as household members working on the farm, along with an additional 73,000 hired workers in the four states.

Table ES-1. Soybean production in four Midwestern states, 2022

	Soybean production	All crop production	Soybean share
Farms	94,400	304,400	31%
Acres	25.8 million	85.3 million	30%
Crop sales	$18.8 billion	$52.0 billion	36%
Producers*	170,000	551,000	31%
Hired workers*	73,000	204,000	36%

Soybean production by state

INDIANA
- 18,700 farms
- 5.7 million acres
- $4.5 billion sales
- 34,000 producers*
- 15,000 hired workers*

IOWA
- 36,700 farms
- 9.5 million acres
- $7.4 billion sales
- 66,000 producers*
- 32,000 hired workers*

MISSOURI
- 16,200 farms
- 5.7 million acres
- $3.5 billion sales
- 29,000 producers*
- 9,000 hired workers*

OHIO
- 22,900 farms
- 4.8 million acres
- $3.6 billion sales
- 41,000 producers*
- 17,000 hired workers*

*Soybean producers and hired workers are estimated. Specifically, producers and hired workers for all farms are included and then prorated to the share of their acreage producing soybeans. For example, if a farm has 50 acres of soybeans and 50 acres of corn then 50% of the producers and hired workers for that farm are included in the soybean production estimates.
Note: Figures are rounded.
Source: USDA and EY analysis.

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Prototypical farms: Tax impacts on Midwestern soybean farmers

Tax impacts for the prototypical farms are summarized with an effective tax rate (ETR) defined as the present value of federal income and estate taxes divided by the present value of a soybean farmer's household income over the remainder of the farmer's lifetime. This approach captures tax provisions that apply during a farmer's life and upon death (e.g., estate tax and repeal of step-up in basis).

Tax impacts on Midwestern soybean farmers are displayed in Table ES-2 for each of the four states analyzed, farm size, and operation type. Operation type reflects whether a farm is operated by its owner or rented by a farmer.

- If the four key TCJA provisions were permanently extended, the largest reductions in tax liability would be for soybean farm households with large owner-operated farms. For these large soybean farm households, their ETR would decrease by between 6.1 (Iowa) and 11.9 (Missouri) percentage points. Renter-operated large soybean farm households would experience a decrease of between 5.9 (Iowa and Missouri) and 6.2 (Indiana) percentage points. The effects on small and medium soybean farm households would be more moderate.
- The repeal of step-up in basis by taxing gains at death would result in a significant tax increase for small, medium, and large owner-operated soybean farm households (a 2.4 to 5.1 percentage-point increase in the ETR) with smaller effects for renter-operated soybean farm households due to their smaller amounts of owned capital assets.

Table ES-2. Tax impact of key tax provisions, by state and soybean farm size

State	Farm size	Operation	Current law ETR	%-point change in ETR from extending four key TCJA-related provisions	%-point change in ETR from repeal of step-up in basis by taxing gains at death
Iowa	Small	Owner-operated	14.3%	*	2.6%
	Medium		24.8%	-2.8%	3.8%
	Large		29.4%	-6.1%	3.4%
	Large	Rent	30.1%	-5.9%	1.1%
Indiana	Small	Owner-operated	15.6%	*	3.0%
	Medium		19.7%	-2.9%	2.4%
	Large		43.1%	-9.0%	4.1%
	Large	Rent	34.3%	-6.2%	0.9%
Missouri	Small	Owner-operated	15.4%	*	3.4%
	Medium		20.7%	-1.9%	5.1%
	Large		34.0%	-11.9%	4.7%
	Large	Rent	28.9%	-5.9%	1.4%
Ohio	Small	Owner-operated	16.0%	*	2.7%
	Medium		22.3%	-2.7%	3.7%
	Large		33.5%	-9.1%	3.4%
	Large	Rent	31.4%	-6.0%	1.1%

*Less than 0.05% in magnitude.
Note: These prototypical farms reflect the average characteristics of a small, medium, and large farm where the majority of production on the farm is from soybeans in each of the four states. Any particular farm can, of course, differ from an average farm's characteristics. Likewise, any particular farm household can differ from an average farm household. The ETR reflects the present value of federal income and estate taxes divided by the present value of a soybean farmer's household income over the remainder of the farmer's lifetime. This approach is used because some provisions only apply at the farmer's death (e.g., estate tax and repeal of step-up in basis). Additionally, the ETR approach is used to standardize results across soybean farm sizes. Generally, as the soybean farm size increases both the soybean farmer's household income and the share of that household income that is from a soybean farm increase. The average soybean farmer is approximately age 59 and is assumed to live until age 81 (based on Social Security Administration actuarial tables). The soybean farm is assumed to be operational until the soybean farmer's death and then transferred to an heir. Current law refers to the law as currently scheduled for a given year. Figures are rounded.
Source: EY analysis.

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Economic activity supported by key TCJA-related provisions

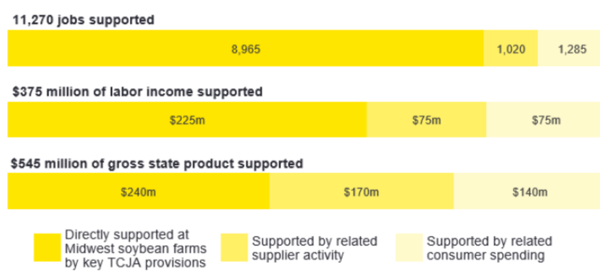
This analysis estimates a snapshot of the economic activity supported in the four Midwestern states due to soybean farms located in these four states making use of the key TCJA-related tax provisions. Specifically, below are estimates of the economic activity supported by: (1) four key TCJA-provisions, and (2) step-up in basis at death.

Economic activity supported by the four key TCJA provisions

As displayed in Figure ES-1, the four key TCJA provisions support an estimated 11,270 jobs, earning $375 million in labor income and generating $545 million of gross state product (GSP) in the four states. This includes the economic activity at soybean farms directly benefiting from the four key TCJA provisions, as well as the related supplier activity and consumer spending.

- *Soybean farms directly benefiting from the four key TCJA provisions.* The four key TCJA provisions are estimated to support 8,965 workers, earning $225 million in labor income and generating $240 million of GSP at soybean farms directly benefiting from the key TCJA provisions.
- *Related supplier activity.* The four key TCJA provisions are estimated to support 1,020 workers, earning $75 million in labor income and generating $170 million of GSP at suppliers to soybean farms directly benefiting from the key TCJA provisions.
- *Related consumer spending.* The consumer spending of supported workers at businesses directly benefiting from the four key TCJA provisions and their suppliers supports an additional 1,285 workers, earning $75 million in labor income and generating $140 million of GSP.

Figure ES-1. Economic activity supported by four key TCJA provisions
Estimates are relative to the size of the 2024 state economies



Note: This figure provides a snapshot of the economic activity supported at soybean farms directly benefiting from the four key TCJA provisions, as well as the economic activity connected to these businesses (i.e., supply chain activity and related consumer spending). The four key TCJA tax provisions are: 1) the 20% deduction for qualified pass-through business income, 2) an increased estate tax exemption, 3) an increased individual Alternative Minimum Tax (AMT) exemption, and 4) 100% bonus depreciation. Labor income is a component of GSP. Figures are rounded.
Source: EY analysis.

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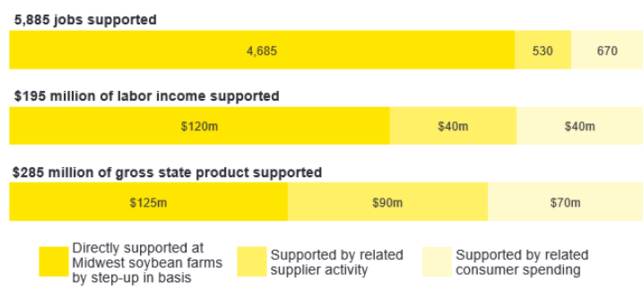
Economic activity supported by step-up in basis at death

As displayed in Figures ES-2, step-up in basis at death supports an estimated 5,885 jobs, earning $195 million in labor income and generating $285 million of GSP in the four states. This includes the economic activity at soybean farms directly benefiting from step-up in basis at death, as well as the related supplier activity and consumer spending.

- *Soybean farms directly benefiting from step-up in basis at death.* Step-up in basis at death is estimated to support 4,685 workers, earning $120 million in labor income and generating $125 million of GSP at businesses directly benefiting from step-up in basis.
- *Related supplier activity.* Step-up in basis at death is estimated to support 530 workers, earning $40 million in labor income and generating $90 million of GSP at suppliers to soybean farms directly benefiting from step-up in basis.
- *Related consumer spending.* The consumer spending of supported workers at soybean farms directly benefiting from step-up in basis at death and their suppliers support an additional 670 workers, earning $40 million in labor income and generating $70 million of GSP.[i]

Figure ES-2. Economic activity supported by step-up in basis at death
Estimates are relative to the size of the 2024 state economies



Note: This figure provides a snapshot of the economic activity supported at soybean farms directly benefiting from the step-up in basis, as well as the economic activity connected to these businesses (i.e., supply chain activity and related consumer spending). Labor income is a component of GSP. Figures are rounded.
Source: EY analysis.

[i]Factors such as changes in farming conditions, shifts in consumer preferences, macroeconomic fluctuations, and other policy changes and events can drive significant changes in employment or production at soybean farms. Accordingly, this analysis estimates the effects of specific tax provisions relative to a baseline scenario without these provisions. Note that, in contrast to the approach used for this analysis, looking at economic aggregates over time to determine the impact of a policy change is often misleading because it does not isolate the effects of the policies being examined since it does not control for other factors that affect the economic variables being examined.

NationalLatino EvangelicalCoalition

Statement for the Record
Submitted by the National Latino Evangelical Committee
To the House Ways and Means Committee
Hearing on the Need to Make Permanent the Trump Tax Cuts for Working Families
Date: January 14, 2025

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

Thank you for the opportunity to submit this statement on behalf of the National Latino Evangelical Coalition (NaLEC), which represents Latino evangelical congregations and communities across the United States. Our mission is to advocate for policies that strengthen families, reduce poverty, and promote economic opportunity for all Americans.

The Tax Cuts and Jobs Act (TCJA) of 2017, championed by President Donald Trump and Congressional Republicans, introduced significant reforms to the U.S. tax system. While the TCJA achieved notable successes, including an expanded Child Tax Credit (CTC), it also created broader fiscal implications that require thoughtful examination to ensure the sustainability of critical pro-family and anti-poverty programs like the Supplemental Nutrition Assistance Program (SNAP).

SNAP is one of the most effective anti-poverty programs in the nation, providing vital food assistance to low-income families, including millions of Latino households. While the TCJA did not directly alter SNAP, its significant reduction in federal revenues heightened concerns about funding for essential social safety net programs. As budgetary pressures increase, we urge this Committee to prioritize protecting SNAP and other interventions that safeguard families during times of economic vulnerability.

The recent proposals to transition Puerto Rico from the Nutrition Assistance Program (NAP) to SNAP provide an important case study in ensuring equity within federal assistance programs. Currently, Puerto Rican families face significant disparities in benefits compared to those in the mainland United States. Transitioning to SNAP would align Puerto Rico with the same standards and benefits as other states and territories, promoting fairness and reducing food insecurity for millions of residents.

The TCJA's reduction in the corporate tax rate from 35% to 21% was intended to spur economic growth and job creation. While the reform benefited many businesses, its benefits were unevenly distributed, and the resulting revenue loss has fueled discussions about cost-cutting measures that could jeopardize programs like SNAP. The Latino community, which disproportionately benefits from SNAP and similar programs, would face significant hardship if these programs were scaled back due to fiscal constraints.

To uphold the pro-family and pro-worker principles that underpinned the TCJA, we recommend the following:

1. **Strengthening SNAP**: Maintain robust funding for SNAP and ensure the program is protected from cuts. Additionally, prioritize transitioning Puerto Rico to SNAP to eliminate disparities in benefits.
2. **Enhancing the Child Tax Credit**: Build on the TCJA's expansion of the CTC by increasing its refundability and ensuring it reaches the lowest-income families. This would provide direct support to parents and help reduce child poverty.

3. **Reassessing Corporate Tax Benefits**: Evaluate the effectiveness of the corporate tax rate reduction in achieving long-term economic growth. Adjustments could ensure sufficient revenue for critical social programs while maintaining incentives for business investment.
4. **Promoting Paid Family Leave**: Incentivize employers to offer paid family leave through tax credits, helping parents care for their children without financial insecurity.
5. **Investing in Workforce Development**: Expand tax incentives for skills training and education programs that prepare workers for higher-paying jobs, reducing dependence on safety net programs over time.

The TCJA demonstrated the power of pro-growth, pro-family policy. However, as we approach its expiration, Congress has a critical opportunity to refine and build upon its legacy by protecting programs like SNAP and ensuring a tax system that truly supports families.

We call on this Committee to prioritize policies that promote fairness, reduce poverty, and strengthen the economic foundation for all families, especially those in the Latino community. Together, we can advance a pro-family and pro-worker tax policy that reflects the best of our shared values.

Sincerely,

Rev. Dr. Gabriel Salguero & Rev. Jeanette Salguero
President & Vice President
National Latino Evangelical Coalition

NATSO SIGMA

January 14, 2025

The Honorable Jason Smith
Chairman
U.S. Ways and Means Committee
1139 Longworth House Office Building
Washington D.C. 20515

The Honorable Richard Neal
Ranking Member
U.S. Ways and Means Committee
1139 Longworth House Office Building
Washington D.C. 20515

Chairman Smith and Ranking Member Neal:

NATSO, Representing America's Travel Centers and Truckstops, and SIGMA: America's Leading Fuel Marketers (together, the "Associations") represent more than 80 percent of retail sales of motor fuel in the United States.[1] On behalf of the retail fuel industry, a sector comprised overwhelmingly of small, main street businesses, we are grateful that the Ways and Means Committee (the "Committee") has convened a hearing on extending the tax provisions enacted under the Tax Cuts and Jobs Act of 2017 ("TCJA"). The Associations are eager to work with the Committee to extend many of the provisions enacted under the TCJA.

Travel centers and fuel retailers are an economic engine for communities throughout the country. In 2023, the travel center and convenience industry paid or collected $208.3 billion in taxes.[2] The industry employed more than 2.44 million employees, generated $859.8 billion in sales (including $533 billion in fuels sales), and processed approximately 165 million transactions per day in 2023. In all, approximately 93 percent of Americans live within 10 minutes of a convenience store – and this includes 86 percent of those who live in rural areas. Single store operators account for more than 60 percent of the stores in the convenience and fuel retailing industry; 75 percent of the industry is comprised of companies with ten or fewer locations.[3] In many instances, they are the largest employers and largest taxpayers in their communities and the only 24-hour location where local residents can buy basic groceries. If TCJA tax policies are not extended, many of the Associations' members will struggle to reinvest in their respective businesses, and in some circumstances, may be unable to continue to operate.

The Associations believe it is best for the American consumer and America's industrial position in the world marketplace to have low and stable energy prices. The retail fuels market is the most transparent, competitive commodities market in the United States. As every American knows, drivers can see gasoline retailers' price signs from blocks away, or compare prices on their mobile devices. These signs represent more than just pricing information; they are a value

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[1] NATSO currently represents approximately 5,000 travel plazas and truckstops nationwide, comprising both national chains and small, independent locations. SIGMA represents a diverse membership of approximately 260 independent chain retailers and marketers of motor fuel. The retail fuels and convenience industry provide 2.38 million jobs at approximately 120,000 retail establishments across the country.

[2] See NACS, State of the Industry (2023).

[3] *Id.*

proposition to potential customers, not only with respect to fuel, but also food and other convenience items and amenities that are offered at specific facilities.[4]

Fuel retailers identify the most reliable, lowest cost transportation energy available, and efficiently deliver that energy to every community in the country. In so doing, they compete with one another on price, speed, and quality of facilities and service. If the TCJA provisions are allowed to expire, it will limit the investments these companies make in their operations to deliver competitively priced fuel to consumers; because America remains a petroleum-based economy, this would have a tangible inflationary impact that all Americans would absorb.

When the underlying tax environment is sufficiently favorable to engender new investment, fuel retailers have proven they will return those benefits to consumers and the local community. This includes investments in alternative fuel technologies, including biofuels, hydrogen, electricity, and other alternative fuels.

The Committee has an opportunity to (i) ensure business tax laws promote market-oriented, consumer-focused fuel supply chains, and (ii) advance policies that allow fuel retailers to invest in a wide variety of refueling technologies that lower prices for consumers.

I. Business Tax Policies of Importance to the Fuel Retail Industry.

a. Section 199A Qualified Business Income Deduction.

The Associations strongly urge the Committee to make permanent the Section 199A deduction for Qualified Business Income of pass-through businesses. Much of our membership is organized and operated through pass-through businesses, and Section 199A appropriately promotes parity between the tax treatment of different businesses based on their organization and form.

Were Section 199A to expire as scheduled, alongside scheduled shifts in individual income tax rates applying to pass-through income, the top marginal rate that many of these businesses would be forced to pay would spike sharply, rising to 39.6 percent essentially overnight – nearly double the 21-percent corporate rate. This abrupt shift would have a deeply adverse impact on our members and affect their ability to invest in communities throughout the country. Section 199A was designed solely to avoid that perverse outcome, and to allow small mom-and-pop businesses to pay a comparable tax rate as larger corporations.

Section 199A has allowed our members to invest in retail fuel infrastructure and operations throughout the United States. We strongly encourage the Committee to make the Section 199A deduction permanent.

[4] The retail diesel market is even more competitive and transparent as many travel centers' customers—truck drivers and trucking fleets—are more savvy and price-conscious than typical American motorists. (Fuel generally amounts to 30-40% of a motor carrier's overall costs.) Truck drivers are often aware of retail fuel prices when they are 100 miles away from potential refueling sites, and fleet managers use this information to direct drivers to specific retail locations in order to purchase the lowest-priced fuel available. This imposes strong downward pressure on retail diesel prices.

b. Bonus Depreciation.

The Associations thank Chairman Smith and the Committee for their work last Congress on H.R. 7024, the Tax Relief for American Families and Workers Act of 2024. The Associations support the permanent extension of full expensing or "bonus depreciation" under Section 168(k) and the increased expensing limits under Section 179. Current law allows fuel retailers, for Federal income tax purposes, to recover the costs of certain capital assets through annual depreciation deductions. The 15-year recovery period, set by a combination of federal law and administrative guidance, is intended to mirror the economic reality of an asset's useful life.

Specifically, this schedule more accurately reflects the real-world decline in value of tangible assets and the time period in which those assets are likely to be replaced than does the schedule for "other commercial real estate." Shorter depreciation schedules generate capital that can be reinvested in a business. The Committee should pursue policies that produce such results. If the depreciation schedules were to be extended, businesses would not necessarily be able to recover their costs and replace their capital assets at the appropriate time. This decreases the likelihood that the business will be able to create jobs and succeed in the marketplace.

c. Estate Tax and Basis Calculation for Capital Gains.

The Associations have long supported estate tax relief, and urge the Committee to either maintain or increase the estate tax exemption threshold established under the TCJA. The estate tax discourages savings and investment, creates a disincentive to expand businesses, and requires the diversion of resources for costly estate planning. Many of the Associations' members operate small, family-owned businesses, and far too often the estate tax taxes family businesses right out of the family. The estate tax imposes a 40 percent tax on the taxable estate of any person at the time of death, subject to a certain exemption threshold. Additionally, when appreciated assets are bequeathed, the heir receives a basis in that asset equal to its fair market value, commonly referred to as a step-up in basis.

The Associations are particularly concerned with proposals that would modify current provisions on the step-up in basis. The Associations' members have invested decades of their lives in their businesses, often with the help of family members, and many would prefer to pass on their business to their heirs upon death. If Congress modifies current provisions related to the step-up in basis, these heirs may be unable to retain the family business due to potential tax liability. Such changes would impose new capital gains taxes and could create unintended illiquidity events. Furthermore, any attempt to properly value the original owner's basis would generate unnecessary logistical complexities. Combined with the estate tax, this change would further disincentivize small business owners from investing in their companies and could cause families to lose their family businesses.

d. Last-In, First-Out ("LIFO") Accounting.

As the Committee considers changes to the tax code, it is essential to maintain LIFO as an acceptable inventory accounting method. The Associations' members, including many pass-through entities, utilize LIFO as a more accurate accounting method for measuring operations' current economic performance. Repeal or modifications of LIFO would result in significant, unfunded tax liabilities for LIFO businesses when those businesses have no corresponding cash with which to satisfy the resulting liabilities. This will create illiquidity events, resulting in job losses and business closures. In general, businesses must track and account for inventory to determine the cost of goods sold and to determine taxable income.

If Congress repeals LIFO, it will create a preference in the tax code favoring one type of business over another. Furthermore, subjecting LIFO reserves to a recapture tax is a breach of faith with taxpayers utilizing LIFO. These businesses have dutifully followed tax laws for decades, properly accounting for changes in their inventories and paying the required taxes on their reserves.

II. Tax Considerations for Fuel Supply Chains and Alternative Energy Sources.

Beyond many of the critical business tax provisions included in the TCJA, the Associations urge the Committee to advance ambitious, market-based, and consumer-oriented energy tax policies. Alternative fuels, for instance, diversify and lengthen the supply of transportation energy.

a. The Section 40A and Section 45Z Credits for Advanced Biofuels.

Many of the Associations' members buy and blend biofuels into the gasoline and diesel sold at their locations.[5] The "Section 40A" Biodiesel Tax Credit, an incentive for blending biodiesel and renewable diesel into petroleum-based diesel, has worked to successfully lower diesel prices for the trucking industry while also maximizing the environmental benefits of transportation fuels and extending fuel supply. The credit expired at the end of 2024 and was replaced by the Inflation Reduction Act's "Section 45Z" Clean Fuel Production Credit, a complex, untested new tax scheme.

After failing to meet a Congressionally-set deadline to issue guidance on the Section 45Z credit, President Biden issued last-minute, piecemeal regulations that failed to provide the market with the certainty needed to mobilize new capital. The expiration of the Section 40A credit, combined with insufficient, seemingly temporary Section 45Z guidance from the Biden Administration, is creating pervasive headwinds in the renewable fuels industry.

Biodiesel plants are idling or declaring bankruptcy; fuel retailers are unwilling to purchase biofuel gallons because the value of the incentive associated with those fuels is unknown. Many of these retailers are single-store operators that have invested millions in biodiesel blending infrastructure in response to Congressional policy signals. Congress should extend the Section 40A Biodiesel Tax Credit for at least one year to mitigate the damage the current uncertainty is inflicting upon the advanced biofuel industry.

In the longer term, the Committee should strongly consider *bifurcating* these incentive regimes, such that there is *one scheme* that incentivizes the production and consumption of fuels using feedstocks that currently make *diesel* substitutes (*i.e.*, vegetable oil, used cooking oil, animal fats, etc.), and *another provision* that incentivizes the production and consumption of fuels using feedstocks that currently make *gasoline* substitutes (*i.e.*, corn-based ethanol). Not only would this

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[5] Biofuels are low-carbon fuels derived from materials such as agricultural crops or organic waste, which are utilized as an alternative to traditional petroleum-based fuels. Ethanol, for example, is generally made from corn feedstocks and blended into the gasoline supply across the nation today. Existing biofuel tax policies improve domestic energy security and lower prices for consumers at the pump.

result in a sound policy outcome, but it would also allow the stakeholder community to better coalesce around and work with the Committee toward the best policy solutions for all of these products.

b. 45V Credit for Clean Hydrogen Production.

Many of the Associations' members – particularly those with highway locations that service heavy duty commercial trucks – are also actively expanding their hydrogen capabilities in response to market- and federal policy signals. They have developed new commercial relationships with companies in the hydrogen value chain, actively participate in multiple "hydrogen hub" projects, and are actively exploring hydrogen grant and loan guarantee opportunities that have enjoyed bipartisan support in Congress.

Hydrogen-powered trucks would leverage *existing* refueling infrastructure and a supply chain familiar to the industry: centralized production and transportation to market, along with retail fuel sales through a network of well-functioning and convenient refueling locations. As transportation energy retailers and distributors, our membership will rely upon hydrogen producers to provide an economical supply of clean hydrogen in the years ahead.

Tax policy should maximize the market's ability to realize these objectives. Congress should continue to maintain, and ensure the efficacy of, Section 45V. Properly implementing Section 45V will result in the development of hydrogen supply chains that will be competitive well beyond Section 45V's expiration.[6]

c. Section 30C Credit for Alternative Refueling Infrastructure.

The Section 30C tax credit ("30C Credit") is a long-standing, technology-neutral tax credit for the installation of alternative refueling infrastructure, including hydrogen stations and electric vehicle "EV" charging stations. The 30C Credit is a well-crafted tax policy designed to prompt technology-neutral investments in alternative refueling infrastructure. The Associations have many members who are making investments premised on economics that incorporate the 30C credit. We support this important policy.

III. Conclusion.

The Associations appreciate the Committee's focus on these important tax policies that support the travel center and fuel marketing industry. We look forward to our continued work with the Committee.

Sincerely,

NATSO, Representing America's Travel Plazas and Truckstops
SIGMA: America's Leading Fuel Marketers

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[6] *See* comment letter from the Associations on the proposed rulemaking from Treasury implementing the Section 45V hydrogen production tax credit, *available at*, https://www.regulations.gov/comment/IRS-2023-0066-29642.

January 14, 2025

Re: Hearing on The Need to Make Permanent the Trump Tax Cuts for Working Families and Small Businesses

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

On behalf of the National Association of Wholesaler-Distributors (NAW), I urge you to make permanent key tax policies enacted in the *Tax Cuts and Jobs Act of 2017 (TCJA)* that help wholesaler-distributors and the six million workers employed by the industry.

These provisions, which include the 199A pass-through deduction, individual tax rate reduction, and expanded death tax exemption, help millions of main street businesses and working families across the country. Making these provisions permanent and fully repealing the death tax must be a priority for lawmakers in 2025.

In addition, lawmakers must preserve key tax policies that are already in law such as the 21% corporate rate and the Last-In, First-Out (LIFO) tax provision.

Wholesaler-distributors are already facing significant challenges including rising costs and shortages which have destabilized supply chains in recent years. Lawmakers must provide certainty to these businesses so that they can confidently invest and grow in the economy, their workforce, and local communities across the country.

About NAW & The Wholesale Distribution Industry

NAW is one of America's leading trade associations, representing the $8 trillion wholesale distribution industry. Founded in 1946, NAW comprises national, regional, and state employers of all sizes, industry trade associations, partners, and stakeholders spanning all distribution sectors.

There are more than 250,000 wholesale distribution companies that operate across North America, including all 50 states. These businesses collectively employ over 6.1 million workers, ranging in size from small, closely held family businesses to Fortune 500 companies. The majority are small or medium sized businesses and 81% of companies in the industry have less than 20 employees.

Wholesale distribution is a business-to-business industry: wholesaler-distributors purchase inventory, generally from manufacturers, and sell it to their customers, which include retailers, consumers, contractors, and small businesses.

Wholesaler-distributors are typically high tax, low margin businesses. The industry pays one of the highest effective income tax rates of all industries, with many businesses paying an average effective rate of 30% in combined federal and state taxes. Although the data varies among distributors of different product lines, a significant number of companies report after-tax profit margins of less than 1%, with the average margin of about 2%.

Wholesaler-distributors also offer well-paying, skilled jobs with a culture of living in and giving back to the communities they serve. Employee costs including wages, benefits, and taxes make up half to three-fourths of total expenses for wholesaler-distributors. As of November 2024, the average hourly wage for production and nonsupervisory workers in the industry is $31.69 per hour, higher than the typical private sector non-supervisory wage.[1] In addition, 89% of wholesaler-distributors offer healthcare, 89% offer paid sick leave and 84% offer retirement benefit plans.[2]

Make Small Business Tax Cuts Permanent

NAW members invest heavily in their workforce by providing extensive benefits and career development programs including health & retirement benefits, formal profit-sharing, quarterly cash bonuses and personal benefits such as financial workshops and volunteer paid time off.

The majority of wholesaler-distributors, and over 95% of businesses across the country, are organized as pass-through businesses (S-corporations, LLCs, sole proprietorships, or partnerships) and pay taxes through the individual income section of the tax code.

These businesses benefit from the 20% Section 199A small business deduction, created by the TCJA. Thanks to 199A, wholesaler-distributors were able to reinvest in their workforce as they had more resources to hire, raise wages, and provide benefits while also allowing them to devote more resources toward expanding their business and contributing to their local communities.

However, if these provisions expire, small businesses will have to slow hiring, delay or forgo new expansions and reinvestment in businesses, and reduce or eliminate employee benefits.

The expiration of 199A will harm businesses across the country. According to IRS Statistics of Income (SOI) data, almost 25.7 million taxpayers claimed the 199A deduction in tax year 2021.[3] The deduction currently supports 2.6 million jobs, $161 billion in annual employee compensation, and $325 billion in GDP when accounting for direct, supplier, and consumer economic activity, according to EY.[4]

In addition to the 199A provision, the TCJA also contained important tax reduction for individuals including reducing marginal tax rates, raised thresholds at which the higher brackets phased in, and doubled the standard deduction.

Not only did this provide tax reduction for S-corporations, LLCs, and other pass-through entities, but it also reduced taxes for workers at every income level. These tax cuts provided especially strong tax reduction for lower income taxpayers. According to IRS SOI data, Americans with adjusted gross income

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[1] U.S. Bureau of Labor Statistics. (2024, September 6). *Table B-8. average hourly and weekly earnings of production and nonsupervisory employees on private nonfarm payrolls by industry sector, seasonally adjusted(1) - 2024 M08 results*. U.S. Bureau of Labor Statistics. https://www.bls.gov/news.release/empsit.t24.htm

[2] U.S. Bureau of Labor Statistics. (n.d.). *Industries at a glance: Wholesale trade: NAICS 42*. U.S. Bureau of Labor Statistics. https://www.bls.gov/iag/tgs/iag42.htm

[3] *SOI Tax Stats - Historic table 2*. Internal Revenue Service. (n.d.). https://www.irs.gov/statistics/soi-tax-stats-historic-table-2

[4] EY Prepared on behalf of the S Corporation Association. (2024, August). Economic activity supported by the Section 199A deduction. S Corporation Association. https://s-corp.org/wp-content/uploads/2024/09/EY-SCA-Economic-activity-supported-by-Section-199A-deduction-August-2024-FINAL.pdf

(AGI) of $50,000 to $100,000 saw a reduction in average tax liabilities of over 13% between 2017 and 2018, while Americans with AGI of $1 million or above saw a 5.8% reduction.[5]

Finally, lawmakers should repeal of the estate tax, also known as the death tax. The death tax imposes a 40% tax on family-owned businesses every time the next generation takes over the business. Family-owned businesses employ over 60% of the U.S. workforce and contribute over 60% of GDP, which has a significant economic impact.[6]

Wholesaler-distributors impacted by the death tax have to take out loans, liquidate existing assets or defer new investments in technology or equipment, hiring new workers or upskilling existing workers, and expanding their business.

While there is currently a $13 million exemption on the death tax, this figure is on total assets, not on income and is scheduled to be cut in half at the end of 2025. At the very least, this exemption should be extended, but ideally the death tax should be fully repealed.

Many family businesses below this threshold must devote time and resources to estate planning in the event they may one day have to pay the tax. While this cost may or may not be significant by itself, this is yet another expense faced by wholesaler-distributors on top of complying with existing and new regulations, mitigating supply chain disruptions, and rising costs including energy, health care, and labor costs.

Preserving Pro-Growth Policies that Maintain the Supply Chain

In addition to making tax cuts permanent for working families and main street businesses, lawmakers should also ensure they preserve key tax cuts that are already in law.

Lawmakers should preserve the current tax treatment of LIFO, a provision which helps businesses maintain inventory levels, U.S. supply chains, and mitigate inflation. The provision is a longstanding and widely accepted inventory valuation method utilized by businesses across a diverse range of industries.

Repealing LIFO would impose unprecedented retroactive taxation that would punish businesses based on decisions they made decades ago and force them to take out loans, defer new investment, or downsize to pay the tax. This would disproportionately harm small businesses, cause businesses to reduce employee benefits, destabilize supply chains leading to shortages and greater inflation, and cause businesses to forgo new investment, downsize, or even go out of business.

Congress must also preserve the 21% corporate tax rate, which was enacted in the 2017 Trump Tax Cuts. While the majority of wholesaler-distributors are pass-throughs, many others are organized as C-corps, the majority of which are smaller, privately owned businesses.

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[5] *ICYMI: IRS Data: Middle class Americans saw biggest tax reduction from Trump Tax Cuts: U.S. senator Chuck Grassley of Iowa.* Home. (2020, September 23). https://www.grassley.senate.gov/news/news-releases/icymi-irs-data-middle-class-americans-saw-biggest-tax-reduction-trump-tax-cuts

[6] Van Der Vliet, D. (2021, June 2). *Measuring the Financial Impact of Family Businesses on the US Economy*. Family Business. https://familybusiness.org/content/measuring-the-financial-impact-of-family-businesses-on-the-US-ec

Recent economic studies have found that consumers and workers bear an estimated 70%[7] to 80%[8] of the cost of the corporate tax rate, so this tax reduction directly benefits working families as well as wholesaler-distributors. If the corporate tax rate is raised, it will threaten the ability of these businesses to continue investing in workers and the economy, which will be passed on to consumers through fewer job opportunities and higher prices. Raising the corporate tax rate to 28%, as some have proposed, would reduce GDP by $1.84 for every $1 of higher revenue.[9]

Conclusion

Lawmakers must prioritize making permanent key tax cuts for small businesses and working families enacted in the Trump tax cuts such as the 199A deduction and individual tax rate reduction. These provisions help businesses grow and provide higher take home pay and increased benefits for working families. In addition, Congress must preserve key policies that help uphold the supply chain such as the tax treatment of LIFO and competitive corporate tax rates.

If you or your staff have any questions, please reach out directly to me or to Alex Hendrie, Associate Vice President, Government Relations at 202-872-0885.

Sincerely,

Brian Wild
Chief Government Relations Officer
National Association of Wholesaler-Distributors

[7] Entin, S. J. (2017, October 24*). Labor Bears Much of the Cost of the Corporate Tax*. Tax Foundation. https://taxfoundation.org/research/all/federal/labor-bears-corporate-tax/
[8] Bradley, N., & McLeish, W. M. (2024, August 26). *How Pro-Growth Tax Policy Raises Wages, Improves the Economy*. U.S. Chamber of Commerce. https://www.uschamber.com/taxes/how-pro-growth-tax-policy-raises-wages-improves-the-economy
[9] York, E. (2024, August 26). *The Corporate Tax Rate Tug-of-War*. Tax Foundation. https://taxfoundation.org/blog/trump-harris-corporate-tax-proposals/

NATIONAL CATTLEMEN'S BEEF ASSOCIATION
CENTER FOR PUBLIC POLICY

January 13, 2025

The Honorable Jason Smith
Chairman
Committee on Ways and Means
United States House of Representatives
1139 Longworth House Office Bldg.
Washington, DC 20515

The Honorable Richard Neal
Ranking Member
Committee on Ways and Means
United States House of Representatives
1139 Longworth House Office Bldg.
Washington, DC 20515

Dear Chairman Smith, Ranking Member Neal, and members of the House Committee on Ways and Means:

As the trusted leader and definitive voice of the U.S. cattle and beef sector, the National Cattlemen's Beef Association (NCBA) appreciates the opportunity to submit comments the House Ways and Means Committee for the "Hearing on The Need to Make Permanent the Trump Tax Cuts for Working Families." NCBA is the oldest and largest national trade association representing the interests of the U.S. cattle industry, with over 178,000 members represented through direct membership and our 44 state affiliate organizations. Throughout these comments we will reference the NCBA tax survey that was conducted between July 2023 – March 2024 and received over 1200 responses from cattle producers across the country.[1] The survey assessed the importance of key provisions of the 2017 Tax Cuts and Jobs Act (TCJA), and our comments reflect the importance of the TCJA to cattle producers, as well as other key provisions of the tax code. We recognize the significant challenge facing you in securing pro-growth tax policies while addressing a massive national debt, and NCBA urges Congress and the Administration to continue a realistic examination of spending priorities to make real and significant budget and tax cuts and to further develop a balanced budget.

NCBA's comments will focus on the following areas:

I. The Rural Economy Needs Tax Relief
II. Taxes on Succession Are Not Pro-Growth
III. Tax Tools that Spur Investment in the Rural Economy
IV. Taxable Income Challenges for Cattle Producers

I. The Rural Economy Needs Tax Relief

The United States has more than 622,000 cattle ranches and farms that account for 33 percent of all U.S. agricultural operations,[2] generating $101 billion in cash receipts in 2023.[3] U.S. cattle farms, ranches and feedlots in the United States raise about 88 million head of cattle. The vast majority are family-owned, multi-generational businesses with an average beef cow herd of 47 head.

The overall farm economy is currently facing significant challenges, particularly for small family farms. In 2022, a substantial percentage—between 52 and 79 percent—of these farms were categorized as being in a high-risk zone based on their operational performance metrics (OPM).[4] This high-risk status reflects a concerning trend where many

[1] "NCBA Releases Findings from Cattle Producer Tax Survey," National Cattlemen's Beef Association, 10/08/2024.
[2] 2022 USDA Census of Agriculture.
[3] USDA-Economic Research Service, "Annual Cash Receipts by Commodity," Accessed 10/09/2024.
[4] Whitt, C., Lacy, K., & Lim, K. (2023). America's Farms and Ranches at a Glance 2023 Edition (Report No. EIB-263). USDA-Economic Research Service.

small farms, whether classified by retirement, off-farm occupation, or sales levels, are struggling to maintain financial stability. The pressure on these farms is evident as they navigate a landscape of financial vulnerability and increasing operational challenges.

Looking ahead, the economic outlook for the farm sector is troubling, with substantial decreases forecasted for key financial indicators. In inflation-adjusted 2024 dollars, net farm income is anticipated to drop by $43.1 billion, or 27.1 percent, from 2023 levels.[5] This forecast underscores a broader trend of financial contraction within the agricultural sector, highlighting the need for supportive measures to address the economic pressures faced by farms and ensure their long-term viability. At a time when agriculture producers are grappling with lowering income and profit margins, the uncertainty of what their tax obligation may look like in the near future adds even more hardship.

The USDA Economic Research Service (ERS) highlighted that the expiration of temporary provisions from the ARPA and TCJA—such as reduced individual income tax rates, a higher standard deduction, capped state and local deductions, and the removal of the personal exemption—pose significant concerns for farm households. These changes could lead to an increased tax liability of $4.5 billion across all farm households. Additionally, the anticipated reduction in the estate tax exemption alone is expected to cause federal estate taxes to double to $1.2 billion.[6] As Congress develops new tax policy, it is crucial to carefully consider the impact on agricultural operators and rural families, ensuring that cattle producers are not disproportionately burdened by higher taxes.

II. Taxes on Succession Are Not Pro-Growth

The Estate Tax Threatens Family Cattle Operations

The estate tax, more commonly known as the death tax, is a significant threat to multi-generational family businesses and cattle operations. The NCBA tax survey solicited information regarding the number of producers who have been affected by the estate tax as well as the importance of tools used to mitigate the estate tax. These results are compared to a recent analysis by USDA ERS that discussed the possible effects of sunsetting provisions of the TCJA. One important difference is that USDA's study was not specific to the U.S. cattle sector but reviewed the agriculture industry in general.

In NCBA's survey, over one third of respondents have been impacted by the estate tax; and of those respondents, 35% have been impacted more than once. In addition to the federal estate tax, 40% of respondents anticipate being subject to state-level estate tax. This helps explain why 27% of respondents believe the estate tax is their greatest tax concern. In contrast, USDA reports that between 1934 and 2016 only 1.8% of adults generated a taxable estate valued above the exclusion amount, and that number has fallen to 0.1% in recent years.[7]

NCBA survey results show that some respondents have allocated significant financial resources to comply with the estate tax and protect their business. For example, 18% of respondents have been forced to sell land, livestock, or other assets to pay for the estate tax, and 9% have taken out a personal loan or lien to pay for the estate tax. Sadly, 25% of respondents were prevented from investing in their operation due to the estate tax.

Current estate tax limits established under the TCJA are set to expire at the end of 2025, and 61% of NCBA survey respondents will be impacted if the estate tax threshold is reduced to $5 million per individual (adjusted for inflation). This contrasts with USDA's broad estimate that only 1% of farm estates will be subject to the estate tax if the threshold is

[5] U.S. Department of Agriculture, Economic Research Service. (2024, February 7). *Farm Sector Income & Finances: Farm Sector Income Forecast.*
[6] McDonald, T. M., & Durst, R. (2024). *An analysis of the effect of sunsetting tax provisions for family farm households* (Report No. ERR-328). USDA-Economic Research Service. https://doi.org/10.32747/2024.8327788.ers
[7] *Ibid*, p. 29.

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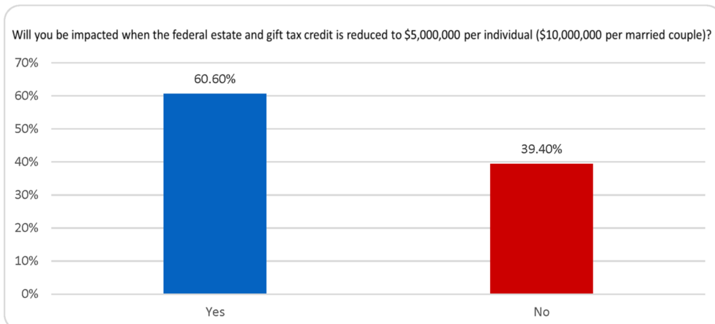
reduced to previous levels.[8] NCBA advocates for the complete repeal of the estate tax and, until such repeal is achieved, we support maintaining the highest possible estate tax exemption. Some tax survey respondents shared their personal experiences with the estate tax. One recounted, "[w]e have lost two generations of our family being able to stay in the farming operation because of the inheritance tax. I am the last of my family in five generations still ranching because the ranch has dwindled down to where it will only support one family." Maintaining a robust estate tax exemption not only supports the continuation of family farms but also secures the future of the agricultural community as a whole.



Increase the Gift Tax Exclusion

To mitigate the impact of estate taxes, some producers choose to transfer some of their assets to their children or other family members before they pass away. Currently, producers can make gifts valued up to $18,000 annually without any tax implications.[9] This strategy can help reduce the overall estate tax burden. However, it's essential for families to carefully consider their gift tax responsibilities in this process. Unlike inherited assets, gifts do not benefit from the stepped-up basis, which can lead to unexpected tax implications for recipients. Consequently, the gift tax can create significant financial obstacles and complicate the seamless transfer of farms and ranches from one generation to the next. To address these challenges, NCBA supports increasing the gift tax exclusion limit and ensuring it is regularly adjusted for inflation. These measures would allow producers to make larger untaxed gifts and help alleviate the financial strain on family-operated farms and ranches, allowing them to remain within the family for generations.

Preserve 2032A Special Use Valuation

Another important tool for cattle producers is the 2032A Special Use Valuation for estate tax. This tool measures the value of real estate based on its current farmland value, not potential development value. The total value of the property valued under section 2032A may not be decreased from the fair market value by more than $1,310,000. 13% of NCBA survey respondents have used 2032A to protect their family operations from the estate tax. This provision should be preserved in the upcoming tax package.

Stepped-Up Basis Is Instrumental in Protecting Family Operations

One tool that is particularly important is the stepped-up basis for inherited property. 96% of NCBA survey respondents support preserving the stepped-up basis because it is a critical tool for managing tax liability and preventing a capital

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[8] *Ibid*, p. 34.
[9] Frequently asked questions on gift taxes, IRS.

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gains tax on inherited farmland and pastureland. Simply put, the stepped-up basis allows for the readjustment of the value of an appreciated asset for tax purposes upon inheritance. Generally, if the heir were to sell the asset in the future, then capital gains tax would apply to appreciation in the asset's value from the time of inheritance. The stepped-up basis relieves the tax burdens placed on families by resetting the value of the land, equipment, and livestock to the fair market value.

This is particularly important given the increased value of farmland real estate. According to USDA, "[t]he average value of U.S. cropland (irrigated and non-irrigated) was $5,460 per acre in 2023, increasing 8.1% from 2022. From 2009 to 2023, cropland value increased 107%. For U.S. pastureland, the average value in 2023 was $1,760 per acre, a $110 increase over 2022 and a 66% increase since 2009."[10] To that end, 66% of NCBA survey respondents admit that the increase in land values has affected the way they prioritize tax relief tools for succession planning.

One respondent to the tax survey shared a story about how the stepped-up basis provision was instrumental in preserving her family's farm after the loss of her husband. She said, "I lost my husband five years ago and fortunately, we were able to use the stepped-up basis to preserve our farms so our two sons could continue the farming operation with had they had grown with their dad after coming back to the farm." Stories like this demonstrate how important it is to maintain this important provision for the future of rural America.

III. Tax Tools that Spur Investment in the Rural Economy

Section 179 Deduction Encourages Investments in Depreciable Assets

Agriculture requires significant investments in machinery, equipment, and other depreciable assets and because of this, farmers and ranchers place great value on tax code provisions such as the Section 179 small business deduction. The ability to immediately expense purchases of equipment provide an incentive for farmers and ranchers to invest in their businesses.

The 2017 Tax Cuts and Jobs Act of 2017 (TCJA) raised the Section 179 deduction limit to $1 million with a total equipment purchase cap of $2.5 million. This was a significant increase from the 2017 Section 179 tax deduction that was set at a $500,000 deduction limit with a threshold of $2 million in total purchases. In 2024 tax year, the Section 179 deduction is limited to $1,220,000. The maximum deductible amount begins to decrease if more than $3,050,000 worth of property is placed in service. Once the $3.05 million limit is reached, the deduction decreases on a dollar-for-dollar basis and expires when $4.27 million worth of equipment is purchased, making it a true incentive for small and medium-sized businesses, including farms and ranches.

Section 179 has long been an important tool for farmers and ranchers. It helps them with difficult cash flow struggles, lowers their marginal effective tax rate, and eliminates burdensome recordkeeping requirements associated with depreciation. 57% of survey respondents reported using Section 179 in the past 3 years, and 45% of respondents say they would have incurred an additional tax burden exceeding $20,000 if they did not have access to this useful tool. A study conducted by Kansas State University investigated the impact of Section 179 deductions on agricultural enterprises and revealed several beneficial outcomes. The research demonstrated a positive correlation between the use of Section 179 deductions and key financial metrics such as working capital ratios, the capacity to repay capital debt, and the percentage of owner equity. The study also found that farms and ranches utilizing Section 179 deductions were significantly less likely to default on their financial obligations.[11] These findings reinforce the critical role of this tax provision in enhancing the financial stability and overall success of farms and ranches, highlighting its importance in supporting the agricultural sector.

[10] USDA – National Agricultural Statistics Service, "2023 Agricultural Land: Land Values and Cash Rents," October 2023.
[11] Hinkle, Bailey K. (2021) *The effects of Section 179 deductions and bonus depreciation on farm financial investment.*

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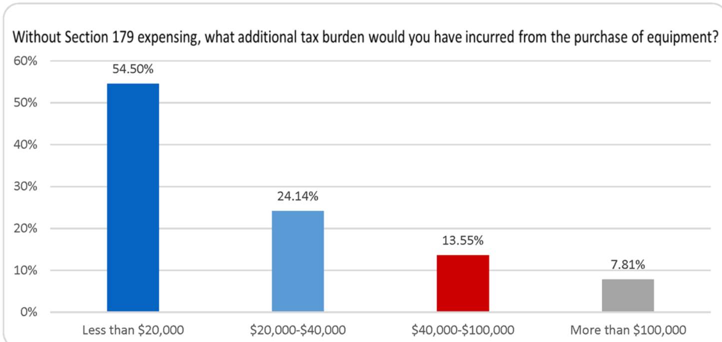

Bonus Depreciation Encourages Investment in Operations

Accelerated deductions allow producers to deduct expenses faster, reducing the tax burden and freeing up capital that allow farm businesses to grow. Bonus depreciation, also known as first-year expensing, allows a business to deduct the cost of an asset the year it is placed in service. Farmers and ranchers generally use bonus depreciation when expenditures exceed the Section 179 small business deduction limits.

These improved tax incentives allow farmers to immediately write off capital investments, such as a new combine or tractor, and keep thousands of dollars in their bottom line. In addition to equipment purchases, other eligible items may include the purchase of "off-the-shelf" computer software, and breeding livestock.

NCBA strongly supported the TCJA because it included modifications to Section 179 and Bonus Depreciation that allowed producers to maximize deductions for equipment purchases. These provisions can be used together to accelerate cost recovery, thereby reducing a farmer's taxable income. Prior to 2022, businesses were allowed to claim 100 percent depreciation in the first year, and when used in conjunction with the expanded section 179 limit, the TCJA effectively allowed for a full deduction during the year of the investment. After 2022, the percentage deduction decreased by 20 percent annually until bonus depreciation is eliminated in 2027. According to the tax survey, 44% of respondents used Bonus Depreciation within the last three years, and 31% say they would have incurred an additional tax burden of over $20,000 without it.

The Tax Foundation estimates that making 100% bonus depreciation permanent will expand long run GDP by 0.4 percent and employment by 73,000 full-time jobs.[12] It is vital to agriculture and the economy as a whole to preserve 100% bonus depreciation.

Section 199A Small Business Deduction Is Important to Family Operations

Another product of the TCJA, Section 199A Small Business Deduction allows small businesses with pass-through business income to deduct up to 20% of qualified business income deduction (QBID) from taxable ordinary income.[13]

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[12] https://taxfoundation.org/research/all/federal/permanent-100-percent-bonus-depreciation-effects/#Economic

[13] "Section 199A Deduction for Pass-Through Business Income: An Overview," Congressional research Service, March 2024.

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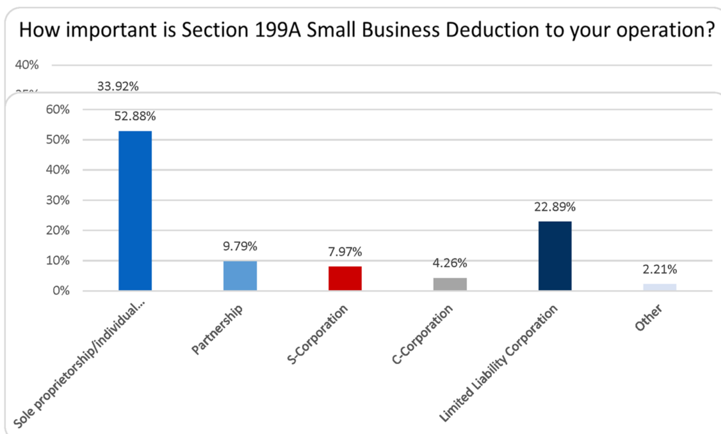
This is particularly important for farm and ranch businesses (S-corporations, partnerships, and sole proprietorships) that are not C-corporations and have income from sales through a cooperative. According to the tax survey, 53% of respondents identify as sole-proprietor / individual owner, 23% are limited liability corporations (LLC), 10% are partnerships, 8% are S-Corps, and 4% are C-Corps. This represents the diversity of production and operational structure throughout the cattle sector.

Section 199A expires at the end of 2025, and NCBA supports legislation to make it permanent. According to the tax survey, 56% of respondents consider Section 199A to be an important tool for their family business. Likewise, USDA's study showed that approximately 45% of all family farms are estimated to benefit from the QBID,[14] and elimination of QBID would increase tax liabilities for farmers and ranchers by $2.2 billion.[15]



A recent study conducted by Ernst & Young (EY) highlights the significant impact of Section 199A of the Tax Cuts and Jobs Act on the U.S. economy. According to the study, Section 199A supports approximately 2.6 million jobs and contributes $325 billion to the national economy. Notably, 38,000 of these jobs are connected to the agriculture sector, emphasizing the critical role Section 199A plays in supporting small and family-owned businesses, including farms and ranches.[16]

Another study indicates that making the benefits of Section 199A permanent could lead to substantial economic gains. If extended permanently, Section 199A could create approximately 1.2 million additional small business job equivalents each year over the first decade, with the potential to reach up to 2.4 million jobs annually in the years following.

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[14] "An Analysis of the Effect of Sunsetting Tax Provisions for Family Farm Households," by Tia McDonald and Ron Durst, USDA Economic Research Service Report No. 328, February 2024, p. 21.
[15] *Ibid*, p. 28.
16 "Economic activity supported by the Section 199A deduction," EY. August 2024.

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Additionally, a permanent extension of Section 199A could boost the U.S. GDP by $750 billion annually during the first ten years and by $150 billion annually in the subsequent years.[17]

These findings underscore the importance of providing tax incentives to small and family-owned businesses. By offering tax certainty, Section 199A enables these businesses to grow and expand, leading to significant benefits for the overall economy and creating more employment opportunities within the small business sector.

Section 199A was established to ensure that pass-through businesses could compete on an equal footing with corporations following the reduction of the corporate tax rate from 35% to 21% under the TCJA. The 20% deduction provided by Section 199A serves this purpose. However, if Section 199A were to expire, some high-earning farmers and ranchers might face the difficult choice of converting to C corporations to benefit from more favorable tax treatment even though they might have less flexibility in other areas.[18]

Agri Beef is a meat and livestock company structured as an S Corporation, and it partners with family-owned cattle operations to produce marketed brands like Snake River Farms. According to Agri Beef, if the 199A provision were to expire, their shareholders effective tax rate would increase to the top individual/trust rate of 37%.[19] This puts their business at a great disadvantage compared to larger corporations enjoying a tax rate of 21%. Some NCBA members are structured as pass through businesses, and they sell their product to processors like Agri Beef. If 199A expires, they will be negatively impacted and likely pay higher taxes.

The U.S. Economic Research Service reports that 45.3% of farm households received the qualified business income deduction between 2018 and 2021 and that if the provision expires, the average additional tax liability will be around $2,464 per household.[20] If 199A is allowed to expire and the corporate tax rate stays the same, it will effectively be a tax hike on main street and small businesses. Family farms and ranches will no longer be able to compete on a level playing field with larger corporations. These small businesses need certainty that they will have access to this deduction to confidently grow their operations.

Strengthen Supply Chains with Tax Incentives for Producer Investment in Processing Capacity

The beef processing industry has experienced periods of inadequate processing capacity in recent decades which has revealed weaknesses in the supply chain. In addition to lacking capacity, consolidation in the beef processing sector has left producers in some regions with few options to market their cattle. More small and regional beef processing facilities are needed, but the startup capital costs and risks involved with building a new facility make it difficult to do so. Tax incentives for beef cattle producer investment into building and expanding small and regional processing capacity could go a long way in addressing these current challenges. Tax incentives on the sale of existing processing equipment and infrastructure to beef cattle producers would also bolster beef processing capacity.

Greater local processing capacity would give producers more options to sell their cattle, meet market demands, and achieve higher profitability. Investing in beef processing infrastructure will strengthen the supply chain and ensure that beef production remains a robust and sustainable component of our agricultural sector. We urge Congress to consider these incentives as a strategic investment in the future of beef production, rural communities, and strengthening the food supply chain.

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17 "Macroeconomic impacts of permanently extending the Section 199A deduction on small businesses," EY, September 2024.
18 "How Many Will Switch to a C Corporation in 2026?" by Paul Neiffer, CPA Report, 2024.
19 "Comments regarding tax provisions from the Tax Cuts and Jobs Act," Agri Beef, August 20, 2024.
20 "Farm Households Face Larger Tax Liabilities When Provisions of the Tax Cuts and Jobs Act of 2017 Expire," by Tia M. McDonald and Ron Durst, U.S. Economic Research Service, March 2024.

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IV. Taxable Income Challenges for Cattle Producers

NCBA supports lowering the rate of income tax on individuals and entities, and we are also seeking relief from the Alternative Minimum Tax (AMT), Social Security Tax, and Capital Gains Tax – each of which places an additional burden on family-owned cattle operations.

Cattle Producers Need Relief from the Alternative Minimum Tax

According to USDA, "[t]he TCJA included provisions that significantly reduced the impact of the AMT. These provisions included an increase in the AMT exemption amount and an increase in the income threshold where the exemption begins to phase out. The TCJA also repealed or scaled back some of the largest AMT preference items, including personal exemptions and State and local tax deductions. As a result, the share of farmers affected by the AMT has dropped substantially. Regarding the impact of sunsetting AMT parameters for farm households, 2021 tax liabilities are estimated to revert the AMT exemption and income thresholds back to 2017 levels, adjusted for inflation. The AMT increases tax liabilities for some high-income households. The expiring AMT provisions would likely increase both the amount of AMT tax liability and the share of households that pay the AMT. The results of the tax simulation show an increase in the share of farm households that owe AMT from 0.1 percent to 4.7 percent. The majority of the impact is concentrated among larger farm households. For large farm households, the percent that are subject to the AMT increases from less than 1.9 percent to 37.1 percent. For very large farm households, the percent that are subject to the AMT increases from 14.3 percent to 30.8 percent."[21] While the relief in the 2017 TCJA was helpful, NCBA continues to support the abolition of the Alternative Minimum Tax.

Cattle Producers Need Relief from Capital Gains Tax

In general, cattle producers are asset-rich and cash poor, and their land is usually their most valuable asset. When the time comes to pass their assets to the next generation, one must consider the impact of the capital gains tax. "Capital gain subject to tax arises when an asset is sold. It is the difference between the basis (i.e., the acquisition price) and the sales price. If capital gains were effectively taxed at ordinary rates, real gains would be taxed in the year they accrue regardless of whether they were sold. Current practice departs from this approach. Gains are not taxed until realized, benefitting from the deferral of taxes. Gains on an asset held until death may be passed on to heirs with the tax forgiven; if the asset is then sold, the gain is sales price less market value at the time of death, a treatment referred to as a "step-up in basis."[22]

The stepped-up basis is important for cattle producers whose families have been working their land and other assets for generations with the intent that their heirs or other designated beneficiaries will carry on the business. NCBA opposes the realization of a capital gain tax at the time of transfer from a donor or from a deceased owner of an appreciated asset because the realization of capital gains tax without an actual sale would disproportionately affect agricultural producers.

Some cattle producers transfer property between generations by using installment sales that are recognized at capital gains rates. NCBA supports expanding the income thresholds at which taxable income is charged at those rates and the lowering of capital gains rates themselves.

As land is the most valuable asset, many farmers and ranchers are dependent on their land to fund their retirement. Unfortunately, the value they receive for the sale of their land can be eaten up with income taxes instead of providing them security in their retirement years. NCBA encourages Congress to allow cattle producers a one-time tax-free capital gains rollover from the sale of agricultural land and/or rights into an Individual Retirement Account (IRA), Keogh Plan, or

[21] "An Analysis of the Effect of Sunsetting Tax Provisions for Family Farm Households", by Tia M. McDonald and Ron Durst, USDA-Economic Research Service, Report No. 328, February 2024.
[22] "Capital Gains Taxes: An Overview of the Issues", Congressional Research Service, Report No. R47113, May 24, 2022.

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similar retirement account to be taxed at time of withdrawal or allow a one-time exemption from tax on the sale of certain agricultural land and/or rights. Doing so will provide cattle producers with greater security in their retirement years.

1031 Like-Kind Exchange Is Essential for Operations with Limited Cash Flow

Many times, the value of real estate is a cattle producer's greatest asset, and the sale of land can generate a hefty capital gains tax on operations that have limited cash flow. Also known as "Like-Kind-Exchange", Section 1031 of the IRS code allows a producer to defer taxes when they sell property and purchase another property of a like-kind within a short window of time, and it is an important tool in minimizing exposure to the capital gains tax. Without Section 1031 like-kind exchanges, some farmers and ranchers must incur debt to continue their farm or ranch businesses or, worse yet, delay mandatory improvements to maintain the financial viability of their farm or ranch. In fact, 18% of NCBA survey respondents have used Section 1031 Like-Kind-Exchange.

NCBA supports maintaining Section 1031 Like-Kind Exchanges for farm, ranch, or other agricultural production property. NCBA also supports amending IRS code section 1031 g (1) to provide 180 days (rather than the current 45 day limit) to identify a maximum of six replacement properties (rather than the current number of three) regardless of value, to be received in exchange as "like kind" after the date on which the taxpayer transfers the relinquished property in the exchange, and such property is received not more than 365 days (rather than the current 180 day limit) after the date on which the taxpayer transfers the property relinquished in the exchange, regardless of the taxable year in which the transfer of the relinquished property occurs. Like-Kind-Exchanges are a useful tool, but cattle producers need greater flexibility to avoid being caught in a difficult position of finding available real estate properties or property that meets the specific limitations of a Section 1245 or Section 1250 properties (barns, storage, feedlots, etc.).

Conclusion

The U.S. cattle and beef industry faces numerous challenges from Mother Nature and market forces, and through it all, resilient cattle producers remain dedicated to caring for their livestock, their land, and their families and communities. Family-owned cattle operations are a major economic driver across rural America, but they need a tax code that rewards their entrepreneurial spirit and encourages the continuation of multi-generational small businesses. These comments represent NCBA's policies and many of our priorities, and we look forward to working with you to reduce the overall tax burden on family-owned enterprises and setting the stage for another successful generation of cattle producers. Please contact Kent Bacus (kbacus@beef.org) and Kelsea Kemp (kkemp@beef.org) if you have any questions.

Sincerely,

Kent Bacus
Executive Director, Government Affairs
National Cattlemen's Beef Association

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Statement for the Record

Submitted by
The National Council of Farmer Cooperatives

To the
Committee on Ways & Means
U.S. House of Representatives

Regarding
The Need to Make Permanent the Trump Tax Cuts for Working Families

January 14, 2025

Chairman Smith, Ranking Member Neal, and members of the committee, the National Council of Farmer Cooperatives (NCFC) appreciates the opportunity to provide a statement for the record in response to the January 14, 2025, hearing entitled, "The Need to Make Permanent the Trump Tax Cuts for Working Families."

Since 1929, NCFC has been the voice of America's farmer cooperatives. Our members are regional and national farmer cooperatives, which are in turn comprised of 1,600 local farmer cooperatives across the country. NCFC members also include 26 state and regional councils of cooperatives.

Today, farmer co-ops across the country have over $300 billion in annual sales. They represent 1.8 million farmer members and provide over 200,000 jobs with a payroll of over $12 billion. Farmer co-ops are important members of their communities, doing everything from sponsoring the local Little League team to helping rebuild after natural disasters.

What is a farmer cooperative?

The simple definition of a farmer cooperative is a business owned by farmers, controlled by farmer-elected boards, and existing for the benefit of its farmer members. Yet, that single sentence does not fully capture how integral a cooperative is to its members' farming operations, which are millions of small businesses across rural America.

America's farmer-owned cooperatives provide a comprehensive array of services for their members. These diverse organizations handle, process, and market virtually every agricultural commodity. They also provide farmers with access to the infrastructure necessary to manufacture, distribute, and sell a variety of farm inputs. Additionally, they provide credit and related financial services, including export financing.

Co-ops act as bargaining agents, provide market intelligence, and help farmer members engage in value-added processing. For example, co-ops are often formed to extend the business operations of their farmer-owners into areas that would be difficult for individuals to carry out alone — activities like building and operating processing plants, establishing and marketing well-known consumer brands, and purchasing supplies in quantities large enough to obtain significant volume discounts. They provide their farmer-members with all the tools necessary to run a successful farming operation – including credit, financing, feed, seed, fertilizer, fuel, and other crop production products. They also process their patrons' commodities into consumer products (milk into butter, fruit into juice, soybeans into biodiesel, etc.).

There are different types of co-ops serving different purposes—supply co-ops, marketing co-ops, bargaining co-ops, and the farm credit system. A marketing cooperative, for example, can command a better market price for the bulk sale of all its patrons' produce than each individual farmer could command alone. A supply cooperative guarantees its members a source of needed agricultural inputs and can reduce the input costs of farm supplies for its patrons by buying or producing in bulk. In fact, farmers who belong to a supply co-op on average earn approximately $5500 more per year than those who do not.

A farmer may have 40 acres of oranges or 4,000 acres of soybeans, but as a member of a cooperative, they can accomplish things that no individual farmer could do on their own. Co-ops allow individual farmers to truly participate in the food and fiber system, all the way from the farm to retail. Some of the most innovative products and recognizable brands on grocery store shelves are co-op creations.

The benefits of farmer co-ops go well beyond the farm gate, directly supporting rural America. The profits of the co-op are returned to the farmer members, in the form of a patronage dividend, in proportion to the amount that each farmer has transacted with the cooperative. This contrasts with other forms of business, in which profits are returned in proportion to equity ownership interests.

Total profits for farmer cooperatives in 2022 were $12.5 billion; this money was either returned to farmer members or reinvested into the co-op, benefiting the co-op members, and further bolstering local communities.

Taxation of Cooperatives

A farmer co-op is a corporation subject to the corporate tax on its income. In computing its taxable income, a cooperative is allowed a deduction for amounts distributed to its members in the form of patronage. The farmer then includes this as ordinary income subject to the normal individual tax rates (i.e., the reduced rates applicable to dividends and capital gains do not apply).

Simply put, patronage income is taxed once. The income is either retained and taxed at the cooperative at regular corporate rates or is distributed to the patrons and taxed at their individual rates. This system of taxation is contained in subchapter T of the Internal Revenue Code and was first codified in 1962 to reflect the practices that had existed since the beginning of the federal income tax.

Section 199A

Section 199A was passed to put co-ops and small businesses on an even footing with big corporations which saw a significant decrease in their tax rate in 2017. The purpose of the co-op provisions contained within Section 199A(g) is to provide a replacement for prior-law Section 199 for cooperatives and their members. In enacting Section 199A(g), Congress made clear its intent that it should operate in the same manner as former Section 199.

The calculation is the same as it was under prior law Section 199 – it is 9% of the co-op's qualified production activities income (QPAI). The deduction is limited to 50% of the co-op's wages for the year and may not exceed the co-op's taxable income for the year. This is an important point, as an individual farmer may not have the wages to calculate much of a deduction. Through the co-op, they can better take advantage of the deduction.

The co-op may choose to keep all or part of the deduction at the co-op level to offset tax liabilities, or it may be passed through to their members.

Co-ops pass 95% back to farmers, who reinvest it into their operations, benefiting the economy through job creation, increased spending on ag production, and investment in rural communities. Among NCFC members alone, $2 billion was returned to farmers in 2022. Additional information by state is available on our website.

Section 199A, including provisions related to farmer co-ops, expires at the end of 2025. The reduced corporate tax rate reduction was made permanent in 2017.

The Section 199A deduction should be made permanent to keep the competitive balance between corporate and noncorporate businesses. We are asking Congress to save the Section 199A deduction because America's farm families are counting on it.

Again, thank you for this opportunity to provide a statement for the record. We stand ready to serve as a resource to you as the tax debate gets underway and are available to answer any questions.

NATIONAL MULTIFAMILY HOUSING COUNCIL

NATIONAL APARTMENT ASSOCIATION

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 offer the multifamily housing industry's perspectives to the House Ways and Means Committee for its January 14, 2025, hearing on the need to make permanent the Trump tax cuts for working families. 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 exemption should be made permanent. At the same time, we encourage Congress to use 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 studies *TCJA's* efficacy, 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 40.3 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]

The Housing Imperative

Challenges 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 challenge. 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, high construction costs, and regulatory burdens all make it difficult, if not impossible, for developers to help remedy this problem.

Affordability has been a longstanding problem in housing. In 1985, 28.0 percent of all households were cost-burdened (paying over 30 percent of their income on housing), while 12.1 percent had severe cost-burdens (paying over half of their income on housing). Over thirty years later, these shares of cost-burdened and severely cost-burdened households increased to 37.3 percent and 19.1 percent, respectively.[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.

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[1] Based in Washington, D.C., NMHC is where rental housers and suppliers come together to help meet America's housing needs by creating inclusive and resilient communities where people build their lives. We bring together the owners, managers, developers and suppliers who provide rental homes for 40 million Americans from every walk of life—including seniors, teachers, firefighters, healthcare workers, families with children and many others. NMHC provides a forum for leadership and advocacy that promotes thriving rental housing communities for all.

[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 95,000 members representing more than 12.5 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] 2023 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.

[5] NMHC tabulations of 1985 American Housing Survey microdata, U.S. Census Bureau; 2023 American Housing Survey, U.S. Census Bureau.

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. While we are at historic levels of apartment completions, they are a short-term fix for a long-term problem unless sustained over a longer period. 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.
- **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: Enact and Enhance Tax Policy that Promotes Housing Supply

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 it will take a variety of tax and non-tax approaches to increase supply, tax policy continues to 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 individual tax rates, the 20-percent qualified business income deduction (Section 199A), and the expanded estate-tax exemption.

- Use 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; and
  - 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 2025 tax legislation that would disrupt capital flows to the multifamily industry and make it more costly to develop, preserve, and operate housing units. These include:

  - Eliminating deferral of taxable gain from like-kind exchanges;
  - Taxing carried interest as ordinary income;
  - Imposing the net investment income tax (NIIT) on active income while potentially increasing the NIIT rate;

- Requiring 100-percent recapture of depreciation deductions as ordinary income for real estate; and
- Restricting the deductibility of state taxes by pass-through entities.

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), rather than 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. Finally, 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. These entities are subject to 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 retirement accounts generally and non-profit organizations, are exempt from taxes on those dividends.[6]

In 2017, as part of *TCJA*, Congress lowered taxes on pass-through entities and REITs through 2025 by:

- Reducing marginal individual 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 (commonly referred to as Section 199A), 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 individual tax rate reductions and the 20-percent Section 199A 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) introduced in the 118th Congress that would make permanent the 20-percent qualified business income deduction. Introduced by Representative Smucker and Senator Daines, this legislation had 194 House cosponsors and 34 Senate cosponsors.

Furthermore, on September 9, 2024, the S Corporation Association released an EY study highlighting the millions of jobs and economic activity that will be at risk if the 20-percent qualified business income tax deduction is allowed to expire as scheduled at the end of 2025. Specifically, the EY study finds that "the

[6] 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, https://www.taxnotes.com/featured-analysis/whos-left-tax-grappling-dwindling-shareholder-tax-base/2024/03/29/7j9cr.

total U.S. economic activity supported by the Section 199A deduction in 2024 is estimated to be 2.6 million workers earning $161 billion and generating $325 billion of GDP."[7] While these numbers include the impact of related supplier activity and consumer spending, EY finds that the 199A deduction directly supports 1.1 million workers at pass-through businesses who are estimated to earn $65 billion in employee compensation and generate $132 billion of GDP.

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 while retaining a top tax rate of 40 percent and stepped-up basis rules. As many apartment executives plan for the continuity of the housing properties in the hands of their heirs, today's estate tax rules provide clarity and consistency in the tax code, but only through 2025. The apartment industry supports making permanent the estate tax rules enacted in 2017.

Allowing the estate tax exemption to be cut in half beginning in 2026 would expose many more taxpayers to the levy, making it more difficult to transfer businesses to future generations and forcing taxpayers to engage in costly planning that diverts capital from their businesses.

HOUSING AFFORDABILITY TAX INCENTIVES

As mentioned above, housing tax policy can play a key role in spurring housing supply. Accordingly, a 2025 tax bill presents a critical opportunity to enact 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 2023, the LIHTC program – according to the A Call To Invest in Our Neighborhoods (ACTION) Campaign – has developed or preserved 4 million apartments, served 9.28 million low-income households, supported 6.6 million jobs for one year, generated $268.1 billion in tax revenue, and produced $746.5 billion in wages and income.[8] The LIHTC program provides critical support to the nation's affordable housing production but could be improved to have an even greater impact.

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[7] EY, *Economic activity supported by the Section 199A deduction*, August 2024, pg. i, https://s-corp.org/wp-content/uploads/2024/09/EY-SCA-Economic-activity-supported-by-Section-199A-deduction-August-2024-FINAL.pdf

[8] https://rentalhousingaction.org/wp-content/uploads/2024/11/ACTION-NATIONAL-NOV-2024.pdf .

NMHC and NAA support the *Affordable Housing Credit Improvement Act of 2023* (*AHCIA*) (H.R. 3238 / S. 1557). This bipartisan bill – introduced in the 118th Congress by Representatives LaHood, DelBene, Wenstrup, Beyer, Tenney, and Panetta and Senators Cantwell, Young, Wyden, and Blackburn (with 273 cosponsors in the House and 34 cosponsors in the Senate) – would make a number of far-reaching reforms to the LIHTC. Among other provisions, the bill would make permanent the now-expired 12.5-percent increase in LIHTC allocation authority that applied between 2018 and 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 provisions in the *Affordable Housing Credit Improvement Act* concerning primary unit financing could allow up to 1.94 million additional affordable units to be financed 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]

Finally, we encourage Congress to consider increasing the private activity bond volume cap to enhance the utilization of 4-percent LIHTC. According to May 2024 data by Tiber Hudson and Novogradac, 19 states and Washington, DC, are oversubscribed for private activity bonds.[10] Authorizing these states to issue additional private activity bonds would enable the financing of additional 4-percent LIHTC projects.

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 first quarter of 2024 was $1,746, an 8.9 percent increase from the same period in 2019.[11] For a renter to afford one of those units at the 30-percent-of-income standard, the renter would need to earn at least $69,840 annually.

Furthermore, Harvard University's Joint Center for Housing for Housing Studies reported in December 2024 that "Affordability challenges have grown most rapidly for middle-income renters. Indeed, 70 percent of renters earning $30,000–44,999 had cost burdens in 2023, an increase of 1.9 percentage points in one year and 3.5 percentage points since 2019. Cost burdens among households earning $45,000–74,999 increased an even more striking 3.3 percentage points in just one year to 45 percent, up 7.7 percentage points from before the pandemic."[12]

Accordingly, affordable housing 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 housing costs. Tax policies to spur the production of multifamily housing targeted to middle-income Americans should be part of any legislation that seeks to address housing affordability on a comprehensive basis.

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[9] https://www.novoco.com/notes-from-novogradac/lihtc-pab-provisions-newly-reintroduced-ahcia-could-result-nearly-2-million-additional-affordable.

[10] Novogradac, Michael J., Testimony before the Senate Committee on Finance, *Tax Tools for Local Economic Development*, July 30, 2024, pg. 28 https://www.finance.senate.gov/imo/media/doc/07302024_novogradac_testimony.pdf.

[11] U.S. Census Bureau, Survey of Market Absorption, https://www.census.gov/data/developers/data-sets/soma.html.

[12] https://www.jchs.harvard.edu/blog/housing-cost-burdens-climb-record-levels-again-2023?utm_medium=email&utm_source=member_news_alerts&utm_campaign=nmhc_news&mkt_tok=Njc2LVVERC03MTQAAAGXN6rWvdn3xSwS03oZtL4wQ9DYbdKxpQYCTC-mERoIn7R5P7AnUetZHhunIETLzg_tvEhL0StARGWgTmzAY6aoGQXiXA4jZaSGTagHfpFb5Q.

We urge Congress to enact the bipartisan and bicameral *Workforce Housing Tax Credit Act* (H.R. 6686 / S. 3436), sponsored in the 118th Congress by Representatives Panetta and Carey and Senate Finance Chair Wyden and Senator Sullivan. This legislation establishes a new Workforce Housing Tax Credit (WFHTC) to produce affordable rental housing for households earning 100 percent or less of area median income (AMI).

Designed to complement the successful LIHTC, the WFHTC 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 qualifying affordable 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 have held great promise for the development of multifamily housing. In fact, Novogradac in October 2024 released data illustrating that residential investment continued to be a critical investment area for Opportunity Funds. Funds tracked by Novogradac have helped finance 192,166 housing units across the United States.[13]

Under the program, state governors have designated over 8,700 qualified low-income census tracts nationwide as Opportunity Zones, which 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 on 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. 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 5-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 shortly after the enactment of *TCJA*.

Opportunity Zones can be a helpful tool to incentivize housing production and, thereby, assist in addressing the nation's housing affordability crisis. However, to maximize the full 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

[13] https://www.novoco.com/notes-from-novogradac/qof-fundraising-sees-largest-quarterly-jump-since-early-2023-total-nears-40-billion.

- Establish new investment deadlines so that taxpayers are incentivized to receive both a longer deferral period and the potential for the 10-percent or 15-percent basis increase with respect to reinvested capital gains.

Introduced in the 118th Congress by Representatives Kelly, Kildee, Miller, and Sewell, the *Opportunity Zones Transparency, Extension, and Improvement Act* (H.R. 5761) includes provisions consistent with these priorities.

While Opportunity Zones are beneficial for new multifamily development, developers may find it difficult to 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 the value of any 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 developers are considering turning unused and underutilized commercial real estate, 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 and economic growth.

Notably, a February 2023[14] 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 efforts to catalyze office-to-residential conversions.[15]

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, in the 118th Congress, Representatives Carey and Gomez and Senators Stabenow, Brown, Peters, and Padilla introduced the *Revitalizing Downtowns and Main Streets Act* (H.R. 9002 / S. 4693) that would establish a temporary and allocated 20-percent tax credit to convert commercial property into residential use. NMHC and NAA strongly support this legislation.

[14] 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.

[15] https://dmped.dc.gov/page/housing-downtown-hid-program and https://www.nyc.gov/site/planning/plans/city-of-yes/city-of-yes-housing-opportunity.page.

OPPOSE ONEROUS REVENUE RAISERS DISRUPTING CAPITAL FLOWS TO THE MULTIFAMILY INDUSTRY

We strongly support the extension of *TCJA* provisions affecting individual tax rates, the 20-percent qualified business income deduction, and the expanded estate-tax exemption, 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, including those below, that 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.

Eliminate Deferral of Taxable Gain from Like-Kind Exchanges

Ensuring the nation has sufficient housing is an important public policy goal, and one that can be pursued through housing and tax policy. A critical way that the nation's tax laws support investment in real estate is through Section 1031 like-kind exchanges. NMHC and NAA strongly believe that Congress should retain current-law like-kind exchange rules as opposed to limiting deferral from a like-kind exchange.

Appropriately retained for real property as part of the *TCJA*, the like-kind exchange rules encourage investors to remain invested in real estate by allowing property owners to defer tax on capital gains if, instead of selling their property, they exchange it for another comparable property. As long as the taxpayer remains invested in real estate, tax on any gain is deferred. When the taxpayer ultimately does sell the asset, the tax relating to the gain on the property is due.

Like-kind exchange rules play a crucial role in supporting the multifamily sector by encouraging investors to remain invested in real estate while still allowing them to balance their investments to shift resources to more productive properties, change geographic location, or diversify or consolidate holdings.

In addition, without like-kind exchanges, property owners would be deterred for tax reasons from selling assets that need capital investment. Exchange rules allow those owners to transfer the property to new owners who can invest the necessary capital to revitalize the asset. Thus, like-kind exchange rules facilitate job-creating property upgrades and improvements.

Like-Kind Exchange Example: Taxpayer A owns a 10-unit multifamily property worth $2 million. Her tax basis, or current investment interest, in the property is $1 million, leaving a $1 million taxable gain if she were to sell it. Taxpayer A wants to sell this property and use the proceeds to help purchase a $3 million, 15-unit apartment building. If she were to sell the first building and buy the second, she would have to pay tax on the $1 million gain, which at a minimum would reduce the capital available to invest in the new property and may otherwise discourage her from pursuing the transaction.

With a like-kind exchange, she can exchange the assets and defer capital gains. In this transaction, she exchanges her property for the new one (with a loan to account for the remaining $1 million purchase price), and her tax basis in the new property increases to $2 million. The $1 million in capital gain from the sale of the 10-unit property is deferred until she sells the new asset. A like-kind exchange allows her to continue investing in job-creating real estate instead of being forced to hold properties solely for tax considerations.

Tax Carried Interest as Ordinary Income

Some have proposed to tax carried interest at ordinary income rates, regardless of how long an asset is held, instead of at long-term capital gains tax rates. Such a change would adversely affect not only the apartment industry, but also the entire real-estate industry, given that 49.6 percent of all partnerships are real-estate related.[16]

NMHC and NAA believe that carried interest should be treated as a long-term capital gain if the underlying asset is held for at least one year. The multifamily industry strongly opposed the extension of the holding period to three years, which was included in *TCJA,* but we note that final regulations released in January 2021 exclude Section 1231 gains (which generally relate to gains from property used in a trade or business, including real estate) from the extended holding period.

Carried interest should receive capital gains tax treatment because it represents a return on an underlying, long-term capital asset, as well as risk and entrepreneurial activity. This is in contrast to any fees that managing partners receive in payment for operations and management activities, which are taxed as ordinary income.

Real-estate development carries considerable financial risks. In fact, one in 10 multifamily projects never breaks ground. Because of the risks involved, many real-estate partnerships use "carried interest" to encourage innovation and entrepreneurship.

Also called a "promote," carried interest has been a fundamental part of real-estate investment partnerships for decades. Managing partners receive a carried interest, or a share of profits once an asset is sold, in recognition of both the value they bring to the venture and the risks they take. In addition to their management expertise, managing partners often make initial capital contributions to the venture and assume responsibility for recourse debt, litigation risks and cost overruns, among other risks.

A higher tax rate on carried interest will discourage real-estate partnerships from investing in new construction at a time when demand for apartments continues to grow and chronic underbuilding has limited new housing supply. In fact, as noted above, research commissioned by NMHC and NAA shows that the nation will need to build 4.3 million new apartment homes by 2035.

Impose the Net Investment Income Tax (NIIT) on Active Income while Potentially Increasing the NIIT Rate

One revenue raiser some have explored would expand the net investment income tax (NIIT) to encompass active business income as well as potentially increase the NIIT rate. This counterproductive proposal would impose a significant tax increase on the multifamily industry and both reduce capital available to address the nation's housing supply shortage and leave far less operating capital for existing real estate.

Under current law, the 3.8-percent NIIT applies to certain types of passive income (e.g., interest, capital gains, dividends, annuities, royalties, and rents) for single taxpayers earning over $200,000 in modified adjusted gross income and married filers earning over $250,000 in modified adjusted gross income. Taxpayers facing the NITT are subject to a 3.8-percent tax rate increase on top of applicable marginal income tax or long-term capital gains rates depending on the type of passive income earned.

One proposal would impose the NIIT on interest, capital gains, dividends, annuities, royalties, and rents earned in the ordinary course of a trade or business. Additionally, some could seek to increase today's 3.8 percent NITT rate. The result of this type of tax increase is that affected owners and developers of multifamily real estate who are actively involved in operating their enterprises would see increased tax

[16] Internal Revenue Service, SOI Tax Stats – Partnership Statistics by Sector or Industry, All Partnerships, Table 1: All Partnerships: Total Assets, Trade or Business Income and Deductions, Portfolio Income, Rental Income, and Total Net Income (Loss), by Industrial Group, 2021.

rates of 3.8 percent on income directly attributable to their businesses. Put simply, higher taxes mean fewer dollars to build new units and preserve our existing housing stock.

Require 100 Percent Recapture of Depreciation Deductions as Ordinary Income for Real Estate

Under current law, depreciation deductions are "recaptured" when real-estate assets are sold, with recapture amounts taxed at a 25-percent rate. NMHC and NAA believe Congress should retain this rate as opposed to taxing depreciation recapture at ordinary income tax rates.

After decades of operations, many multifamily owners have a very low tax basis in their properties. If they were to sell them, even under current law they would have significant depreciation recapture tax liabilities. To avoid such tax bills many current owners not only avoid selling their properties, but they are also reluctant to make additional capital investments in properties with little value. The result is deteriorating properties that are lost as safe, affordable housing. Any proposal to increase depreciation recapture taxes would only worsen the problem.

Restrict the Deductibility of State Taxes by Pass-Through Entities

Following *TCJA*, many states enacted policies allowing pass-through entities to remit state taxes at the entity level, which effectively allowed them to deduct such taxes at the Federal level without regard to the $10,000 cap applicable to individual taxpayers. This is consistent with how corporations are able to treat their state taxes and should not be modified. Denying or limiting such deductions would impair capital availability and put pass-through entities at a disadvantage relative to major corporations.

Conclusion

NMHC and NAA appreciate the opportunity to provide members of the House Ways and Means Committee our views on the state of the multifamily housing industry and the various proposals to improve it, as well as proposals that would be detrimental to solving the nation's affordable-housing situation. Here 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 course of action. 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 as well as 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 40 million Americans we serve, we applaud the House Ways and Means Committee for examining the efficacy of *TCJA* and exploring options for improving upon that important legislation. We look forward to working with Congress to ensure tax policy promotes solutions to address the nation's most significant housing challenges.

POLICY AND TAXATION GROUP

National Voice for Family Offices and Successful Individuals

Policy and Taxation Group Statement for the Record at a Hearing before the House Committee on Ways and Means on "The Need to Make Permanent the Trump Tax Cuts for Working Families."

January 14, 2025

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

I am pleased to submit this statement for the record on behalf of Policy and Taxation Group and over 100,000 family business members from across the United States. Policy and Taxation Group is a nonprofit organization dedicated to promoting multi-generational family-owned businesses of all sizes, professions, and industries through advocacy efforts in Washington, D.C. We thank the Committee on Ways and Means for holding this important and timely hearing on the need to extend and make permanent key provisions of the *Tax Cuts and Jobs Act* (TCJA), the majority of which support our nation's family-owned businesses.

Family-owned businesses are the foundation of our national economy and local communities. According to research on the economic impact of family-owned businesses, America's multi-generational family-owned businesses contribute approximately $7.7 trillion annually to the U.S. gross domestic product (GDP) across numerous industries, including manufacturing, construction, and retail. Family businesses are also the largest private employers in the country, accounting for 83.3 million jobs, or 59 percent of the country's private workforce. In their communities, family-owned businesses serve as stable, long-term sources of well-paying jobs, and contribute generously to local philanthropic and educational efforts.

Today, approximately 80 percent of family-owned businesses in the United States operate as pass-through entities. As a result, nearly all successful individuals and entrepreneurs who operate family-owned businesses are affected by expiring or expired individual and business provisions from the TCJA that are the focus of today's hearing. Family businesses, and their millions of working family owners and operators, require long-term consistency and certainty in federal tax policy to make business decisions and to continue making investments in their businesses, employees, and communities. Research conducted by our sister organization, Family Enterprise USA, shows that successful individuals and entrepreneurs regularly cite inconsistency in the federal tax code as the most frustrating aspect of federal tax policies. Thus, the potential failure to extend key provisions of the TCJA are already creating uncertainty, increasing compliance costs, and disrupting long-term business planning, all of which negatively affect business decision making, jobs, and our national economy.

As the Committee and Congress consider how to address expiring provisions from the TCJA and other tax policy priorities in 2025, Policy and Taxation Group urges Congress to ensure that the resulting legislation promotes long-term business growth and investment, including through extension of the TCJA provisions that support our nation's successful individuals and entrepreneurs who build family businesses across the nation. Policy and Taxation Group has identified the following tax and economic policies as priorities for family-owned businesses in forthcoming tax legislation:

- Maintaining the current individual income tax rates and brackets;
- Lowering the estate tax rate and maintaining the increased lifetime exemption;
- Making permanent the section 199A pass-through deduction;
- Restoring full deductibility of R&D expenses;
- Preserving the capital gains tax rates;
- Restoring 100-percent bonus depreciation; and
- Prevention of a wealth tax.

We thank the Committee for holding this important hearing to evaluate the future of federal tax policy and for allowing family-owned businesses to share their perspective on these critically important tax policies. Policy and Taxation Group stands ready to serve as a resource for the Committee and your staff as you consider the range of tax policy proposals over the coming months.

Sincerely,

Pat Soldano, President
Policy and Taxation Group

About Policy and Taxation Group

Policy and Taxation Group (PATG) is the Voice of Family Offices and Successful Individuals in Washington, D.C., focused exclusively on the Tax and Economic Issues that impact them. Since 1995, PATG has been the leading advocacy group working to reduce and eliminate estate, gift, and GST taxes while blocking increased income and capital gains taxes, the creation of a wealth tax, and other hostile tax policies that punish hard work and success. PATG is a 501(c)(4) organization comprised of families directly or indirectly impacted by these harmful taxes and regulations. For more information or to support, see www.policyandtaxationgroup.com.

RATE
COALITION

January 14, 2025

The Honorable Jason Smith
United States House of Representatives
House Committee on Ways and Means
1011 Longworth House Office Building
Washington, DC 20515

The Honorable Richard Neal
United States House of Representatives
House Committee on Ways and Means
372 Cannon House Office Building
Washington, DC 20515

Dear Chairman Smith and Ranking Member Neal:

On behalf of the 55 million working people across all fifty states employed by our member companies and affiliates, the RATE Coalition stands ready to work with you and the House Committee on Ways and Means to preserve and extend the Tax Cuts and Jobs Act and to maintain a competitive corporate tax rate.

Since our founding in 2011, RATE has advocated for pro-growth tax policies that have produced a globally competitive corporate tax rate, increased economic growth and investment, and benefited working families and American businesses large and small.

The 2017 tax cuts passed by Congress and signed into law by President Trump have been enormously successful in increasing investment, wages, and jobs in America. The corporate rate was reduced from the highest rate in the world to a much more competitive rate of 21%. The 21% rate has increased U.S. competitiveness, brought investment and jobs back to the U.S., and led to record high corporate tax receipts. Since the rate was reduced, U.S. growth in real GDP has exceeded every other G-7 country, including France, Germany, and the United Kingdom.

In the two years after the enactment of TCJA, the U.S. economy boomed, directly benefiting working families and small businesses across the country. Economic growth surged a full percentage point higher than the previous ten-year average. Real wages increased 4.9%, the largest increase in 20 years. Real medium household income rose by $5,000, a larger increase than in the prior 8 years combined. Unemployment and poverty levels fell to the lowest levels in 50 years.

Economic studies confirm that the 2017 tax cuts, particularly the corporate tax rate reduction, increased investment, wages, and economic growth. A recent NBER study found that the corporate tax reforms increased domestic capital investment by 20% in the two years after enactment.

Information from our member companies shows that the corporate rate cut enabled them to increase investments, bring capital back to the U.S., expand their small business suppliers, improve their supply chains, increase wages and benefits, hire new workers, and significantly expand their community and charitable contributions.

The increased investment and growth from the lower corporate rate has resulted in record high levels of corporate tax revenue. In fiscal 2024, corporate tax receipts increased to $530 billion, the highest level ever. Corporate tax receipts are now 78% higher than the amount collected in 2017 before the rate cut, and 26% higher than CBO projected for 2024 after the bill was passed.

We strongly believe that maintaining a competitive corporate tax rate is essential to the continued growth of the U.S. economy. Any increase in the corporate rate would be harmful to working people, American businesses, and the U.S. economy. A higher corporate tax rate would hit American job creators large and small. One study found that more than one million small businesses would be hit by a higher corporate rate, causing a "disaster for small business."

Economic studies have found that raising the corporate tax rate is "significantly more economically harmful" than any other tax increase. Numerous studies have shown that raising the rate would have a harmful effect on working families, lowering their wages and income, increasing the prices they pay, and reducing their retirement savings. A Federal Reserve Board study found that a corporate rate increase would be "uniformly harmful" to working people, causing a "significant reduction in their jobs and income."

Increasing the corporate tax rate would put U.S. companies at a competitive disadvantage against our global competitors. In the past two decades, most of our foreign competitors have reduced their corporate tax rates, recognizing the damage high corporate rates do to their economies. Since the U.S. reduced the corporate rate to 21%, 53 countries have reduced their corporate rates to improve their ability to compete around the world.

The current combined U.S. federal-state tax rate is 25.8%, higher than the average corporate tax rate in Asia (19.7%), Europe (20.18%), and the OECD (23.85%). The U.S. rate is also higher than the 15% rate China applies to industries encouraged by the Chinese government, including high-tech and software, and businesses critical to their global supply chain. Any increase in the U.S. rate would put U.S. firms at a greater disadvantage over foreign competitors. Even a 25% rate (a combined rate of nearly 30%) would put the U.S. rate higher than nearly 90% of OECD countries and nearly 15 percentage points higher than the rate China puts on its most important business sectors.

Raising the corporate rate would also bring back tax inversions, which led to the loss of American jobs and tax revenue and devastated many American communities. In the two decades prior to the 2017 tax cuts, nearly one hundred U.S. firms moved to foreign countries to avoid the high uncompetitive U.S. tax rate. Since the rate was reduced, tax inversions have disappeared and not one company has moved overseas.

As your committee works on extending g pro-growth tax policies in the coming months, we urge you to protect the current competitive U.S. corporate rate and reject any proposal to raise the rate. Raising the rate even a few points would be a major economic mistake, hurting working people and small businesses and threatening American competitiveness and growth. We look forward to working with you on maintaining pro-growth policies that benefit working families and American businesses and increase economic growth and prosperity.

Sincerely,

The RATE Coalition

RETAIL INDUSTRY LEADERS ASSOCIATION

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Statement for the Record

Ways and Means Committee
Hearing on
"The Need to Make Permanent the Trump Tax Cuts for Working Families"
January 14, 2025

Courtney Titus Brooks
Vice President, Tax
Retail Industry Leaders Association

The Retail Industry Leaders Association (RILA) appreciates the Committee for holding this hearing to consider the 2025 tax debate, and RILA welcomes the opportunity to weigh in on the importance of maintaining a tax code that works for American families and businesses.

The landmark Tax Cuts and Jobs Act (TCJA) delivered substantial tax policy reforms, which created an environment to foster investment, job creation, and higher wages. As Congress discusses and prepares to extend the TCJA, RILA strongly encourages Congress to preserve one of the TCJA's signature achievements, the 21 percent corporate tax rate. For leading retailers specifically, lowering the corporate rate bolstered their ability to invest more in employees and the communities they serve.

Retail: Job Creators for Working Families and Small Businesses

RILA members include more than 200 leading retailers, product manufacturers, and service suppliers, which account for $2.7 trillion in annual sales, millions of American jobs, and hundreds of thousands of stores, manufacturing facilities, and distribution centers. RILA members are in every community across the United States providing jobs and supporting working families. Simply put, RILA members represent the economic sector most closely connected to the daily lives of American families.

Leading retailers know that retail is for everyone; it is the place for a first job, a second chance, a third act, or a side hustle – the retail workforce is truly representative of the American workforce. Retailers also partner with thousands of small businesses within every community. Retailers rely on small business vendors, such as plumbers, electricians, landscapers, roofers, refrigeration, and HVAC systems to keep stores open and operating. Additionally, the retail industry supports millions of jobs in manufacturing, finance, insurance, real estate, transportation, warehousing, and the services industries. It is no wonder why the retail industry is America's largest private sector employer, supporting 52 million people.

Retail: Stewards of Local Communities

Beyond investing in their workforce, RILA members also invest in their communities – they serve a central role as partners in neighborhoods across the country. They give billions of dollars annually to tens of thousands of local and national charities; hire American veterans; sponsor local sports and recreation teams; provide tangible goods donations to schools and homeless shelters; support community workforce development and training programs; and often provide shelter during storms and help communities rebuild. Further, brick-and-mortar retailers provide a significant tax base for core local and state services such as police, fire and rescue, and schools.

Retail: Full Rate Taxpayers

Though retailers are a quintessential part of each American community – most brick-and-mortar retailers' operating model and footprint cannot take advantage of tax deductions and credits available to other corporations. That means when state and local taxes are included, leading retailers may have an effective tax rate of over 25 percent, making it the highest effective tax rate of any industry.

The current 21 percent rate encourages continued investing in communities by maintaining and opening new stores and distribution centers, providing new jobs and expanded benefits to working families, and creating new opportunities for small businesses. Should the corporate rate increase, the current level of these benefits will be put at risk.

As Congress considers how to extend the expiring TCJA provisions, RILA strongly urges Congress to keep the 21 percent corporate rate so retailers can continue to invest in their people, communities, and innovations to keep the business respondent to the ever-changing needs of consumers. RILA looks forward to working with the Ways and Means Committee to highlight the importance of a competitive corporate rate.

Sincerely,

Courtney Titus Brooks
Vice President, Tax

Letter for the Record: "The Need to Make Permanent the Trump Tax Cuts for Working Families"

January 14, 2025

The Honorable Jason Smith
Chairman
Ways and Means Committee
United States House of Representatives
Washington, D.C. 20515

The Honorable Richard E. Neal
Ranking Member
Ways and Means Committee
United States House of Representatives
Washington, D.C. 20515

Dear Chairman Smith and Ranking Member Neal:

Tax relief provided by the Tax Cuts and Jobs Act (TCJA) of 2017 has been critical to the survival and success of small business owners. The relief and support were especially crucial during the unforeseen challenges associated with the pandemic period, where government shutdowns were followed by supply chain disruptions and inflationary pressures. The resources provided by the TCJA have been a means by which small business owners have been able to more effectively reward and take care of their employees – many of which are heads-of-households or members of working families. By making the Trump Tax Cuts permanent, our nation's small businesses will be strengthened and more competitive, which means their current and future employees will earn more, receive better benefits, and be more financially secure for the long term.

The Small Business & Entrepreneurship Council (SBE Council) supported TCJA's passage and has voiced strong support for making the lower rates and relief permanent. SBE Council is an advocacy, research, and education organization that works to advance policies and initiatives that encourage startup activity and small business growth. Our network of more than 100,000 member supporters, including entrepreneurs and small business owners, state and local business organizations, corporate partners and associations, work with us to strengthen the environment for entrepreneurship, investment, and innovation. Since our founding in 1994, SBE Council has helped to strengthen the ecosystem for small business and entrepreneurial success in the U.S. and across the world. A friendly tax system that is not too taxing or overly complex for startups and small business is vital to entrepreneurial growth and success.

Small business owners continue to tell us that policy stability is critical to building their businesses, and in providing secure and financially rewarding employment in their communities and for their workforce. "Certainty" with respect to permanency is vital to entrepreneurs since they need to know what financial resources they can plan for as they develop mid to long-term strategies for growth – the capital they will need for key investments, overhead and operations, human capital, and whether they will be in a position to compete. That is why making TCJA provisions permanent is important. Fluctuation in policy drives uncertainty and given that taxes and tax compliance **impose disproportionate** burdens on small-firm competitiveness and survival (if the tax system is too cumbersome or taxes too high) our nation's job creators and innovators require as much certainty as possible to not only survive, but to plan for growth and thrive.

Small businesses employ 59 million workers (45.9% of private sector employees), according to the **Office of Advocacy's latest FAQ's** on small business (July 2024). Small firms have been responsible for the creation of 20.2 million net new jobs since 1995, which account for 61.1% of net new job creation. The U.S economy counts on entrepreneurs to generate new jobs, and access to capital and financial resources is critical to that end. The TCJA's various provisions – the 20% small business provision (Sec 199A), expensing incentives, lower individual tax rates, higher death tax exemptions, the lower corporate tax rate, and various other measures – have played an important role in helping small business owners invest in their businesses. That means investing in human capital – creating new jobs, providing higher wages, and strengthening benefits for their employees.

Small business owners routinely reinvest profits back into growing their businesses and supporting their workforce. That is exactly what they did with "new" capital (their resources) that was made available through the TCJA. Permanency will keep the positive cycle of reinvestment going for the long-term. Workers and working families benefit from this certainty. Financial stability for small businesses means financial stability for workers and working families.

According to a November 2024 SBE Council **Small Business Check Up Survey**, 85% of small business owners reported varying level of benefits from the TCJA. Of the nearly 50% of small business owners who reported using the 20% small business deduction in our August 2024 **Small Business Check Up Survey** (as a reminder not all businesses are eligible to use the deduction, and a cohort of respondents were structured as C-corps that benefited from the lower corporate tax rate), **75% noted that they allocated the tax savings to human capital needs – either boosting the salaries and benefits of existing employees or hiring new staff**.

Many small business owners who responded to our August 2024 survey commented that these resources provided significant relief to support employees and local job-seekers:

● *The 20% deduction saved my business a significant amount. This money was used primarily for employee bonuses.*

● *The 20% deduction allows me to pay my employees more, provide better benefits, and expand my business.*

● *This has enabled us to invest in growth initiatives, such as hiring new employees, expanding our marketing efforts, and upgrading our technology infrastructure.*

● *The deduction has greatly increased our company's cash flow and allowed us to invest in personnel and technology.*

● *Because of the crucial savings, the 20% small business deduction has given us, we are able to provide competitive pay and benefits, and its expiration will make it more difficult for us to draw in and keep top people.*

● *It allows us to have more capital to expand business, hire more people, pay our employees more, etc.*

● *The 20% deduction resulted in a reduction in our taxable income, enabling us to reinvest those savings into the hiring of new employees and the expansion of our operation.*

● *This deduction is critical for continuing my company. I put it right back into the company.*

Small business owners also commented on how expiration of the 20% small business deduction would impact their firms:

● *It makes room to invest in more products for our business and pay the employees better. Letting it expire will drastically take money out of the working man's pocket.*

● *The deductions have allowed us to grow sustainably, but with them expiring, we could see a slowdown in growth. We may have to cut jobs.*

● *I would have to trim my staff and raise prices even higher*

● *The impact if it expires would be immense.*

● *We will have to spend less on expanding our business and hiring needs.*

● *Allowing the 20% small business deduction to expire would drastically limit our financial flexibility, impeding growth and competition.*

● *It helped put more money in my employee's pockets. It [expiration] will be taking money out of their pockets.*

● *I was able to expand my business and increase wages and benefits, so when the 20% expires, I hope I don't need to cut them.*

● *If they allow the act to expire, it will significantly increase our tax burden, which will then freeze any raises or bonuses for employees.*

● *Should it expire, it will possibly force my business to close*.

Permanency will help to fuel this virtuous cycle of small business growth and human capital investment. As these small businesses grow and scale, they create vibrancy in local communities and competitive choices for consumers. A competitive economy requires ample capital to fuel small business growth, where hopefully once small firms grow into mid-size and large firms, which benefits regional economies and U.S. competitiveness. Most small businesses need time to grow, therefore certainty with regard to knowing their tax liabilities and the resources they will have available makes it much easier to plan for growth.

This certainty extends to the other critical provisions within the TCJA – from business expensing to lower individual rates, the higher death tax exemption, and more. The long-term survival and "thrival" of small, family-owned businesses means local communities, workers, and working families are more economically stable. That stability allows workers and working families to build wealth. Local tax bases are also more stable.

The vast majority of small business owners consider themselves "working families." They toil around the clock to build and sustain their businesses and support local community organizations, religious institutions, clubs, sports leagues and more. Beyond provisions in the TCJA that relate to small businesses and business owners, all the individual pieces of the TCJA are vital to stability and the financial security of working families and the vibrancy of local economies.

That is why SBE Council strongly supported the TCJA in full – including the reductions of individual tax rates, an increase in the maximum value of the child tax credit, and the near doubling of the standard deduction – both the business and individual provisions have proven to be vital to the resiliency of U.S. businesses and working families.

However, both are under stress. For the two years or more SBE Council surveys have revealed that inflationary pressures, economic instability, and concerns about the potential of a recession have been weighing on the minds of small business owners. While the start of a new Administration is boosting confidence, lingering stress points remain given the uncertainty of expiring tax provisions. It's time to lift that uncertainty and make the Trump Tax Cuts permanent.

Tax relief and incentives provided by the Trump Tax Cuts were critical in providing financial support to small businesses when they needed it most, which benefited working families and local economies. Looking forward, policies must enable an environment that allows entrepreneurs to move beyond the tepid growth and survival mentality of the last four years to one that encourages confident risk-taking, investment, and innovative growth. Securing long-term, permanent tax relief will help to promote that enabling environment.

SBE Council appreciates the opportunity to submit our views for the committee hearing record. Please contact me if you have questions. We look forward to supporting the committee by making the Trump Tax Cuts permanent.

Sincerely,

Karen Kerrigan
President & CEO

Protecting Small Business, Promoting Entrepreneurship

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DEMOCRATS ABROAD

January 27, 2025

The Honorable Jason Smith
Chairman - Ways and Means Committee
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Richard Neal
Ranking Member - Ways and Means Committee
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

RE: January 14, 2025 Hearing entitled, "The Need to Make Permanent the Trump Tax Cuts for Working Families"

Dear Chairman Smith and Ranking Member Neal:

Democrats Abroad is the official arm of the Democratic Party engaging with the millions of Americans living outside the United States. Democrats Abroad has country committees – throughout Europe, the Americas, the Middle East, Africa, and Asia – that keep Americans abroad informed of their rights and help them participate in the U.S. political process.

Estimates of the number of U.S. citizens living abroad – constituents in all congressional districts – range between five and nine million.[1] Americans abroad are not a uniform group, and include both active military and veterans; individuals living abroad for work, school or family reasons; retirees; small business owners; etc. Contrary to what is sometimes assumed, very few of them are high-net-worth individuals: 80% of tax returns coming from overseas in 2021 had an Adjusted Gross Income of $100,000 or less.

An important part of our work as Democrats Abroad is non-partisan advocacy for fair and proportionate application of tax rules applying to Americans living abroad, since these rules apply equally to all Americans abroad.

Regarding the Tax Cuts and Jobs Act 2.0, the two main challenges affecting American taxpayers abroad that we would like to see addressed are residency-based taxation for Americans abroad and eliminating the GILTI tax for American owned small- and medium-size businesses abroad:

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[1] The Federal Voter Assistance Program estimated 4.8 million in 2018 https://www.fvap.gov/info/interactive-data-center/overseas while the State Department estimated 9 million in 2019 https://travel.state.gov/content/dam/travel/CA-By-the-Number-2020.pdf

Regarding residency-based taxation (RBT) for Americans abroad:

- The U.S. is the only country in the world that applies citizenship-based taxation.
- This means in practice that Americans abroad file taxes both in their country of residence and in the U.S., with the result that they are often confronted with conflicting tax rules and consequences of those rules. This makes tax planning exceptionally difficult and also results in paying very high fees to get the specialist advice they need because of this complex situation.
- Because of these conflicting tax rules, many Americans abroad are unable to save in their country of residence for retirement because the U.S. does not clearly recognize the tax-exempt status of their local retirement accounts. Or they are unable to build savings in the country where they reside through investments, such as mutual funds and ETFs, because the U.S. punitively taxes these investments.
- To address this, we support residence-based taxation for Americans abroad, which would allow them to elect to be treated as non-residents for tax purposes but continue to be taxed in the U.S. on U.S.-sourced income. These and other provisions are part of H.R. 10468, the Residence-Based Taxation for Americans Abroad Act, introduced in the 118th Congress. We urge you to consider including the bill's provisions in any new tax legislation this year.

The effect of the TCJA's GILTI tax provisions on American small-business owners abroad also requires urgent attention:

- The TCJA's provisions taxing global intangible low-tax income, also known as GILTI, are designed to prevent large U.S. corporations from dodging U.S. taxes by moving intangible assets, like intellectual property, to foreign tax entities with low corporate tax rates.
- Unfortunately, these rules are having a devastating effect on American-owned small businesses abroad.
- We advocate for the establishment of a threshold for GILTI reporting that would exempt small businesses abroad operated by U.S. citizens..

Residency-based taxation and the GILTI tax are two priority areas where we ask you to act to ensure that Americans abroad are treated fairly. In both cases, we urge you to address the far-reaching unintentional negative effects of current U.S. tax legislation for the millions of Americans abroad, and to remember them while drafting the new tax package this year, in order to avoid additional unintended negative consequences.

Sincerely,

Martha McDevitt-Pugh
International Chair
Democrats Abroad
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Rebecca Lammers
Chair, Taxation Task Force
Democrats Abroad
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MomsRising TOGETHER

January 13, 2025

The Honorable Jason Smith
Chairman
House Ways and Means Committee

The Honorable Richard Neal
Ranking Member
House Ways and Means Committee

Dear Chair Smith and Ranking Member Neal,

MomsRising submits the following statement for the record as part of the House Committee on Ways and Means Hearing on "The Need to Make Permanent the Trump Tax Cuts for Working Families" scheduled for January 14, 2025.

MomsRising is a grassroots organization with over one million members. Established in 2006, MomsRising and its members are dedicated to advocating for tax policy that requires everyone to pay their fair share. The 2017 Tax Cuts and Jobs Act does not help working families. Instead, it reduces revenue and lines the pockets of billionaires and wealthy corporations. We urge the committee to consider alternative tax proposals that require the wealthy and mega-corporations to pay their fair share in taxes, which could provide relief for families across the country while boosting revenue to fund important programs like child care, the Child Tax Credit, and paid family leave.

In the almost eight years since the Tax Cuts and Jobs Act passed, we know that the wealthy have benefited far more than working families. In fact, households with incomes in the top 1 percent will receive an average tax cut of more than $60,000 this year, compared to an average tax cut of less than $500 for households in the bottom 60 percent. The law's pass-through deduction greatly benefits the wealthy. In fact, over half of the deduction's benefits in 2024 went to households with more than $1 million in income. Further, the Tax Cuts and Jobs Act adds significantly to our national debt and cuts revenue that could be used to fund programs that lift up all Americans and make our economy and workforce healthier.

The American public also overwhelmingly opposes tax cuts for the wealthy that are central to the Tax Cuts and Jobs Act. A national survey conducted last year found that **two-thirds of respondents across party lines support getting rid of the 2017 tax cuts for the wealthiest one percent.** Findings from the survey also demonstrate strong public support for using the extra tax revenue from eliminating tax loopholes for the rich to invest in caregiving priorities like child care, paid leave, and healthcare and aid for people with disabilities and the aging.

MomsRising TOGETHER

MomsRising members across the country agree that the Tax Cuts and Jobs Act makes it harder for them to make ends meet and provide for their families. They outright reject plans to cut vital healthcare and nutrition programs in order to pay for tax cuts for the wealthy and mega-corporations. They instead want investments in programs that lift all families and make our nation and economy stronger.

Again, MomsRising urges you to advance tax policy that requires the wealthy and corporations to pay their fair share, boosts revenue, and gives families the resources they need to thrive. MomsRising is happy to serve as a resource as the committee continues to consider policies that affect families, including tax policies.

Sincerely,
Elyssa Schmier
Vice President of Government Relations and National Budget for MomsRising
MomsRising Together & MomsRising Education Fund

NATIONAL WOMEN'S LAW CENTER
Justice for Her. Justice for All.

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January 28, 2025

The Honorable Jason Smith
Chairman, U.S. House Committee on Ways & Means
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Smith:

The National Women's Law Center (NWLC) appreciates the opportunity to provide this statement for the record following the hearing on January 14, 2025 on the 2017 tax law and the consequences and opportunities of expirations of major provisions of this law in 2025.

The primary purpose of the tax code is to raise revenue to support the priorities we all rely on. According to public reports, House Republicans plan to cut Medicaid, SNAP, TANF and more, to pay for extending the expiring provisions of the 2017 tax law and enacting even more tax cuts for wealthy Americans. Depriving families of food, medical care, and support to meet their basic needs in order to provide even more tax cuts for billionaires and big corporations is the wrong direction for our tax policy.

Chronic underinvestment in women and families continues to exacerbate racial and gender inequities. Tax policy that further limits federal revenue moves us further from an economy that works for all of us. Our national failure to make robust public investments in child care, paid family and medical leave, and aging and disability care lowers women's incomes, negatively impacts health and well-being, harms employers, and weakens the economy.

In 2017, the passage of the law known as the Tax Cuts and Jobs Act (TCJA) continued the failed strategy of "trickle-down" economics by enacting large tax cuts for wealthy individuals and corporations. This strategy both continues to constrain the fiscal space to make the investments we need, and even on its own terms, has failed to deliver on its promises. As many families struggle to make ends meet, find and afford care, and meet their basic necessities, Congress should prioritize supporting families rather than passing even more tax cuts at the top.

We write to urge the House Ways and Means Committee and Congress to prioritize the needs of women and families who have been left behind in tax legislation. We should let the TCJA provisions that benefit the wealthiest expire, and certainly there is no cause to enact even more tax cuts for the top. Instead, we should make sure the wealthy and big corporations are paying their fair share. In addition, Congress should pay careful attention to the design of refundable tax credits so they are helping the families that need it most.

I. Paying for TCJA extensions by cutting vital programs harms women and families

As Congress considers extending expiring provisions of the TCJA, it has been publicly reported that Republicans in Congress have proposed cutting programs such as SNAP, Medicaid, TANF, housing assistance and more[1] to offset revenue that would be lost by extending tax cuts for the wealthy and big corporations. This approach would hurt millions of families struggling to make ends meet,[2] and would run counter to the stated goal of helping average Americans address rising costs. Women especially rely on the programs that would bear the brunt of these cuts, making up the majority of Medicaid and SNAP recipients, and more than 80% of adult TANF recipients.[3] These are vital supports that help families afford health care, food, and other basic needs, therefore cutting them will by definition raise costs for families. Rather than cut these critical programs to pay for tax breaks for the richest and corporations, Congress should ensure there is sufficient federal revenue to continue and expand them by raising taxes on the wealthiest.

II. The TCJA exacerbates inequality and left women and families behind.

Overall, the 2017 tax law exacerbates inequality—and leaves women and families behind, because they are underrepresented in the groups that received the lion's share of tax cuts, and overrepresented among those harmed by the underinvestment the tax law enables.
Systemic discrimination, both historic and ongoing, creates income and wealth disparities between women—and especially women of color—and white men.[4] The gender and racial wealth gap is a measure of the disparities in financial security driven by this discrimination. In the most recent calculations looking at never-married adults, for every dollar of wealth owned by a single white man, single Black women own 8 cents and single Latinas own 14 cents.[5] Women are underrepresented among top earners,[6] and women supporting families on their own have the lowest median income among family households.[7] Women make up nearly two-thirds of the workforce in the 40 lowest paid jobs, and these workers are disproportionately women of color.[8] In addition, white tax filers represent 84% of tax filers at 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.[9]

The TCJA skewed tax benefits to the top, among whom women and households of color are underrepresented.

The benefits of TCJA went primarily to the wealthiest and big corporations.[10] The law overall was regressive: it gave larger tax reductions both in dollar amounts and as a percentage of income to the highest-income households compared to low- and moderate-income households, which exacerbated disparities by gender and race.[11] 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. The extreme disparity in benefits exists in percentage terms as well, as 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.[12] Extending the 2017 tax cuts would continue disproportionate benefits at the top.[13]

It is eminently clear that the wealthiest do not need any more tax cuts. In the years since the 2017 tax law's passage, U.S. billionaire wealth has grown enormously, doubling since 2017 to a record high of $5.8 trillion.[14] Executive pay[15] and corporate profits[16] have also risen to extreme heights. Despite familiar promises the wealth from massive tax cuts would "trickle down," TCJA's changes to the tax code did not lead to increased worker pay or benefits.[17] There is consensus across political parties that it did not "pay for itself,"[18] as some suggested at its passage.[19] Like other tax cuts at the top, it spurred little economic growth while limiting revenues to support investments that benefit the vast majority.[20] In contrast, families around the country continue to struggle to pay for groceries, put a roof over their heads, and make it from paycheck to paycheck.[21]

The TCJA deprived us of revenues to make investments in women and families.

The 2017 tax cuts were costly: the overall cost of the 2017 tax law changes over 10 years is estimated at $1.9 trillion dollars.[22] The cost of extending temporary provisions for an additional 10 years after 2025 is even higher, at $4.6 trillion,[23] and including additional tax cuts that were raised during the campaign could run as high as $10 trillion.[24]

The 2017 law drove federal revenues to historic lows outside of a recession.[25] The United States collects fewer revenues than peer countries, at only 27% percent of GDP compared to an average of 34% for OECD countries.[26] Similarly, corporate tax revenues are only 1.6% of GDP in the United States, half of the OECD average of 3.3%.[27] The United States also invests much less in children and worker support, such as paid leave and unemployment benefits, compared to other wealthy nations.[28]

The TCJA is also estimated to have added nearly $2 trillion to the federal deficit,[29] worsening the trajectory of federal revenues and driving the high debt-to-GDP ratio.[30] A key component of this revenue shortfall is the falling revenue share from the corporate income tax over time: the share of revenue from the corporate income tax has fallen from about one-third of the country's revenue to only 7% in 2019.[31] If past is prologue, enacting more tax cuts for the wealthiest that lose massive amounts of revenue will precipitate even more efforts to cut funding for programs and supports women and families rely on. 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 2017 cut to the corporate rate especially harmed low-wage workers, who are disproportionately women of color.

A key example of how the benefits of the 2017 tax package skewed to the top, and harmed women, families, and the rest of us, is the steep reduction in the corporate tax rate, from 35% to 21%, estimated to cost $1.3 trillion over 10 years.[32] Unlike many other provisions of TCJA, this rate change does not have an expiration date.

Research shows that overall, the tax savings from the rate reduction went 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.[33] Overall, more than 80% of the gains from the corporate rate cut were captured by the top 10% of the income distribution.[34] Overall, women are underrepresented among these top earners,[35] and the lowest wage workers are disproportionately women of color.[36] After receiving this inordinately large tax cut, rather than investing in workers, corporations increased executive pay and stock buybacks.[37] This practice predominantly enriched wealthy white men, who are overrepresented among corporate executives and large shareholders, while providing little to no benefit to rank-and-file employees, much less lower-paid workers, many of whom are women and people of color.[38] Women and people of color, who are less likely to own significant stock or hold executive positions, did not see the same financial gains and continue to face systemic barriers to economic advancement.[39]

Since the 2017 tax cut, corporations have recorded record profits[40] while continuing to use loopholes and special tax breaks to lower their tax bills. Among the largest profitable corporations, nearly a quarter paid effective tax rates of 10% or less.[41] It is therefore shocking that Congressional Republicans are considering lowering corporate tax rates even further.[42]

The TCJA's changes to the Child Tax Credit did not help families that need it most.

In addition to the corporate and individual changes described above, changes to the Child Tax Credit (CTC) were also enacted through the TCJA.[43] (The TCJA did not amend other tax credits that support families with low and moderate incomes, such as the Earned Income Tax Credit (EITC) or the Child and Dependent Care Tax Credit (CDCTC)). The TCJA doubled the size of the CTC from $1000 to $2000 per child, and made families with incomes over $200,000 ($400,000 for married couples) eligible to claim the credit for the first time. While the 2017 law lowered the earned income threshold required to receive a portion of the credit as a refund to $2,500, it did not eliminate this requirement. The TCJA also limited the refundable portion of the CTC: For tax year 2024, the refundable credit is capped at $1700[44] and limited to 15 percent of a family's earned income over $2,500. Additionally, the 2017 changes to the CTC exclude children with Individual Tax Identification Numbers (ITINs), from being claimed for the CTC. These changes expire at the end of 2025.

The expansions of the CTC in TCJA tended to benefit families with higher incomes rather than families with very low incomes, however. Families with earned income below $2,500 do not receive any credit at all (since they are unlikely to have any tax liability against which the nonrefundable portion of the credit can be applied). And the cap on refundability also means that families with low incomes cannot receive the full $2,000 CTC amount, even if they have earned income. These limitations mean an estimated 17 million children are unable to fully benefit from the CTC under the 2017 tax changes, including roughly 39 percent of Black children.[45] Seventy percent of children in families headed by single women do not receive the full credit under current law.[46] Additionally, the 2017 changes to the CTC prevent 1 million children in immigrant families from benefitting from the credit.[47] This is why the CTC, as modified by the 2017 tax law, did not result in the kind of historic reductions in poverty as the expansions enacted under the American Rescue Plan Act (ARPA) for tax year 2021 did.[48]

III. <u>The upcoming 2025 expirations provide an opportunity to change course.</u>

Prior to 2017, the tax code already privileged those at the top, and wealth over work. TCJA continued this trend by funneling tax relief primarily to the wealthy and corporations, who now see their tax rates at historic lows.[49] The TCJA only made our inequitable tax code even more so, to the detriment of our families and communities, our economy, and our nation.

In 2025, many provisions of the 2017 tax law benefitting the wealthiest and big corporations will expire. Congress should allow them to sunset, including:

- <u>Top individual income rate</u>: The TCJA reduced the top income rate from 39.6% to 37%, which in 2024 applies to marginal income over $609,350 for individuals.[50] While those in the lowest tax bracket saw their taxes go down by about $40 per year, those in the top 5% saw an average tax cut of $11,200 per year.[51]

- Estate tax changes: The TCJA raised the exemption amount for the estate tax from $5.5 million to $13.6 million in 2024[52] (for individuals). These changes caused the number of estates subject to the estate tax to drop dramatically to less than 4,000 estates per year, which is 0.14% of decedents.[53]
- Pass-through deduction: Pass-through income is overwhelmingly concentrated among high-income individuals,[54] with more than half of the tax benefits going to taxpayers with income over $1 million.[55] Contrary to proponents' claims, this deduction did not spur broad economic gains[56] but instead increased tax avoidance through owners gaming the rules.[57] 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.[58] It is estimated this provision costs more than $50 billion per year as of 2021.[59]

Congress should also address permanent provisions of TCJA that have harmed families, including:

- 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. Research indicates that increasing the corporate tax can be beneficial for the economy by addressing income disparities and promoting a more equitable distribution of wealth.[60] Beyond merely raising revenue, corporate taxes play a crucial role in regulating industries and rebalancing economic power, shifting it from predominantly white shareholders and business executives to workers and consumers.[61] Certainly, Congress should not cut the corporate rate further.

Additionally, Congress should ensure that any tax credit changes benefit the families who need them most by:

- Not Prioritizing Tax Credit Changes That Don't Meaningfully Help Families with Low Incomes: Congress should not prioritize those aspects of the 2017 changes to the CTC that benefit wealthier families and should allow the prohibition against claiming the CTC for children with Individual Tax Identification Numbers (ITINs) to expire in 2025. Congress should also not make any additional changes that would exclude more families, undermine their health and economic security, choices, or well-being.
- Restoring the ARPA Refundable Tax Credit Expansions: The tax credit expansions in ARPA, including expansions to the CTC, Earned Income Tax Credit (EITC), and Child and Dependent Care Tax Credit (CDCTC), led to a steep reduction in child poverty and helped millions of families make ends meet.[62] Improving the Child Tax Credit, first and foremost by making it fully refundable, would meaningfully benefit millions of women and families.[63] Additionally, restoring the ARPA expansions of the Earned Income Tax Credit (EITC) would benefit millions of people, including one in three younger workers.[64]
- Extending expanded Premium Tax Credits: The Premium Tax Credit (PTC) helps families afford the cost of health insurance through state health care exchanges. Over 19 million people qualified for these credits in 2024. The Inflation Reduction Act of 2021 expanded the PTC through 2025. An estimated 62 percent of uninsured women ages 15 to 44 are eligible for the expanded PTC. If those expansions expire, health coverage costs will increase for millions of people—and an estimated 3.8 million people will become uninsured.

Policymakers can also make sure that more federal revenue is collected by ensuring the IRS has sufficient resources to enforce the tax laws already on the books.

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.[65] In Tax Years 2014 through 2016, the IRS failed to pursue over 300,000 high-income individuals who did not even file tax returns.[66] A properly funded IRS works against lawbreaking by the ultrawealthy and corporations, which robs the public of hundreds of billions of dollars per year.[67] The IRS has already stepped up its enforcement at the top, including auditing millionaires who did not even file returns.[68] These and other efforts have resulted in the collection of more than $1 billion in unpaid taxes to date.[69]

Tax changes in 2025 should advance a tax system that works for all of us.

As the process of drafting and debating tax legislation begins, lawmakers have an opportunity to support families and make the tax code work for all of us, not just the wealthy few.

Rather than cutting taxes for the wealthiest individuals and corporations, we should structure tax policy to raise enough revenue to help families in access and afford health care, food, housing, child care, paid leave, aging and disability care, and other essentials. More tax cuts at the top will lose significant federal revenues, taking existing supports away from families and putting the investments families need even further out of reach. Paying for these tax cuts through cuts to Medicaid, SNAP, and other basic needs will raise costs for millions of families across the nation. Instead, making the wealthy and corporations pay their fair share in taxes will raise revenues that could be used to lower costs for families and help them make ends meet. Expanding refundable tax credits, and making them inclusive, would invest in the lowest-income families and dramatically reduce poverty and financial hardship.

The public strongly supports changes to the tax code to make the wealthiest and big corporations pay their fair share.[70] Specifically, two-thirds of voters favor allowing the temporary provisions of the TCJA benefitting the wealthy to expire. The public strongly supports increasing taxes on the wealthiest in order to support investments in child care, paid family and medical leave, and aging and disability care. And there is robust public support for expanding the Child Tax Credit in ways that help the families who need it most.[71]

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, not just the wealthy few.

Thank you for the opportunity to submit a comment to the Ways and Means Committee. Should you have any questions, please contact Amy Royce at aroyce@nwlc.org.

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TO: Chairman Smith, Ranking Member Neal, and members of the House Ways and Means Committee

FROM: Michelle DiVita

DATE: January 14, 2025

RE: **Statement for the Official Record of the Hearing on "The Need to Make Permanent the Trump Tax Cuts for Working Families"**

My name is Michelle DiVita and I am a tax attorney who represents both large and small businesses across various industries. During my tenure as a tax professional, I have been on the front lines of both the Tax Cuts and Jobs Act ("TCJA") and the Inflation Reduction Act ("IRA") assisting taxpayers with the interpretation and implementation of various parts of the respective law changes. As Congress proceeds with the budget reconciliation process, I have prepared these comments from the tax practitioner perspective for consideration as it relates to provisions in both the TCJA and IRA.

The statements contained herein do not represent the views of Taft Stettinius & Hollister LLP, nor do my statements represent the views of any current or former client. Rather, I have prepared my comments solely on my own behalf in an effort to inform lawmakers of the real-world implications arising from the past decade of tax legislation passed through the budget reconciliation process. I have also included bipartisan recommendations in an effort to assist with the difficult task ahead of the House Ways and Means Committee and Congress in balancing the budget while preserving various tax benefits set to expire or that have already expired under the TCJA.

1. *Partially* Cancel Amortization of R&D Expenses.

Originally enacted in 1954, section 174[1] provided taxpayers with flexibility in immediately deducting or capitalizing and amortizing any research & development ("R&D") expenditures. At that time, Congress reasoned that the option to either deduct or capitalize and amortize R&D expenses was necessary due to inherent complications in accounting for intangible assets and uncertainty as to whether the research would be successful (*i.e.*, producing future income in the taxpayer's trade or business).

[1] All references to "Section" in this document refer to the Internal Revenue Code of 1986, as amended, (the "Code") unless specifically noted otherwise.

Required capitalization and amortization of R&D expenses created an administrative nightmare for taxpayers of all sizes due to the same challenges identified by lawmakers more than 70 years ago. The change disproportionately harmed startups, government contractors, and software companies due to the cash-restricted nature of new businesses, unique rules applicable to government contracts, and lack of timely IRS guidance. The IRS issued informal guidance on section 174 one week before the September 15th filing deadline. The term "software development" has not been meaningfully defined since the early 2000s. No proposed Treasury Regulations have been introduced to date.

Further, the IRS has taken an increasingly aggressive stance on the definition of R&D under section 174 and expanded recordkeeping requirements beyond a commercially reasonable interpretation of section 6001. Taxpayers must prepare massive amortization schedules, applicable to large and small businesses alike, with a great deal of uncertainty as to what constitutes a reasonable allocation of expenses. The administrative burden on taxpayers becomes particularly frustrating in light of the fact that required amortization becomes a convoluted timing exercise once enough tax years have lapsed. The mismatch between income and expense runs afoul to fundamental principles of income taxation. The overly burdensome administration of the new section 174 provision should be considered in the decision to cancel amortization of R&D expenses.

Notably, the TCJA changes to section 174 introduced a distinction between research performed in the U.S. and foreign research. While U.S. based resource has a 5-year capitalization schedule, foreign R&D must be capitalized and amortized over a 15-year period. The differing treatment of U.S. and foreign research appears to address a concerning trend of companies offshoring IP-producing activities. Requiring 15-year amortization for foreign research while repealing the amortization of R&D expenses incurred in the United States could provide an offsetting cost mechanism worth consideration for budget reconciliation.

Recommendation(s):

Congress should repeal the requirement to capitalize and amortize R&D expenses and restore the option to deduct R&D expenditures in the current tax year. To minimize the cost of canceling amortization of R&D expenses, lawmakers could retain the 15-year capitalization and amortization requirement provided for foreign research.

2. *Fully* Repeal the IRA's IRS Enforcement Funding.

The IRS receives funding in four accounts: Taxpayer Services, Enforcement, Operations Support, and Business Systems Modernization (*i.e.*, technology modernization).[2] The

[2] National Taxpayer Advocate, Annual Report to Congress (2024), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/12/ARC24_FullReport.pdf.

statements provided in this section solely pertain to a proposed repeal of Enforcement account funding, which received a 58% allocation of funds under the IRA despite enforcement efforts contributing less than 2% of revenue collected by the federal fisc.[3]

IRS enforcement efforts have had a challenging history at the expense of the most vulnerable taxpayers.[4] During my time working at my law school's low-income taxpayer clinic, I witnessed firsthand the challenges faced by taxpayers related to earned income tax credit ("EITC") audits and navigating uncommon definitions (*e.g.*, "qualifying child") as provided in the Code. While the IRS claims it has shifted its audit focus away from low income taxpayers,[5] small businesses and self-employed individuals remain a target.

In 2023, 72% of tax law enforcement and litigation arose from the Small Business and Self-Employed Division of the IRS Office of Chief Counsel.[6] The Small Business/Self-Employed Division has a history of taken differing, more aggressive stances against small business taxpayers in exam compared to similarly situated taxpayers being audited in the Large Business and International Division.[7] No correlation between the litigation percentages and disparate treatment of small businesses during exam has been documented by the IRS, raising concerns as to the internal controls in place to protect small businesses from the same unfair treatment displayed in the EITC audits. A retired IRS Appeals officer recounted his time working at the IRS validating such concerns. He stated: "In my opinion, we hammer the little guys and we let the big guys go."[8]

My personal experience has witnessed the Small Business/Self-Employed Division take extreme litigating positions against taxpayers. Unlike the principles of commercial litigation, the IRS has unlimited resources to exert against small businesses regardless

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[3] *Id.*

[4] *See e.g.*, IRS Letter to Congress dated May 15, 2023 finding Black taxpayers are audited at a rate three to five times the rate of non-Black taxpayers under the EITC. *See also* Paul Keil and Jesse Eisinger, *Who's More Likely to Be Audited: A Person Making $20,000 — or $400,000?*, PROPUBLICA, Dec. 12, 2018, https://www.propublica.org/article/earned-income-tax-credit-irs-audit-working-poor.

[5] Justin Schwegel, *EITC Audit Problems: Scope, Exam Defaults, and the Burden of Proof*, TAXNOTES, Sep. 5, 2024, https://www.taxnotes.com/procedurally-taxing/eitc-audit-problems-scope-exam-defaults-and-burden-proof/2024/09/05/7l5sb.

[6] *See* SOI Tax Stats - Chief Counsel Workload: All Cases, by Office and Type of Case or Activity - IRS Data Book Table 30, 2023, accessed through the following link: https://www.irs.gov/statistics/soi-tax-stats-chief-counsel-workload-all-cases-by-office-and-type-of-case-or-activity-irs-data-book-table-30.

[7] *See e.g.*, Julio Gonzalez, *What R&D Tax Credit Changes Mean For Architects*, FORBES, Aug. 9, 2019, https://www.forbes.com/councils/forbesfinancecouncil/2019/08/09/what-rd-tax-credit-changes-mean-for-architects/ ("Unfortunately, the IRS Small Business/Self-Employed (SB/SE) Division . . . responsible for taxpayers with assets less than $10 million, has started to take the position that many service firms such as architects and engineers no longer qualify for activities that have, until now, always qualified for the R&D credit. Large business service firms, covered by the IRS Large Business and International (LB&I) Division . . . remain eligible for the credit.").

[8] Paul Kiel, *The IRS Decided to Get Tough Against Microsoft. Microsoft Got Tougher.*, PROPUBLICA, Jan. 22, 2020, https://www.propublica.org/article/the-irs-decided-to-get-tough-against-microsoft-microsoft-got-tougher.

of the amount at issue. Small businesses in particular often have tax assessments lower than the potential legal feels, penalties, and interest arising from challenging the IRS position in appeals and Tax Court. IRS enforcement efforts cannot be properly policed due to the misaligned economics arising from overly-aggressive strategies deployed by the IRS Chief Counsel Office and backed by the full force and power of the government. Even Beyoncé incurred legal fees that exceeded the amount of tax assessed. But unlike small businesses and low income taxpayers, she had the cash to fight it.

Recommendation(s):

Enforcement funding should be repealed until adequate protections for taxpayers (and practitioners) exist to ensure the IRS demonstrates reasonable and fair audit practices and litigating positions. Additional enforcement funding should not be allocated to the IRS until there has been investigation into the disparate treatment of small businesses with disputed tax assessments in Tax Court and through the administrative appeals stages.

3. Retain Certain Green Energy Tax Credits for Manufacturing.

Currently, the IRA provides for two manufacturing-focused tax credits: (1) the section 45X advanced manufacturing production credit; and (2) the section 48C advanced energy project credit (collectively, the "IRA Manufacturing Credits").

Based on my experience working with various types of manufacturers across the country, the IRA Manufacturing Credits encouraged capital investment in U.S. manufacturing facilities from both U.S. based and foreign-owned companies (as intended). Employees typically seemed excited about the prospect of deploying new technology and improving their manufacturing processes in connection with the section 45X and 48C credits. Further, the IRA Manufacturing Credits appear to align with the new administration's goals of promoting U.S. manufacturing jobs.

As IRA tax credits are examined for potential cost savings in the budget reconciliation process, I would recommend Congress continue to support the IRA Manufacturing Credits. There has been a strong appetite from manufacturers looking to utilize these credits as evidenced by the volume of 48C credit applications received compared to the amount of credits allocated under the program.

However, the IRA Manufacturing Credits, as currently enacted, face challenges in terms of credit effectiveness that may need to be evaluated, specifically:

(1) Taxpayers must receive an allocation of 48C credits by the Department of Energy and the IRS, but the program was incredibly over-subscribed. Most applying taxpayers did *not* receiving a tax credit allocation. Further, the application process administered by the DOE is incredibly time intensive, frustrated by the fact that the likelihood of a credit allocation appeared to be low.

(2) The section 45X credit amounts allowed by statute (*cf.* the 48C credit amounts allowed by allocation) only apply to narrow categories of technology and critical minerals/materials as decided by the Department of Energy. Manufacturers that would be eligible for an allocable credit under 48C often do not have the option to claim the credit under 45X, despite the Code language that suggests these credits act as a mirror-images (*i.e.*, entitlement to one disallows a claim to the other).

To address these challenges, there may be potential cost savings to offset the IRA Manufacturing Credits by examining 48C program administration costs or by simplifying/expanding the definitions of property included in the credits. Additional allocations or a shift to a statutory credit scheme could promote additional innovation and development for manufacturers.

In lieu of continuing other tax credits, Congress should consider less restrictive language to incorporate upstream/downstream supply chains to improve credit effectiveness of IRA Manufacturing Credits. The construction industry should also be considered for tax credit qualification as Congress takes a look at the types of activities to encourage the development portion of new technology (especially considering the compliance burdens of IRA prevailing wage and apprenticeship requirements often fall on the general contractor).

<u>Recommendation(s):</u>

- *Prioritize the continuation and/or expansion of IRA Manufacturing Credits over other green energy tax credits.*
- *Consider legislative adjustments to improve effectiveness of IRA Manufacturing Credits.*
- *Look for cost savings related to tax credit administration of the credits.*

4. Encourage Tax Credit Transferability.

Generally, tax credit transferability is a tax neutral concept. The IRA enacted section 6418 that allows (and simplifies) certain tax credit transfers in exchange for a cash payment. Tax credit transferability has been used as a financing mechanism to raise funds for capital intensive projects primarily in the real estate and energy sectors, with a great deal of success in promoting low-income housing development stemming from 1980s credit legislation.

An ancillary benefit of the tax credit transferability market includes the heighted importance on taxpayer voluntary compliance in claiming credits, rather than IRS-driven enforcement efforts. One example being the tax insurance market that has emerged largely in response to heightened tax credit transfer activity. As a result, multiple sophisticated parties are often examining the credit eligibility and utilization of tax credits to complete a transfer transaction. Due diligence efforts have Information Document Requests similar to complex audits, but on a proactive basis and managed by private practitioners.

Based on my experience advising businesses at the startup stage, there are few (if any) tax credits that can be claimed and utilized in the company's early years. To make matters worse, R&D intensive companies—often startups—usually running at financial loss—incurred significant tax liabilities due to required R&D amortization. From what I have witnessed, the most innovative and inspiring companies need cash, not tax credits.

Expanding tax credit transferability is a way to improve tax credit effectiveness in a tax neutral form. However, the IRS and Treasury have cut off a portion of tax credit purchasers by limiting the interpretation of section 6418 to apply to passive income of individuals and certain closely held businesses in the final Treasury Regulations. As the tax credit transfer market continues to develop beyond the traditional tax credit equity structures previously seen in the industry, Congress should take an expansive approach to ensure a healthy market exists for tax credits on both the supply and demand side.

Recommendation(s):

- *Continue to support credits in connection with the tax credit transferability market as a means of incentivizing certain investments in the United States and promoting voluntary compliance in lieu of IRS enforcement measures.*
- *Clarify that individuals and closely held companies can utilize transferred tax credits notwithstanding the passive activity limitations.*

Thank you for the opportunity to provide a written statement for the House Ways and Means Committee hearing on "The Need to Make Permanent the Trump Tax Cuts for Working Families." I welcome any comments, questions, or concerns related to the statements provided herein, so please feel free to reach me using the contact information provided.

Sincerely,

/s/ *Michelle DiVita*

Michelle DiVita
Attorney
Taft Stettinius & Hollister LLP
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mdivita@taftlaw.com

U.S. MORTGAGE INSURERS

January 28, 2025

The Honorable Jason Smith
Chairman
Committee on Ways and Means
U.S. House of Representatives
1139 Longworth House Office Building
Washington, DC 20515

Dear Chairman Smith:

U.S. Mortgage Insurers (USMI)[1] appreciates the opportunity to submit this letter for the record for the Committee on Ways and Means' January 14, 2025 hearing titled "The Need to Make Permanent the Trump Tax Cuts for Working Families." The tax code is an important policy tool to prudently promote homeownership and support homeowners and, as the Committee on Ways & Means assesses the expiring and permanent provisions of the Tax Cuts and Jobs Act (TCJA),[2] we strongly encourage Congress to support existing homeowners and prospective homebuyers by reinstating, making permanent, and expanding eligibility for the mortgage insurance (MI) premium tax deduction.[3] The tax deduction for MI premiums has long enjoyed bipartisan support and represents targeted tax relief for hardworking middle class homeowners. We urge Congress to include the bipartisan, bicameral *Middle Class Mortgage Insurance Premium Act* in the 2025 tax legislation and commend Representatives Vern Buchanan and Jimmy Panetta, and their counterparts Senators Thom Tillis and Maggie Hassan, for championing this commonsense and targeted tax policy to assist working families.[4]

USMI is a trade association comprised of the leading private MI companies in the U.S. and represents an industry dedicated to a housing finance system backed by private capital that enables access to prudent and affordable mortgage finance for borrowers while protecting taxpayers. Our member companies are focused on ensuring that homeready borrowers have access to affordable and sustainable mortgages within a well-functioning U.S. housing finance system. The private MI industry has a nearly 70-year track record of underwriting and actively managing single family mortgage credit risk in order to facilitate access to low down payment conventional mortgages. Since 1957, private MI has helped more than 39 million families

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[1] USMI membership comprises the following private mortgage insurers: Enact Mortgage Insurance Corporation; Essent Guaranty, Inc.; Mortgage Guaranty Insurance Corporation; National Mortgage Insurance Corporation; and Radian Guaranty, Inc.
[2] Pub. L. 115-97 (December 22, 2017).
[3] 26 USC 163(h)(3)(E).
[4] HR 4212 / S 1938 (118th Congress). House (Representatives Buchanan and Panetta) and Senate (Senators Tillis ad Hassan) reintroductions are forthcoming.

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purchase a home or refinance an existing mortgage, including approximately 800,000 in 2023 alone.

Barriers to Homeownership & the Role of Mortgage Insurance

Affordability remains a persistent barrier to homeownership across the country due to high home prices, elevated interest rates, strong home price appreciation (HPA), and limited housing supply. The national median sales price for existing homes currently stands at $404,400[5] and, while HPA has slowed, nationwide prices are still up 4.2% year-over-year and nearly 60% from five years ago.[6] Further, while housing inventory has improved from a historical low point, the current level of 3.8 months of supply[7] is still well below pre-pandemic and long-term historical levels. Industry research and polling underscore that Americans feel it has gotten harder to buy a home over the past few years and the largest barrier is consistently identified as saving for a down payment. Last year, USMI commissioned its *2024 National Homeownership Market Survey*[8] to identify and analyze consumers' perceptions about homeownership, the mortgage process, and challenges to purchasing a home. Our survey found that 78% of Americans believe owning a home is very important to provide safety, financial stability, and is a good long-term investment, but 58% believe buying a home has become more difficult or challenging.

Despite these challenges, each year MI helps bridge the down payment gap for millions of borrowers who lack the resources for a 20% down payment or have less than perfect credit. Low down payment mortgages – including conventional mortgages with private MI and loans insured or guaranteed by the Federal Housing Administration (FHA), U.S. Department of Veterans Affairs (VA), and U.S. Department of Agriculture Rural Housing Service (RHS) – are mortgage products and programs that have proven critical for many first-time, working class, and minority homebuyers to secure financing and enjoy the stability of homeownership. Low down payment mortgages allow families to buy homes sooner and begin building intergenerational wealth, rather than sit on the sidelines for years trying to save for a large down payment.

In 2023 alone, nearly 2 million families obtained mortgages with some form of MI, including nearly 800,000 loans with private MI, more than 730,000 FHA-insured mortgages, more than 380,000 VA-guaranteed mortgages, and more than 35,000 RHS-guaranteed mortgages.[9] Further, the vast majority of borrowers with MI are first-time homebuyers, traditionally the

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[5] National Association of REALTORS®, "Existing-Home Sales Housing Snapshot" (January 24, 2025).
[6] Federal Housing Finance Agency, "House Price Index – Seasonally Adjusted, November 2024" (January 28, 2025).
[7] National Association of Home Builders, New Existing Home Sales, Updated January 2, 2025 for data through November 2024.
[8] U.S. Mortgage Insurers, "2024 National Homeownership Market Survey" (October 2024).
[9] GSE Aggregate Data, HUD quarterly reports to Congress on the "Financial Status of the Mutual Mortgage Insurance Fund," VA Lender Loan Volume Reports, and 2023 HMDA Data.

driving force of the housing market.[10] Low down payment lending options are critical for these first-time homebuyers, as evidenced by the fact that the typical down payment for first-time buyers in 2024 was 9%.[11]

Targeted Tax Relief for Working Families

From 2007 through 2021, the tax code treated MI premiums as qualified residential mortgage interest and they were tax deductible, subject to an income phaseout for taxpayers with adjusted gross incomes (AGI) over $100,000 ($50,000 if single or married filing separately), with an overall AGI cap of $109,000. Congressional tax writers have historically viewed this deduction as a tax policy tool to level the playing field for working families since a larger share of the mortgage interest deduction (MID) is claimed by higher wealth and income households who had the resources for large down payments.[12] During the time that MI premiums were tax deductible, millions of working family homeowners benefited from this provision of the tax code and it was claimed 44.5 million times for $64.7 billion in aggregate deductions. Based on data from the Internal Revenue Service (IRS), nearly 1.3 million households benefited from the MI deduction for tax year 2021 for an average deduction of approximately $2,300 – a significant tax savings for hardworking families across the country.[13]

Bipartisan, Bicameral Legislation, the "Middle Class Mortgage Insurance Premium Act"

USMI firmly believes that the MI premium tax deduction is both good tax and housing policy as a means to support homeownership for working families, but two key aspects have hampered its effectiveness: (1) its temporary nature as a "tax extender"; and (2) its status as the only individual itemized tax deduction subject to an AGI cap and/or phaseout. The current AGI phaseout represents a burdensome eligibility criterion for American families to claim the MI deduction and many more families would benefit from a permanent extension that increases the AGI phaseout. The AGI cap was static for the entire 2007 – 2021 period (not indexed for inflation) and an increase is both necessary and appropriate to compensate for the natural erosion of the value of the dollar over time. This is particularly true as families have contended with rising household costs over the past several years.

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[10] According to GSE Aggregate Data, FHA Data, and eMBS data for purchase mortgages, nearly 65% of mortgages with private MI, more than 80% of FHA-insured mortgages, and more than 50% of VA-guaranteed loans went to first-time homebuyers.
[11] National Association of REALTORS®, "2024 Profile of Home Buyers and Sellers" (November 4, 2024).
[12] Internal Revenue Service, Statistics of Income (SOI) Tax Stats: Historic Table 2 (45% of the MID deductions for tax year 2022 went to households with AGIs of $200,000 and above).
[13] Internal Revenue Service, Statistics of Income (SOI) Tax Stats: Historic Table 2 (1,277,180 households claimed the mortgage insurance premium deduction for an aggregate amount of $2,904,686,000 for tax year 2021).

Last October, USMI joined a coalition representing a broad cross-section of housing industry, consumer advocate, and civil rights organizations to submit a letter to the Working Families Tax Team as part of the Committee on Ways & Mean's Request for Input to study key provisions of the TCJA.[14] USMI and the 18 other organizations listed below expressed support for the *Middle Class Mortgage Insurance Premium Act* and encouraged Congress to include in any 2025 tax package:

America's Credit Unions	Manufactured Housing Institute
American Bankers Association	Mortgage Bankers Association
American Land Title Association	NAACP
Asian Real Estate Association	National Association of Hispanic Real Estate Professionals
Casita Coalition	National Association of REALTORS®
Community Home Lenders of America	National Council of State Housing Agencies
Housing Policy Council	National Housing Conference
Independent Community Bankers of America	Prosperity Now
Leading Builders of America	RESPRO®

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We welcome the opportunity to further engage on this important issue to support access to affordable and sustainable homeownership for American families. For any questions or should you need further information, please contact Seth Appleton at sappleton@usmi.org or 202-280-1820.

Sincerely,

Seth D. Appleton
President, USMI

[14] Coalition letter in support of the MI premium tax deduction (October 15, 2024).

Charlene MacDonald
Executive Vice President, Public Affairs

STATEMENT
of the
Federation of American Hospitals
to the
U.S. House of Representatives Committee on Ways and Means
Re: "The Need to Make Permanent the Trump Tax Cuts for Working Families"
January 13, 2025

The Federation of American Hospitals (FAH) submits the following statement for the record in advance of the House Committee on Ways and Means hearing entitled "The Need to Make Permanent the Trump Tax Cuts for Working Families."

The FAH is the national representative of nearly 1,000 leading tax-paying hospitals and health systems throughout the United States. FAH members provide patients and communities with access to high quality, affordable care in both urban and rural areas across 46 states, plus Washington, DC and Puerto Rico. Our members include teaching, acute, inpatient rehabilitation, behavioral health, and long-term care hospitals and provide a wide range of inpatient, ambulatory, post-acute, emergency, children's, and cancer services.

We look forward to working with Congress and the Administration on enacting a pro-growth tax agenda by preventing tax increases on American families and businesses and continuing to build a robust economy that keeps America globally competitive. The tax reforms enacted in 2017 played a key role in boosting the economy, encouraging capital investment, creating jobs, and raising wages, including in the health care sector. Allowing these tax cuts to expire would slow economic growth, raise costs for families, hurt small businesses, lower workers' take-home pay, and lead to substantial job losses.

We urge Congress to capitalize on tax reform by also extending the enhanced premium tax credits (PTCs) for health insurance which are set to expire at the end of 2025. Without these tax credits, nearly 20 million people would be forced to pay an average of 90% more for their health care coverage, with Americans living in southern states and the heartland disproportionately feeling the financial impact.

750 9th Street, NW, Suite 600, Washington, DC 20001 • 202-624-1500 • FAX 202-737-6462 • www.fah.org

It is our shared goal to reduce health care costs, promote choice and competition, and ensure coverage purchased through the individual health insurance marketplace is affordable. To that end, extending the PTCs helps create a real market for people to shop for individual health coverage through the private sector.

Every family should be able to afford health coverage, regardless of their zip code or income. Unless Congress acts, millions of people who purchase coverage on their own will see a premium hike that will make quality care too expensive to afford. Enhanced tax credits directly lower premiums and make coverage possible for these low- and middle-income individuals and families who could not otherwise afford it.

In five states – Texas, South Carolina, Mississippi, Louisiana, and Georgia – the enhanced tax credits will approximately double the size of the nongroup health insurance market in 2025 and result in a 21 percent or greater decline in the uninsured rate in each of these states, according to a recent study.[1] These individuals and families are among the nearly 50 million Americans who have gained coverage through the individual health insurance marketplace at some point over the past decade.[2]

Without enhanced tax credits, marketplace participants with very low incomes (less than 150% of FPL) who currently pay no premium would see their cost of coverage rise to $387 per year in premiums. Individuals in the next lowest income category (166% FPL) would see their premiums increase 573%, and for people with incomes below 250% of FPL, the average annual increase in premiums could be as much as $924 a year,[3] as expected in Alaska. Without action, five million Americans will lose their coverage completely and millions more would see their premiums increase by more than 50%.[4]

These tax credits are particularly important for people living in rural areas where options for health care services are fewer and harder to reach, and the cost of insurance is typically higher. The Americans who rely on these tax credits are hardworking entrepreneurial people – those who are self-employed, small business owners, those in the building trades, farmers and ranchers, hourly workers, and people in the gig economy.

If Congress fails to extend the tax credits, premiums will skyrocket and the more than 1.5 million children covered by the state and federal marketplaces will be at risk of losing access to essential health care services, and the nearly 2 million Americans with chronic health conditions will be forced to drop their health coverage entirely.

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[1] Who Benefits from Enhanced Premium Tax Credits in the Marketplace? | Urban Institute

[2] U.S. Department of the Treasury Releases New Data Showing Nearly 50 Million Americans Have Been Covered Through Affordable Care Act Health Insurance Marketplaces Since 2014 | U.S. Department of the Treasury

[3] Household Spending on Premiums Would Surge if Enhanced Premium Tax Credits Expire | Urban Institute

[4] Enhanced ACA Marketplace Tax Credits Worked – And Shouldn't Be Eliminated | The Century Foundation

As Congress works to extend the Trump tax cuts, such legislation should include extending enhanced tax credits in the individual health insurance market to put meaningful health insurance plans within reach for millions of Americans. This will allow small businesses and individuals to be full participants in the American economy, instead of worrying about how to afford health coverage that meets the needs of their families.

We urge the Committee to extend the enhanced premium tax credits and preserve access to affordable health care coverage for the more than 20 million Americans who rely on it.

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We look forward to working with you on this important matter. If you have any questions or wish to speak further, please do not hesitate to reach out to me at (202) 615-0599.

Sincerely,

January 14, 2025

The Honorable Jason Smith
Chairman
U.S. House Ways and Means Committee
1011 Longworth House Office Building
Washington, DC, 20515

The Honorable Richard Neal
Ranking Member
U.S. House Ways and Means Committee
1129 Longworth House Office Building
Washington, DC, 20515

Dear Chairman Smith and Ranking Member Neal,

Today, the House Ways and Means Committee will hold a hearing on the importance of permanently extending the 2017 Tax Cuts and Jobs Act (TCJA)—a decision that carries immense consequences for America's family-owned wine and spirits distributors.

The TCJA introduced key tax reforms, including the Section 199A deduction for qualified business income and updates to the estate tax.

Nearly all of America's wine and spirits wholesalers are multi-generational, family-owned, privately held businesses that are eligible for the Section 199A deduction. Since 2017, our businesses have invested billions across the country into their 97,800 full-time equivalent employees, 4,175 facilities, and 1,121 separate communities. A study performed by John Dunham and Associates indicates that Section 199A in particular has enabled wine and spirits wholesalers to invest between $44 million and $54 million annually into our companies, at a total of $304-$380 million since Section 199A was enacted.

One of the unique aspects of wine and spirits wholesalers is that our businesses operate only in the United States, employing only local workers. That means that 100 percent of that reinvestment has been made here in the United States and in the local communities we serve. To the extent that one of the primary goals of Section 199A was to promote investment in American businesses and economic growth within the United States, then wine and spirits wholesalers have done exactly that.

The importance of Section 199A to the livelihood of family-owned businesses across the country cannot be overstated. It has created jobs, supported local communities, and ensured American companies can thrive through the challenges presented by a global pandemic and the significant inflation of the last few years. Without it, many businesses would be forced to make difficult decisions about their workers, facilities, and business future. The expiration of Section 199A would not only directly impact wine and spirits wholesalers but by extension would impact our suppliers' customers and vendors who could see reduced service and spending by our companies. These partners employ over 1.2 million full-time equivalent people in every corner of the country.

It is important to note that wine and spirits wholesalers do not only compete with each other, being in the logistics and marketing businesses, we compete against large, publicly traded and corporate distributors and retailers for employees, trucking, warehouse space, equipment, and other services. The TCJA permanently lowered the corporate rate for many of these businesses. If the Section 199A tax deductions were to expire, we would be at a significant disadvantage compared to these multinational companies, paying a top statutory tax rate nearly double the corporate tax rate.

In addition to creating Section 199A, TCJA also made important changes to the estate tax. Specifically, it raised the exemption available to families passing their assets to the next generation. For our wholesalers, this increased exemption is critical to the continuation of the family business, some of which are entering their fifth generation of family leadership. If this exemption were to return to pre-2017 levels it could force some of those businesses to liquidate. Unfortunately, the buyers of those businesses would likely be large corporations or private equity firms. Maintaining the exemption levels from the TCJA is critical to the health of independently owned family businesses.

We look forward to an educational and informative hearing and appreciate the opportunity to share our story about the importance of these tax provisions. Thank you for the support the Committee has shown for family-owned businesses like ours.

Sincerely,

Francis Creighton

Francis Creighton, President & CEO
Wine & Spirrits Wholesalers of America

Memorandum

To: Dawson Hobbs
From: John Dunham
Date: January 10, 2025
Re: IRS Section 199A Impact on Wine and Spirits Distribution Industry

Under the provisions of the Tax Cuts and Jobs Act of 2017, Congress included a deduction for individuals receiving "pass-through" income from partnerships and Subchapter S corporations. This provision, known as Section 199A, allows eligible business owners to deduct up to 20 percent of their qualified business income (QBI) in determining their personal tax liability. This reduces effective tax rates for business profits by up to 20 percent. This deduction expires in 2025.[1]

Nearly all American, family-owned wine and spirits wholesaler companies operate as partnerships and S-corporations, meaning that partners and shareholders of these entities utilize this critical provision in the tax code. This allows them to realize the same after-tax income while taking smaller distributions from the companies, effectively providing more capital for reinvestment and operational purposes.

Wine & Spirits Wholesalers of America (WSWA) asked John Dunham & Associates (JDA) to calculate the support to local facility operations, and capital investments, that accrued since 2017 as a result of this tax provision based on both government and survey data.

Expected Impact of 199A Provisions

In the context of the 199A provision, a reduction in the tax on income from partnerships and Subchapter S corporations should encourage more investment in qualified entities. While it is difficult to determine the specific impact of the 199A provision, there has been a sizable increase in capital investment in non-durable goods wholesaling following the enactment of 199A.[2] The US Department of Commerce, Bureau of Economic Analysis tracks capital investment across industry sectors.[3] While wine and spirits wholesaling is not broken out directly, non-durable goods wholesaling is. These data track new investment in the sector for: Structures (such as warehouses or certain types of equipment like elevators), equipment (packaging machinery, conveyers), intellectual property (software, books, R&D); other fixed assets (desks, trucks, etc.). Based on these data, there was a sizable jump in investment (in real 2004 terms) following the implementation of 199A. Table 1 on the following page shows these data.

As the table shows, growth was most rapid for equipment and intellectual property, though in recent years, investment in new structures has been particularly strong. Only in the case of other fixed assets, which would include items such as furniture or trucks, have investments fallen, though this has likely been in response to the COVID-19 virus.

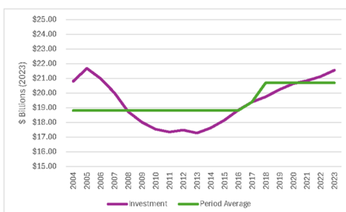
[1] Guenther, Gary, *The Section 199A Deduction: How It Works and Illustrative Examples*, Congressional Research Service, Report R46402, June 10, 2020, at: https://crsreports.congress.gov/product/pdf/R/R46402.
[2] Wine and spirits wholesaling falls under the non-durable goods category. More detailed data are not available from the Federal government.
[3] National Data, Fixed Assets Accounts Tables, US Department of Commerce, Bureau of Economic Analysis, at: https://apps.bea.gov/iTable/?ReqID=10&step=2. Accessed December 26, 2024.

Table 1
Investment in Fixed Assets in the Non-Durable Goods Wholesaling Sector ($2004)

($2004 Billion)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Structures	$ 3.94	$ 3.80	$ 3.65	$ 3.52	$ 3.48	$ 3.73	$ 3.97	$ 4.11	$ 4.17	$ 4.21	$ 4.31	$ 4.40	$ 4.56	$ 4.76
Equipment	$ 4.96	$ 4.94	$ 5.07	$ 5.08	$ 5.21	$ 5.33	$ 5.44	$ 5.91	$ 6.28	$ 6.70	$ 6.95	$ 7.10	$ 7.24	$ 7.43
Intellectual Property	$ 3.32	$ 3.34	$ 3.46	$ 3.51	$ 3.72	$ 3.92	$ 4.21	$ 4.51	$ 4.77	$ 5.08	$ 5.37	$ 5.57	$ 5.75	$ 5.96
Other Fixed Assetx	$ 5.32	$ 5.25	$ 5.29	$ 5.16	$ 5.21	$ 5.18	$ 5.22	$ 4.84	$ 4.52	$ 4.24	$ 4.00	$ 3.77	$ 3.57	$ 3.40
Total	$ 17.53	$ 17.34	$ 17.48	$ 17.27	$ 17.62	$ 18.15	$ 18.83	$ 19.38	$ 19.74	$ 20.23	$ 20.63	$ 20.84	$ 21.12	$ 21.55

Going back to 2004, the earliest year available, and examining the percentage change in investment, it is easy to see that prior to 2017, there were lower levels of investment growth than after 2017. Figure 1 below shows the total and average investment over three periods (2014-2016, 2017, and 2018-2023) in real 2004 dollars. As the figure shows, there was a substantial increase in average real capital investments in the sector following the implementation of the 199A credit. This change was nearly $1.9 billion per year, or 10.0 percent.[4]

Figure 1
Total and Average Capital Investment by Period ($2004)



While data are too limited to determine if this increase in investment is solely due to the 199A provisions, it is important to note that investment tracked the economy prior to 2017, but did not fall during the 2020-2021 COVID-19 recession, nor has it tapered off as the economy remained soft in 2022 and 2023.

Extrapolation to the Wine and Spirits Wholesaling Industry

These data reflect all capital investments by non-durable goods wholesalers, of which wine and spirits wholesalers account for a small proportion. The most recent comprehensive data on the scope and operations of wine and spirits distributors is available from the 2024 Economic Impact Analysis of the Wine and Spirits Industry.[5] According to this analysis, nearly 97,800 full-time-equivalent (FTE) jobs were directly created by wine and spirits wholesalers in 2024, along with nearly $40.8 billion in direct economic output. There were 4,176 facilities wholesaling beverage alcohol in 2024. Of the 97,800 jobs, about 7,850 are classified as "proprietors." These would be everything from sole proprietors, members of Limited Liability Corporations (LLCs), owners of Subchapter S corporations, etc.[6] This means that about 7.1 percent of all employees are proprietors, and they receive about $663.5 million in distributions.

According to the Bureau of Labor Statistics, there were a total of 2,217,840 employees in the non-durable

[4] $1,882,000,000 in $2004.
[5] *The Wine and Spirits Industry Economic Impact Study: 2024*, John Dunham & Associates, prepared for the Wine and Spirits Wholesalers of America, December 2024. Dollars in current $2024.
[6] Anyone receiving K-1 income from a company is considered a proprietor.

goods wholesaling sector as of June 2024.[7] These workers received $48.9 billion in wages. This suggests that wine and spirits wholesaling accounts for 4.1 percent of the total sector in terms of employment but 17.7 percent of wages, meaning that employees in this sector are particularly well compensated.

Keeping ratios similar for proprietors would mean that there are a total of 187,470 proprietors in the non-durable wholesaling sector of the economy. Table 2 below shows the totals for the wine, spirits, wine and spirits and non-durable goods wholesaling sectors.

Table 2
Employment, Income and Estimated Proprietors and Proprietor Income Across Sectors

Sector	Workers	Proprietor	Wage Income	Proprietor Income	Wage/emp.	Income/Prop.
Spirits	42,269	3,583	$ 4,061,691,045	$ 311,062,791	$ 96,092	$ 86,806
Wine	47,887	4,060	$ 4,601,493,465	$ 352,403,317	$ 96,092	$ 86,806
Wine And Spirits	90,155	7,643	$ 8,663,184,510	$ 663,466,108	$ 96,092	$ 86,806
Non-Durable Goods	2,217,843	187,467	$ 48,911,428,000	$ 3,726,524,671	$ 22,054	$ 19,878

Based on a linear projection of the capital spending data, total spending in 2024 (again in inflation adjusted 2004 dollars) would be $21.88 billion, or about $9,864 per worker.[8] Inflating this to current (2024) dollars would equal $17,671 in investments per employee for the non-durable goods wholesaling sector. Of this, about $2,485 per employee is potentially due to the 199A deduction. Multiplying this by the number of wine and spirits wholesaling employees gives an estimate of $224.0 million in increased annual capital spending due to the 199A deduction, or approximately $1.57 billion over the 7-year period.[9]

Tax Based Modeling Approach

Another way to look at the potential impact of the 199A provision is through the estimation of tax savings that could be made available for capital investments. The 199A provision provides for a 20 percent deduction of qualified business income. According to the economic impact analysis, proprietors in the wine and spirits wholesaling sector received about $663.5 million in qualified business income in 2024, meaning that the total deduction would be $132.7 million in current dollars, leading to a tax savings of $44,200,100, assuming the highest tax rate of 33.31 percent.[10]

An alternative calculation is produced by multiplying the $663.5 million in qualified business income by 25 percent. When an owner's taxable income exceeds the upper income threshold: in this case the deduction cannot exceed the greater of 50 percent of the owner's share of W-2 wages for a business, or 25 percent of those wages plus 2.5 percent of the owner's share of the unadjusted basis of qualified property used in the business.[11] The 25 percent figure is used as a conservative cap on the amount of income that can be deducted. This would total just under $55.3 million in tax savings.

7 Quarterly Census of Employment and Wages, US Department of Labor, Bureau of Labor Statistics, at: https://www.bls.gov/cew/data.htm. Accessed December 28, 2024.
8 $21,877,000,000 in $2004.
9 $1,568,000,000 in $2024.
10 2024 Calculation of Effective Tax Rate. Kraft CPAs, at: https://www.kraftcpas.com/production/site/web/assets/2024/02/2024-Effective-Federal-Tax-Rate-Chart.pdf.
11 Op. cit., Guenther, Gary.

Assuming owners keep an average profit margin of 1.63 percent,[12] the amounts that could be potentially reinvested would be between $43.5 million and $54.3 million each year, or between $304.4 million and $380.5 million in current ($2024) over the 7-year period.

Table 3
Calculation of Available Capital From Tax Savings ($2024)

	Scenario 1	Scenario 2
Pass through income	$ 663,466,108	$ 663,466,108
199A Deduction	20%	25%
Deduction $	$ 132,693,222	$ 165,866,527
Effective Tax Rate	33.31%	33.31%
Savings	$ 44,200,112.11	$ 55,250,140.14
Owner's Margin	0.0163	0.0163
Total $ Available	$ 43,479,650	$ 54,349,563
Employees	90,155	90,155
$ Per Employee Available for Investment	$ 482	$ 603

Data from Wine and Spirits Wholesalers

In late 2024, WSWA conducted a survey of its members to determine the amount and nature of capital spending in the industry since 2017.[13] The results were limited, with data collected from 11 companies and locations in 29 states. Based on these data, and estimated company employment by state from the 2024 Economic Impact Analysis of the Wine and Spirits Industry, an average of $66,320 per person was spent on capital improvements over the 7-year period, or roughly $9,475 per worker per year. The median spending was smaller, just $48,632, indicating that the distribution was skewed to the lower end.

While this figure is significantly lower than the non-durable goods sector as a whole ($9,475 vs. $17,671), it should be remembered that the companies in the survey tended to be larger, more established firms, and most capital spending in the distribution sector would be made by newer entrants. Even so, $9,470 per worker would equal $854.2 million per year, of which $120.1 million would likely be due to the 199A provisions.[14]

Investment Breakdown

While different businesses reinvest tax savings in different ways, the WSWA survey also broke the spending by category. Again, results were limited, but based on averages, the annualized capital investments made by wine and spirits wholesalers would equal about $3.0 billion, of which the majority (57.9 percent) would be in the form of construction expenses for new and expanded warehouses. The next largest segment was operational investments which accounted for 36.9 percent. Table 4 below outlines the spending reported by the survey.[15]

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12 IMPLAN® model, 2022 Data, using inputs provided by the user and IMPLAN Group LLC, IMPLAN System (2024), 16905 Northcross Dr., Suite 120, Huntersville, NC 28078, www.IMPLAN.com.

13 Raw survey data provided to John Dunham & Associates by the WSWA. JDA did not have access to the survey frame and therefore cannot determine the statistical significance of the results.

14 Based on the 90,155 workers in wine and spirits wholesaling from the 2024 Economic Impact Analysis (Note 4).

15 Note that per person figures were based on employment estimates for company facilities from the 2024 Economic Impact Analysis (note: 4). Categories were extrapolated from survey questions as provided to JDA. Specific investments were outlined in only a few cases.

Table 4
Estimated Capital Spending by Type Based on WSWA Survey

	Avg Per Person	Estimate	Percent
Upgrades	$ 9,475	$ 854,192,277	4.0%
Construction	$ 126,434	$ 11,398,681,346	53.9%
Sustainability	$ 2,587	$ 233,272,135	1.1%
IT	$ 2,551	$ 230,022,939	1.1%
Talent Development	$ 2,631	$ 237,223,009	1.1%
Operational	$ 86,542	$ 7,802,228,015	36.9%
Transportation	$ 4,283	$ 386,172,267	1.8%
Total	$ 234,504	$ 21,141,791,988	100.0%
Annualized	$ 33,501	$ 3,020,255,998	

Based on the analysis of overall capital spending in the non-durable goods wholesaling industry between 14.4 percent and 18.0 percent of capital spending is likely a result of the 199A provisions. This means that between $434.9 million and $534.6 million in capital spending by the wine and spirits wholesaling industry has resulted from the 199A provisions (or between $62.1 and $77.7 million per year), equal to between $104,150 and $130,180 for each of the 4,176 facilities across the country.

Conclusion

The IRS Section 199A provision from the Tax Cuts and Jobs Act of 2017 help to encourage investments into the operations of companies operating as partnerships and S-corporations. Many of these are smaller, family businesses, including most of the nation's wine and spirits wholesalers. Each year, between $43.5 million and $54.3 million is made available through the 199A tax deduction to invest in growing and improving wine and spirits distribution operations across America.[16] Over 90 percent of this is invested in new facilities and equipment that helps to improve industry productivity and ensure that legal adult consumers have access to a wide variety of wine and spirits products sold through responsible retailers.

These operations lead to the collection of as much as $14.8 billion worth of federal income, excise, payroll, customs and other taxes each and every year.[17]

16 For a total of between or between $304.4 million and $380.5 million in current ($2024) over the 7-year period.
17 Op. cit. Footnote 4.