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THE 2017 TAX LAW AND WHO IT LEFT BEHIND

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTEENTH CONGRESS

FIRST SESSION

MARCH 27, 2019

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THE 2017 TAX LAW AND WHO IT LEFT BEHIND

WEDNESDAY, MARCH 27, 2019

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

The Committee met, pursuant to call, at 10:00 a.m., in Room 1100, Longworth House Office Building, the Honorable Richard E. Neal [Chairman of the Committee] presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
March 20, 2019
No. FC-8

CONTACT: (202) 225-3625

Chairman Neal Announces a Hearing on The 2017 Tax Law and Who It Left Behind

House Ways and Means Chairman Richard E. Neal announced today that the Committee will hold a hearing, entitled "**The 2017 Tax Law and Who It Left Behind**," on Wednesday, March 27, 2019 at 10:00 a.m. in room 1100 Longworth House Office Building.

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

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

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

Please ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, by the close of business on Wednesday, April 10, 2019.

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. 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.

The Committee seeks to make its facilities accessible to persons with disabilities. If you require special accommodations, please call (202) 225-3625 in advance of the event (four business days' notice is requested). Questions regarding special 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 are available [here].

###

Chairman NEAL. The Committee will come to order. Good morning, and I want to welcome our witnesses and the audience members, and I want to thank everyone for being here today. Today, the Committee begins its long overdue examination of the 2017 tax law that passed in a mere 51 days without any hearings or expert witness testimony.

More than a year after passage of a $2.3 trillion tax giveaway, this will be the first time we will have a thorough review of the new law and its impact on American families and the economy.

So today we begin with some big picture questions about fairness and who the tax law left behind. We already know it does not treat all taxpayers alike. Instead, the law's proponents made choices about what and whom to prioritize and what and whom, unfortunately, to leave out. They chose to increase the deficit by $1.5 trillion, which turned out to be $2.3 trillion, and they decided that the most urgent national priorities were to provide a massive tax cut for corporations, business owners, and those who have inherited large sums of money.

For years they have touted the agenda of opportunity, including an increase in the earned income tax credit, especially for those workers without children, but when it came time to pass their tax bills Republicans actually shrank the EITC by slowing its growth rate over time. In fact, the 2017 tax law missed every significant opportunity to make a difference in the lives of working people. It did nothing to help working people and families afford childcare, pay for their child's education, or pay down their student loan debt.

Perhaps the most devastating impact in our Nation's memory is what they attempt to do now to our healthcare system. The tax bill amounted to backdoor effort to drive up health insurance costs, resulting in the loss of coverage for millions of Americans, and the petition in the District Court of New Orleans over the last 48 hours is consistent with the argument I just made.

We will hear from some today that the economy is booming, a reminder that we are now more than 100 straight months into economic growth. To some extent, it is true about recent growth, and investors are surely doing very well. And many corporate CEOs right now can proclaim that they have had it pretty well, as well. Wealthy heirs couldn't be doing any better.

But in truth we have two economies, and let's not pretend that stock market gains and corporate profits tell the whole story of today's economy. This country also includes many middle class and lower income people who are working hard and struggling to get by. Wages have been more or less flat for the middle class since the late seventies, while housing, healthcare, and higher education get more expensive. We need a healthy middle class in this country, one that people can stay in and one that people can climb to. We expect people to earn their way, but we should also expect hard work to translate into financial dignity. A massive tax overhaul should have created a Tax Code that rewards effort, not simply the good fortune of those who are already at the top.

And, with that, let me recognize the Ranking Member Mr. Brady for an opening statement.

[The prepared statement of Chairman Neal follows:]

NEAL OPENING STATEMENT AT HEARING ON THE 2017 TAX LAW AND WHO IT LEFT BEHIND

Mar 27, 2019 | Press Release

(As prepared for delivery)

Good morning, and welcome to our witnesses and audience members. Thank you everyone for being here today.

Today, the Committee begins its long overdue examination

of the 2017 tax law that Republicans passed in a mere 51 days, without any hearings or expert witness testimony.

More than a year after the passage of a 2.3 trillion-dollar tax giveaway, this will be the first time we will have a thorough review of the new law and its impact on American families and the economy.

So today we begin with some big picture questions about fairness and who the Republican tax law left behind. We already know it does not treat all taxpayers alike. Instead, the law's proponents made choices about what (and whom) to prioritize, and what (and whom) to leave out. They chose to increase the deficit by 1.5 trillion dollars – which turned out to be 2.3 trillion dollars – and they decided that the most urgent national priorities were to provide a massive tax cut for corporations, business owners, and those who have inherited large sums of money.

For years, Republicans had touted an agenda of opportunity, including an increase in the earned income tax credit, especially for those workers without children. But when it came time to pass their tax bill, Republicans actually shrank the EITC by slowing its growth rate over time.

In fact, the 2017 tax law missed every significant opportunity to make a difference in the lives of working people: It did nothing to help working families afford childcare, pay for their child's college education, or pay down their own student loan debt.

Perhaps most devastating is the impact on our nation's healthcare system. The tax bill amounted to a back door effort to drive up health insurance costs, resulting in the loss of coverage for millions of Americans.

We will hear from some today that the economy is booming. And to an extent that is true. Investors are doing very well. Corporate CEOs have it great. Wealthy heirs

couldn't be doing better.

But in truth we have two economies. Let's not pretend that stock market gains and corporate profits tell the whole story of today's economy. This country also includes many middle-class and lower-income people who are working hard but struggling to get by.

Wages have been more or less flat for the middle class since the late 1970s, while housing, health care, and higher education get more expensive.

We need a healthy middle class in this country—one that people can stay in and one that people can climb up to. We expect people to earn their way, but we should also expect hard work to translate into financial dignity. A massive tax overhaul should have created a tax code that rewards effort, not simply the good fortune of those already at the very top.

And with that I will recognize the Ranking Member, Mr. Brady for an opening statement.

###

Ways and Means Committee Democrats
U.S. House of Representatives
1102 Longworth House Office Building
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Mr. BRADY. Thank you, Chairman Neal.

Thanks to tax reform and pro-growth policies, vulnerable Americans left behind during the Obama administration are finding jobs with growing paychecks, experiencing less poverty, and expressing new optimism about their future. Repealing the Tax Cuts and Jobs Act, as our Democrats have pledged, not only will damage the U.S. economy, kill jobs, reduce paychecks and send American jobs overseas, it will most hurt women, minorities, individuals with disabilities, and workers without a high school education.

It is still relatively early to judge the full impact of tax reform—that will take years—but the early signs are extremely encouraging, ones that both parties should welcome. We care about poverty. Today Latino and African American poverty is at the lowest recorded. We care about folks with disabilities, about women, about teenagers, and workers who didn't complete high school. The unemployment rates for these crucial Americans are at the best in decades. And it is even better for Hispanics and African Americans. We care about single moms. That is why a single mom with two kids won't pay any taxes on her first $53,000 of income. Millions of hardworking Americans will no longer have to figure their taxes twice with the AMT gone for all but millionaire households.

With 3 out of every 4 dollars in tax cuts going to individuals and small businesses, we care about middle-class families. That is why millions of parents now enjoy a child tax credit twice its earlier size. More of the credit is refundable to the low income, and 8 million more middle-class families can actually use the credit.

Main Street America is back hiring more, paying more, and expanding more because the new 20-percent small business deduction.

U.S. manufacturing is back. After losing thousands of jobs during the Obama years, today 450,000 manufacturing jobs have been created under the Trump White House. That is why blue-collar jobs are surging, good news for workers who were told by the previous President their jobs were never coming back.

Paychecks are rising at the fastest rate in the decade, and workers with the lowest incomes are seeing the greatest increases. There is a reason for that wage growth. With lower business rates, a modern international system, historic incentives to invest in new technology, new equipment and research, many American businesses are hiring more, paying more, and making the long-term investment in innovation that drives productivity and wages over the long term.

Some try to claim that all this is the result of Obama policies, but that is silly. After a decade, did some growth fairy suddenly wake up in 2017, 2018? Business investment grew six times faster than the last year of President Obama. Manufacturing awoke. New business startups are skyrocketing. In just the first year, American businesses brought back $700 billion from overseas to invest in jobs, buildings, research, and, yes, in their own shareholders when smart investments weren't readily available.

Can we do more to help grow the economy and fine tune the Tax Code so it achieves even more? Absolutely. And we welcome constructive bipartisan ideas on how to grow more jobs and provide more opportunities for Americans willing to work. I suspect today though we may be doing a lot of fact checking: Claims, for example, that $1.3 trillion of tax breaks went to corporations, factcheck.org called that claim misleading; or Senator Schumer's assertion that companies are laying off workers because of tax reform, PolitiFact labeled that mostly false; or the claim that 83 percent of all tax breaks go to the top 1 percent, factcheck.org rated that misleading as well; or PolitiFact, which gave their embarrassing Pants on Fire rating to Democratic claims that tax cuts are only for billionaires and corporations.

So far, what tax reform has left behind are the gloomy predictions of a new normal for America where economic growth was disappointing for decades, where paychecks would stay flat, and we could do nothing about American jobs going overseas. The American economy has a new trajectory and a new optimism. My prediction is the best benefits of a new modern Tax Code are yet to come because we changed the location and investment decisions of job creators for the long term. As a result, America has moved to the top as the most competitive economy in the world. That is where we want to stay: the best.

With that, Mr. Chairman, I yield.

[The prepared statement of Mr. Brady follows:]

Brady Opening Statement at Hearing on The 2017 Tax Law and Who It Left Behind

MARCH 27, 2018 — IN CASE YOU MISSED IT... — OPENING STATEMENTS

WASHINGTON, D.C. – The top Republican on the House Ways and Means Committee Kevin Brady (R-TX) delivered the following opening statement at a Subcommittee Hearing on The 2017 Tax Law and Who It Left Behind.

Before the start of today's hearing, Rep. Brady and Rep. Adrian Smith (R-NE), the top Republican on the Select Revenue Measures Subcommittee, sent a letter to Ways and Means Committee Chairman Richard Neal (D-MA). CLICK HERE to read the full letter.

CLICK HERE to watch the hearing.

Remarks as prepared for delivery:

"Thank you, Chairman Neal.

"Thanks to tax reform and pro-growth policies, vulnerable Americans left behind during the Obama Administration are finding jobs with growing paychecks, experiencing less poverty, and expressing new optimism about their future.

"Repealing the Tax Cuts and Jobs Act, *as Democrats have pledged, will not only damage the U.S. economy, kill jobs, reduce paychecks, and send American jobs overseas – it will most hurt women, minorities, individuals with disabilities, and workers without a high school education.*

"It is still relatively early to judge the full impact of tax reform – that will take years.

But the early signs are extremely encouraging, ones that both parties should welcome.

"We care about poverty. Today, Latino and African-American poverty is at the lowest recorded.

"We care about folks with disabilities, about women, about teenagers, and workers who didn't complete high school. The unemployment rates for these crucial Americans are at the best in decades. And even better for Hispanics and African-Americans.

"We care about single moms. That's why a single mom with two kids won't pay any taxes on her first $53,000 of income.

"Millions of hard-working Americans will no longer have to figure their taxes twice, with the Alternative Minimum Tax gone for all but millionaire households.

"With three out of every four dollars in tax cuts going to individuals and small businesses, we care about middle-class families.

"That's why millions of parents now enjoy a Child Tax Credit twice its earlier size; more of the credit is refundable to the low income, and 8 million more middle-class families can use the credit.

"Main Street America is back, hiring more, paying more, and expanding more because of the new 20-percent small-business deduction.

"U.S. manufacturing is back. After losing thousands of jobs during the Obama years, today 450,000 manufacturing jobs have been created under the Trump White House.

"That's why blue-collar jobs are surging – good news for workers who were told by the previous president their jobs were never coming back unless there was a 'magic wand.'

"Paychecks are rising at the fastest rate in a decade. And workers with the lowest incomes are seeing the greatest increases.

"There is a reason for that wage growth.

"With lower business rates, a modern international system, and historic incentives to invest in new technology, equipment, and research many American businesses are hiring more, paying more, and making the long-term investment in innovation that drives productivity and wages over the long term.

"Some try to claim all this is the result of Obama policies, but that's silly. After a decade did some growth fairy suddenly wake up in 2017 and 2018?

"Business investment grew six time faster than in the last year of President Obama. Manufacturing awoke. New business startups are skyrocketing.

"And in just the first year, American business brought back $700 billion from overseas to invest in jobs, buildings, research, and yes, in their own shareholders when smart investments weren't readily available.

"Can we do more to help grow our economy and fine tune the tax code so it achieves even more? Absolutely, and we welcome constructive, bipartisan ideas on how to grow more jobs and provide more opportunities for Americans willing to work.

"I suspect today, though, we may be doing a lot of fact checking.

"Claims for example, that $1.3 trillion of tax breaks went to corporations. Factcheck.org called that claim 'misleading.'

"Or Senator Schumer's assertion that 'companies are laying off workers because of tax reform.' PolitiFact labeled that 'mostly false.'

"Or the claim that '83 percent of all tax breaks go to the top 1 percent.' FactCheck.org rated that misleading, as well.

"Or PolitiFact, which gave their embarrassing 'pants on fire' rating to Democratic claims that tax cuts are only for 'billionaires and corporations.'

"So far, what tax reform has left behind are the gloomy predictions of a 'new normal' for America, where economic growth is disappointing for decades to come, where paychecks would stay flat, and we could do nothing about American jobs going overseas.

"The American economy has a new trajectory and a new optimism.

"And my prediction is that the best benefits of a new, modern tax code are yet to come because we changed the location and investment decisions of job creators for the long term.

"As a result, America has moved to the top as the best competitive economy in the world.

"That's where we want to stay – the best."

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Chairman NEAL. Thank you, Mr. Brady.

And, without objection, all members' openings statements will be made part of the record. We have a distinguished panel of witnesses here with us today, and first I want to welcome Dr. Elise Gould. Dr. Gould is a senior economist at the Economic Policy Institute, where her research focuses on wages, poverty, inequality, economic mobility, and healthcare.

Next I would like to welcome Professor Jason Oh. His work at UCLA law school focuses in particular on political economy as it relates to taxation and how institutions shape tax and budgetary policy.

Christopher Shelton, President of the Communication Workers of America. Prior to his election as CWA president in 2015, Mr. Shelton served as vice president of CWA District 1, which represented 300 CWA locals, including New England.

And next we have Professor Nancy Abramowitz, a professor of practice and director of the Janet Spragens Tax Clinic at American University Washington College of Law. Professor Abramowitz specializes in taxation, employee benefits, general business law, and dispute resolution. And finally, no stranger to this Committee, I would like to introduce Douglas Holtz-Eakin, President of the American Action Forum. He has previously served in a number of policy positions, including as chief economist for the President's Council of Economic Advisers and Director of the Congressional Budget Office.

Each of your statements will be made part of the record in its entirety, and I would ask that you summarize your testimony in 5 minutes or less. And to help with that time there is a timing light at your table. When you have one minute left the light will switch from green to yellow and then finally to red when 5 minutes are up.

Dr. Gould, would you please begin.

STATEMENT OF ELISE GOULD, PH.D., SENIOR ECONOMIST, ECONOMIC POLICY INSTITUTE

Ms. GOULD. Chairman Neal, Ranking Member Brady, and Members of the Committee, thank you for the opportunity to testify today on rising inequality in the United States. My name is Elise

Gould, and I am a senior economist at the Economic Policy Institute, a nonprofit, nonpartisan think tank in Washington, D.C.

My testimony establishes that the poor performance of American workers' wages in recent decades is one of the country's central economic challenges. A range of other economic challenges—reducing poverty, increasing economic mobility, and closing racial and gender wage gaps—rely largely on boosting wage growth for the vast majority.

I have four main points to share with you this morning. The first, income inequality is the primary reason why most Americans experienced disappointing growth in their living standards over the last four decades. Secondly, because labor market income represents the largest source of income for most Americans, the divergence between pay and productivity is at the root of slow growing income. Thirdly, recent wage gains for the lowest wage workers can be explained by a tight labor market and state level minimum wage increases. Fourthly, policymakers should prioritize keeping labor markets tight while also strengthening institutions and policies that provide workers the leverage they need to achieve decent wage growth even when the economy is not at full employment.

So, first, and I have some slides here to share with you, in recent decades, most Americans have experienced disappointing growth in their living stands, despite economic growth that could have easily generated faster gains had it been broadly shared. Here I am showing CBO's measure of comprehensive income that includes cash, market-based income, such as wages and capital gains and other market-based incomes; noncash income, such as employer contributions to health insurance; and government transfers, such as the importance of Social Security and Medicare.

Over the last four decades, the top 1 percent of household income has grown 229 percent, more than four times as fast as the bottom 90 percent of households. The rise of American inequality is extreme even when using these comprehensive income measures, which include these important taxes and transfers.

My second point, the divergence between pay and productivity is at the root of slow-growing incomes. Among the bottom 90 percent of American households, labor income represents the vast majority of their income. Contributions of labor income for the top 1 percent were about 40 percent, while its over 80 percent about 86 percent for the bottom 90 percent of households, so they depend on labor income about twice as much as those at the top. Therefore, the rise in income inequality that has blocked living standards growth since 1979 has been driven by a pronounced reduction in the collective and individual bargaining power of most workers. As a result, their wages have grown agonizingly slow over the past generation diverging from economic growth and growing productivity, as you can see on the slide here.

So who won? The excess went to higher wages at the top as well as high corporate profits and increased income accruing to capital and business owners. When policymakers consider policies to improve productivity growth, they also should consider ways that rising productivity could better translate into wage growth for most workers and not just those at the very top.

My third point is that, after years of wage losses, low-wage workers are finally exceeding their 1979 wage levels, and these recent wage gains can be explained by tight labor markets and state level minimum wage increases.

Low-wage workers are among the most vulnerable in economic downturns, and it often takes them longer to recover in economic expansions. Using policy levers to achieve genuine full employment is one way that these workers gain enough bargaining power to increase their wages. Employers have to pay more to attract and retain the workers they need when idle workers are scarce.

What this shows is that while workers do relatively worse—while low-wage workers do relatively worse in bad times, they also see a relatively larger boost in good times. That helps explain the recent rise in wages for low-wage workers over the last few years.

But there is another policy lever that was recently pulled that happened at the State level. In 2018, the minimum wage was increased in 22 States and D.C. These changes came on the heels of other increases to the minimum wage. When we compare States that had any minimum wage increase in the last 5 years with States that did not, we see wage growth among low-wage workers in those States with at least one increase was more than 50 percent faster than in States without any.

Going forward, policymakers should, one, prioritize keeping labor markets tight and, two, strengthen institutions and policies that provide workers the leverage they will need to achieve decent wage growth even when the economy is not at full employment. Some of these policies are things like raising the Federal minimum wage, expanding eligibility for overtime pay, addressing gender and racial pay disparities, and protecting and strengthening workers' right to bargain collectively for higher wages and benefits. Thank you.

[The prepared statement of Ms. Gould follows:]

Economic
Policy
Institute

Decades of rising economic inequality in the U.S.

Testimony before the U.S. House of Representatives Ways and Means Committee

Testimony • By Elise Gould • March 27, 2019

On March 27, 2019, EPI Senior Economist Elise Gould testified before the U.S. House Ways and Means Committee, for a hearing on "The 2017 Tax Law and Who It Left Behind."

Chairman Neal, Ranking Member Brady, and members of the committee, thank you for the opportunity to testify today on rising inequality in the United States.

My name is Elise Gould and I am an economist at the Economic Policy Institute (EPI) in Washington, D.C. EPI is a nonprofit, nonpartisan think tank that believes every working person deserves a good job with fair pay, affordable health care, and retirement security. To achieve this goal, EPI conducts research and analysis on the economic status of working America. I am an economist with particular expertise on wages and wage inequality.

My testimony establishes that the poor performance of American workers' wages in recent decades—particularly the failure of workers' wages to grow at anywhere near the pace of overall productivity—is one of the country's central economic challenges. Indeed, it's hard to think of a more important economic development in recent decades. It is at the root of the large rise in overall income inequality that has attracted so much attention in recent years. A range of other economic challenges—reducing poverty, increasing mobility, closing racial and gender wage gaps, and spurring a more complete recovery from the Great Recession—also rely largely on boosting hourly wage growth for the vast majority.

The main points of this testimony are as follows:

1. Income inequality is the primary reason why the vast majority of Americans experienced disappointing growth in their living standards over the last four decades. In other words, most Americans are seeing slow income growth because most of overall income growth is going to households at the top.

2. Labor market income represents the largest source of income for most Americans and that is why we cannot tackle income inequality without tackling wage growth.
3. Wage growth in the last four decades has been uneven, with notable growth only at the top while wages for most workers have failed to rise with productivity growth.
4. This uneven wage growth—what we can call growing wage inequality—continued through the 2000s, as wage gaps between demographic groups persisted, and, in some cases, worsened. Further, the growth in inequality cannot be explained by growing demand for college-educated workers.
5. Recent wage gains for the lowest wage workers can be explained by tight labor markets and the institution of a number of state-level minimum wage increases.
6. Going forward, policymakers should prioritize keeping labor markets tight while also strengthening institutions and policies that provide workers the leverage they will need to achieve decent wage growth even when the economy is not at full employment. These policies and institutions include strengthening and enforcing labor standards, making it easier for workers to collectively bargain, and raising the *federal* minimum wage.

Rising inequality helps explain the disappointing living standards growth for the vast majority

In recent decades, the vast majority of Americans have experienced disappointing growth in their living standards—despite economic growth that could have easily generated faster gains in their living standards had it been broadly shared. **Figure A** helps us assess the economic performance for different groups by charting the cumulative percentage increase in household income for the top 1 percent compared with the bottom 90 percent. Breaking the top 1 percent down even further would show nearly as dramatic an increase in inequality just within this top group, but it would also stretch the vertical axis so much as to make it nearly unreadable. What this shows is that income grew swiftly for a small sliver of the population while living standards for most grew far more slowly.

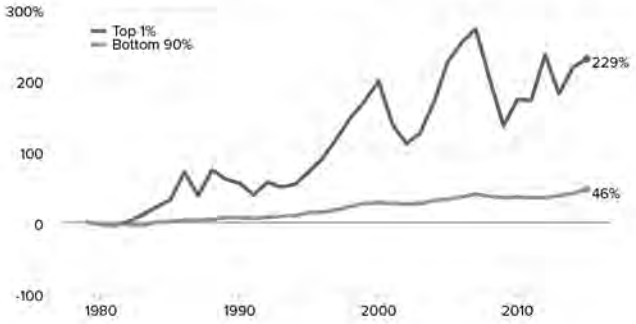
Figure A measures the change in comprehensive income—including cash, market-based incomes (wages and salaries, dividends, rent, capital gains, and business income); noncash income, such as employer contributions to health insurance premiums; and cash and noncash government transfers like Social Security, food stamps, Medicare, and Medicaid. It is easy to see that the rise in American inequality is extreme even when using these comprehensive income measures, which include taxes and transfers.

One striking aspect of the figure is the large decline in top 1 percent incomes following the onset of the Great Recession after 2007. However, a similarly large fall in top 1 percent incomes resulted from stock market declines following the 2001 recession as well, and as the figure shows, as of 2015, these incomes mostly recovered. Even with these losses, the

Figure A

Top 1 percent incomes grew five times as fast as bottom 90 percent incomes

Change in real annual average household income, by income group, 1979–2015



Notes: Data are for comprehensive income, including market income, social insurance benefits, and means-tested transfers. Average income for the bottom 90th was constructed using a simple weighted average of the bottom four quintiles and the 91–90th deciles.

Source: EPI analysis of data from the Congressional Budget Office (2018)

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top 1 percent of household income has grown 229 percent since 1979, far in excess of the slower 46 percent growth—just 1.0 percent annualized growth—for the bottom 90 percent of households.

Most income for the vast majority of households comes from their wages

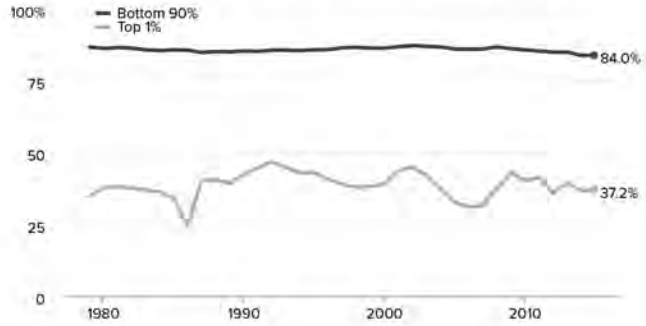
Among the bottom 90 percent of American households, labor income—including wages and wage-related income such as employer contributions to health insurance benefits for workers and Social Security and Medicare for retired workers—represents the vast majority of income. **Figure B** illustrates the share of total income that is composed of wages and wage-related incomes for the bottom 90 percent and the top 1 percent of household incomes. What's clear from the figure is that the vast majority of American households get the vast majority of their incomes from wages and wage-related sources while a much smaller share of incomes for the top 1 percent comes from these sources. Over the entire period, contributions of wages and wage-related income for the top 1 percent averaged just under 40 percent, while it averaged 86 percent for the bottom 90 percent of households, more than twice as high.

In 1979, 86.9 percent of household income for the bottom 90 percent came from wages

Figure B

The majority of income for the vast majority of households comes from the labor market

Share of household income from wages and wage-related sources, 1979–2015



Notes: : Data used for wage-related labor market income are wages, employer contribution to deferred compensation, health insurance, and payroll taxes, unemployment tax, corporate tax borne by labor, other market income (mostly pension benefits), and insurance benefits (including Social Security and Medicare). Average labor share for the bottom 90th was constructed using a simple weighted average of the bottom four quintiles and the 91–90th deciles.

Source: EPI analysis of data from the Congressional Budget Office (2018).

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and wage-related sources. By 2015, the share had fallen slightly to 84.0 percent. Over this period, much of the rise in earnings for most households came from increasing work hours and not increasing hourly wages (Bivens et al. 2014). Because the vast majority of household income for the bottom 90 percent comes from labor income, it is clear that growing wage inequality is at the root of slow growing incomes for the vast majority of American households.

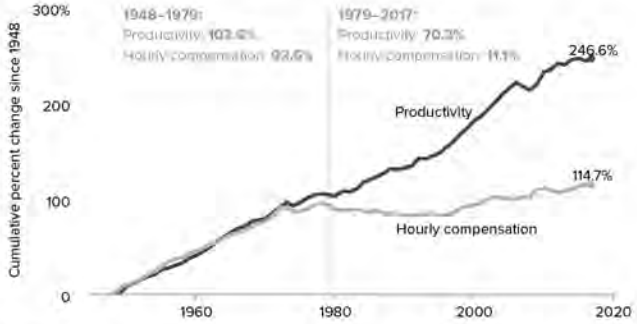
Broad wage suppression underlies sluggish living standards growth for the vast majority

Because wages are their primary source of income, the rise in income inequality that has blocked living standards growth for the vast majority since 1979 has been driven by a pronounced reduction in the collective and individual bargaining power of ordinary American workers. As a result of their eroded bargaining power, their wages have grown agonizingly slow over the past generation. Rising wage inequality—anemic wage growth for the vast majority, combined with substantial wage gains for those at the very top—has

Figure C

Productivity grew six times faster than hourly compensation between 1979 and 2017

Productivity growth and hourly compensation growth, 1948–2017



Notes: Data are for compensation (wages and benefits) of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services less depreciation per hour worked.

Source: EPI analysis of Bureau of Labor Statistics and Bureau of Economic Analysis data. Updated from Figure A in Bivens et al. 2014.

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left most Americans with an ever-shrinking portion of the overall wage bill. It is also the case that if labor incomes—i.e., wages—had not grown so unequally, then the share of total output available to be claimed by capital owners, again concentrated at the top of the income distribution, would have been significantly smaller. It is the combination of these two factors—driven by wages for the vast majority lagging productivity—that has led to the erosion of most Americans' living standards. The resulting lackluster wage growth and inequality have afflicted men and women, and people at all levels of education; even the college educated are just treading water.

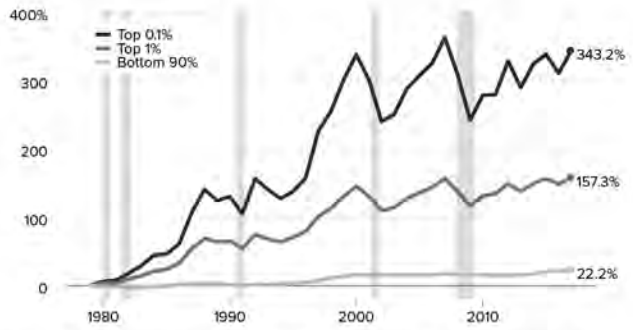
Figure C demonstrates that since 1979, "real" (inflation-adjusted) hourly pay for the vast majority of American workers has diverged from economy-wide productivity. After tracking rather closely in the three decades following World War II, growing productivity and typical worker compensation diverged. From 1979 to 2017, productivity grew 70.3 percent, while hourly compensation of production and nonsupervisory workers grew just 11.1 percent. Productivity thus grew six times faster than typical worker compensation.

A natural question that arises from this story is just where did the "excess" productivity go? A significant portion of it went to higher corporate profits and increased income accruing to capital and business owners (Bivens et al. 2014). But much of it went to those at the very top of the wage distribution, as shown in **Figure D**. The top 1 percent of earners saw cumulative gains in annual wages of 157.3 percent between 1979 and 2017—far in excess

Figure D

Top 0.1 percent earnings grew fifteen times faster than bottom 90 percent earnings

Cumulative percent change in real annual earnings, by earnings group, 1979–2017



Source: EPI analysis of Kopczuk, Saez, and Song (2010, Table A3) and Social Security Administration wage statistics

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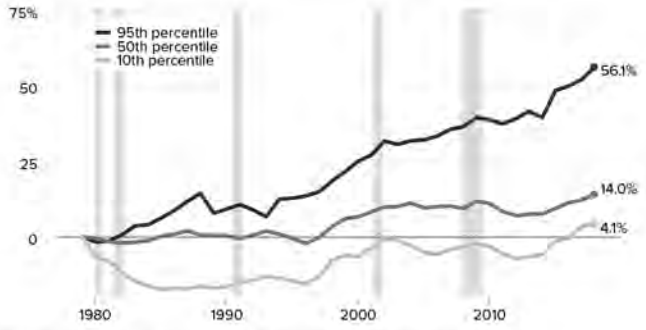
of economywide productivity growth and nearly four times faster than average wage growth (40.1 percent, not shown). Over the same period, top 0.1 percent earnings grew 343.2 percent, with the latest spike reflecting the sharp increase in executive compensation (Mishel and Wolfe 2018). Over the same period, despite a growing economy and increases in productivity, the earnings for the bottom 90 percent only rose 22.2 percent. It's important to remember this disparity. When policymakers consider policies to improve productivity growth, they also should consider ways that growth could better translate into wage growth for most workers and not just for those at the very top.

While the CPS-ORG—the primary data set used in the remainder of this testimony—does not allow disaggregation within the top 5 percent of the earnings distribution, it is still instructive for measuring the growth in wage inequality over the last 40-odd years. **Figure E** illustrates that for all but the highest earners, hourly wage growth has been weak. If it hadn't been for a period of strong across-the-board wage growth in the late 1990s, wages for most would have fallen outright. Median hourly wages rose 14.0 percent between 1979 and 2018, compared with an increase of 4.1 percent for the 10th-percentile worker (i.e., the worker who earns more than only 10 percent of workers). Over the same period, the 95th-percentile worker saw growth of 56.1 percent.

Figure E

Top earners' wages grew four times faster than wages at the median

Cumulative change in real hourly wages of all workers, by wage percentile, 1979–2018



Notes: Shaded areas denote recessions. The xth-percentile wage is the wage at which x% of wage earners earn less and (100−x)% earn more.

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata

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Wage inequality continued through the 2000s

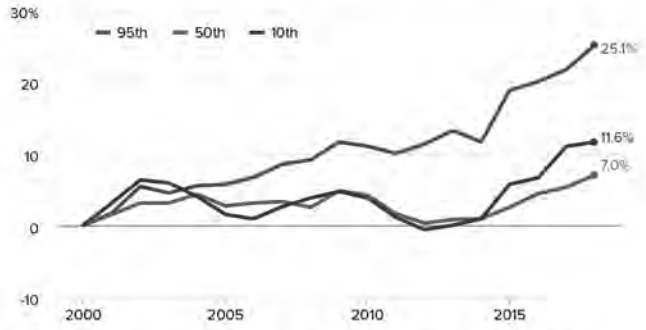
Figure F illustrates the trends in wages for select deciles (and the 95th percentile), showing the cumulative percent change in real hourly wages from 2000 to 2018. The continuing overall story of inequality is clear. From 2000 to 2018, the 95th-percentile wage grew over three times as fast as wages at the median. Additional details on recent wage trends can be found in Gould 2019a, also submitted into the written record. During this period, wage inequality among men grew more than wage inequality among women, and the gap between men and women at the top continued to widen in part because men are more likely to occupy jobs at the top of the wage distribution. Black–white wage gaps also widened between 2000 and 2018 as white wages grew more than four times as fast as black wages across most of the wage distribution (Gould 2019b).

Steep and rising wage inequality is too often blamed on growing demand for workers with higher levels of educational attainment—the more schooling you have, the more you'll be paid, the theory goes. But research has shown that rising inequality cannot be explained by rising wages for those with more educational attainment. The more salient story between 2000 and 2018 is not one of a growing differential of wages between college

Figure F

High-wage earners have continued to pull away from everyone else since 2000

Cumulative percent change in real hourly wages, by wage percentile, 2000–2018



Notes: Sample based on all workers ages 16 and older. The xth-percentile wage is the wage at which x% of wage earners earn less and (100-x)% earn more.

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata from the U.S. Census Bureau

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and high school graduates, but one of growing wage inequality between the top relative to the vast majority of workers, as shown in Figure F. Wage inequality is driven by changes within education groups (among people with the same education) and not between education groups. Among college graduates, there has been a significant pulling away at the very top of the wage distribution. In fact, the bottom 60 percent of workers with a college degree still have *lower* wages than they did in 2000 (Gould 2019c).

Increases in inequality over the last 18 years clearly cannot be explained away by claims that employers face a growing shortage of college graduates and that, correspondingly, wage inequality is some unfortunate side effect of the positive gains from automation that we neither can nor would want to alter. There are plenty of good reasons to provide widespread access to college educations and skill development, but expanding college enrollment and graduation is not an answer to escalating wage inequality.

Recent wage gains among lower-wage workers

After years of wage losses, the lowest-wage workers finally exceeded their 1979 wage levels in 2017 (as shown in Figure E.) These recent wage gains can essentially be fully

explained by tight labor markets and state-level minimum wage increases.

Because the lowest-wage workers are often the most vulnerable in economic downturns, it often takes them longer to recover in economic expansions. Achieving genuine full employment is one way that low- and moderate-wage workers gain enough bargaining power to increase their wages; employers have to pay more to attract and retain the workers they need when idle workers are scarce. The "lever" for higher wages that comes from full employment is most important for workers at the bottom of the wage distribution: For a given fall in the unemployment rate, wage growth rises more for low-wage workers, and in the absence of stronger labor standards like a strong minimum wage, it is often only in the tightest of labor markets that low-wage workers see stronger wage growth (Bivens and Zipperer 2018).

Figure G illustrates how the wages of low-, middle-, and high-wage workers change in response to labor market conditions. Each bar shows the percentage-point change in the growth rate of inflation-adjusted wages following a 1-percentage-point increase in the state-specific unemployment rate, employment-to-population ratio, and prime-age employment to population ratio (among 25- to 54-year-olds), respectively. The blocks of bars show results for the 10th, 50th, and 90th percentiles of wages, corresponding to low-, middle-, and high-wage workers.

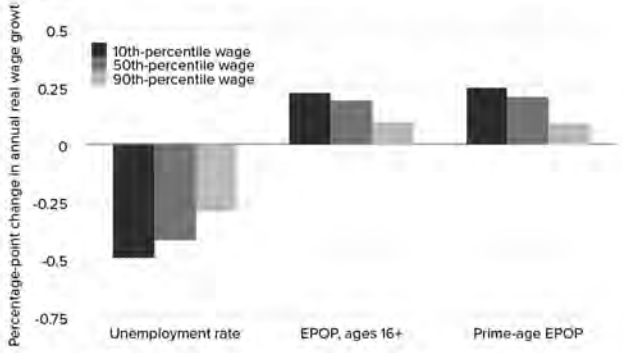
The results indicate that a 1-percentage-point drop in unemployment results in annual wage growth for workers at the 10th percentile of the wage distribution that is 0.5 percentage points faster. For example, if annual real wage growth is at 1.0 percent, then a 1-percentage-point fall in unemployment would result in annual real wage growth rising to 1.5 percent. For workers near the median of the wage distribution, wage growth is faster by 0.4 percentage points following a 1-percentage-point decline in the unemployment rate. For workers at the 90th percentile of the wage distribution, wage growth is faster by 0.3 percentage points following a 1-percentage-point decline in the unemployment rate. There are similar findings for the other measures of the labor market shown: stronger effects for low- and moderate-wage workers than for the highest-wage workers. What this tells us is that low- and moderate-wage workers do relatively worse in bad times, but also see a relatively larger boost in good times. That alone can explain the recent rise in wages for the lowest-wage and for middle-wage workers over the last few years as shown in Figure F.

Another policy lever was pulled in a number of states over the last few years. In 2018, the minimum wage was increased in 13 states and the District of Columbia through legislation or referendum, and in eight states because the minimum wage is indexed to inflation in those states. And, these changes in state minimum wages came on the heels of other recent changes to minimum wages in many of the same states over the previous couple of years. In fact, when we compare states that have had any minimum wage change since 2013 with states that did not have a minimum wage change during that time, the results—as shown in **Figure H**—are highly suggestive. Wage growth at the 10th percentile in states with at least one minimum wage increase from 2013 to 2018 was more than 50 percent faster than in states without any minimum wage increases (13.0 percent vs. 8.4 percent). As expected, given women's lower wages in general, this result is even stronger

Figure G

Low- and middle-wage workers' wages grow more quickly in response to an improving labor market than high-wage workers' wages

Change in average annual real wage growth in response to a 1-percentage-point increase in unemployment or employment rates over the 1980–2016 period, by wage percentile



Notes: Each bar is the coefficient from the regression of the real annual percent change in a given percentile's wage on the measure of labor market tightness. Regressions include state and year fixed effects. Additional details and estimates are in the appendix. EPOP refers to the employment-to-population ratio; prime-age refers to adults ages 25–54. The xth-percentile wage is the wage at which x% of wage earners earn less and (100−x)% earn more.

Source: EPI analysis of annual, state-level aggregations of Current Population Survey Outgoing Rotation Group microdata, 1979–2016

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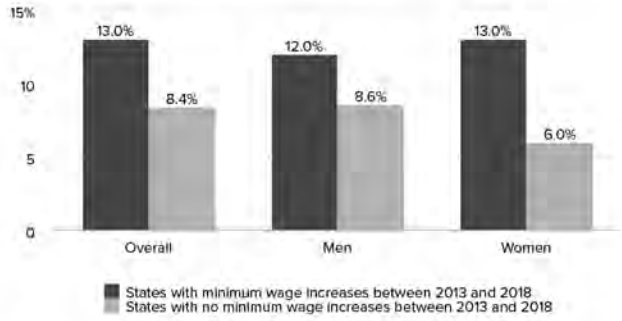
for women (13.0 percent vs. 6.0 percent), though men also experienced much faster 10th-percentile wage growth in states with minimum wage increases than in those without (12.0 percent vs. 8.6 percent).

Figure H

Wage growth at the bottom was strongest in states with minimum wage increases between 2013 and 2018

10th-percentile wage growth from 2013 to 2018, by presence of state minimum wage increase between 2013 and 2018 and by gender



Notes: Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, the District of Columbia, Florida, Hawaii, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nebraska, New Jersey, New York, Ohio, Oregon, Rhode Island, South Dakota, Vermont, Washington, and West Virginia increased their minimum wages at some point between 2013 and 2018. Sample based on all workers ages 16 and older. The xth-percentile wage is the wage at which x% of wage earners earn less and (100−x)% earn more.

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata from the U.S. Census Bureau

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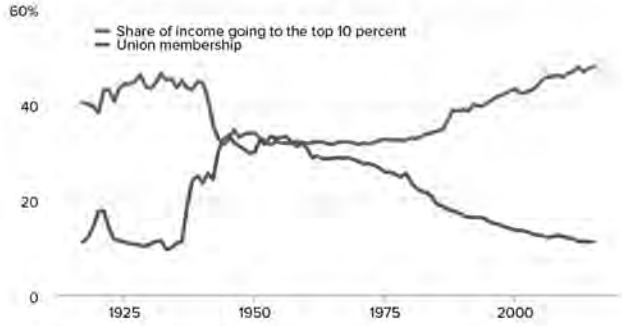
Policies to increase wage growth for the vast majority will increase Americans' living standards

Beyond seeking to keep labor markets tight, policymakers could take other steps to foster strong broad-based wage growth, such as raising the federal minimum wage, expanding eligibility for overtime pay, addressing gender and racial pay disparities, and protecting and strengthening workers' rights to bargain collectively for higher wages and benefits. Going forward, policymakers should do two things. They should prioritize wage growth by continuing to push toward genuine full employment. And they should provide workers with the leverage to achieve decent wage growth even when the economy is *not* at full employment by strengthening and enforcing labor standards and making it easier for workers to collectively bargain.

Figure I

As union membership declines, income inequality rises

Union membership and share of income going to the top 10%, 1917–2015



Sources: Data on union density follows the composite series found in Historical Statistics of the United States; updated to 2015 from unionstats.com. Income inequality (share of income to top 10 percent) data are from Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States, 1913–1998," Quarterly Journal of Economics vol. 118, no. 1 (2003) and updated data from the Top Income Database, updated June 2016.

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The right to collectively bargain is tightly linked to wages and incomes. In fact, the spread of collective bargaining that followed the passage of the National Labor Relations Act in 1935 led to decades of faster and fairer economic growth that persisted until the late 1970s. But since the 1970s, declining unionization has fueled rising inequality and stalled economic progress for the broad American middle class. **Figure I** shows that when unions are weak, the highest incomes go up even more, but when unions are strong, the bottom 90 percent enjoy more income growth.

This correlation is no accident. Unions have strong positive effects not only on the wages of union workers but also on the wages of comparable nonunion workers, as unions set standards for entire industries and occupations (Rosenfeld, Denice, and Laird 2016). Further, the union wage boost is largest for low-wage workers and larger at the middle than at the highest wage levels, larger for black and Hispanic workers than for white workers, and larger for those with lower levels of education—wage increases for these groups help narrow wage inequalities.

We know how big a force for equality unions are by looking at how much their decline has contributed to inequality between middle- and high-wage workers: union decline can explain one-third of the rise in wage inequality among men and one-fifth of the rise in wage inequality among women from 1973 to 2007. Among men, the erosion of collective bargaining has been the largest single factor driving a wedge between middle- and high-

wage workers (Western and Rosenfeld 2011).

For a more thorough analysis of how collective bargaining affects worker living standards see *How Today's Unions Help Working People* (Bivens et al. 2017). For more policies that will raise wages, see EPI's *Policy Agenda* (EPI 2018).

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Chairman NEAL. Thank you, Dr. Gould.

Professor Oh, would you please begin.

STATEMENT OF JASON OH, PROFESSOR OF LAW, UNIVERSITY OF CALIFORNIA LOS ANGELES SCHOOL OF LAW

Mr. OH. Chairman Neal, Ranking Member Brady, and Members of the Committee, thank you for inviting me to testify on the Tax Cuts and Jobs Act. My name is Jason Oh. I am a tax law professor at the UCLA School of Law, and my primary areas of research are tax law and policy and the political economy of taxation. The Tax Cuts and Jobs Act was the most significant overhaul of the tax system in over three decades. It is commendable that this Committee is already taking a hard look at this piece of legislation and how it affects the American public. I have been asked to focus my remarks on its distributional consequences and planning opportunities. We are fortunate to have the projections of the Joint Committee on Taxation and various think tanks, but the sheer amount of data can be overwhelming.

What I want to do with my short time is to crystallize that data into five major takeaways: Who received tax cuts and how much? How will that change over time? How will we as the American public pay for the deficits created? How does the new law create new avenues for tax avoidance? And what can history tell us about how tax laws change in the aftermath of major legislation?

First, the Tax Cuts and Jobs Act disproportionately benefits the rich. For comparison purposes, let's just focus on households that earn less than $50,000 and those that earn more than a million dollars. In 2019, low-income households are projected to save roughly $200 in taxes. That is, you know, five or six trips to the gas station. Millionaire households are scheduled to save over $64,000 on average. That is either a lot of gas or a brandnew BMW X5. Of course, richer households paid more in taxes before the tax law change, so it is somewhat unsurprising that they are saving more after.

However, the same pattern emerges if we consider the percent increase in after-tax income. How much more do households have to spend or save after taxes? Using those same comparison groups, the low-income households see their after-tax income go up roughly half a percent. Wealthier groups enjoy a much more significant increase of 3 or even 4 percent. The Tax Cuts and Jobs Act makes the tax system less progressive.

The second takeaway is that, over time, the distribution of tax cuts will become even more unequal. In 2025, the majority of the individual income tax provisions sunset. The remaining tax cuts will be concentrated among the wealthy. For the poorest households, the tax cuts disappear after 2025. In 2027, low-income households will actually owe on average $250 more.

The third takeaway is that these tax cuts have to be paid for eventually, and when they do, the overall effect may be even more unequal. Most projections estimate that this legislation will add over a trillion dollars to the deficit even accounting for increased economic growth. Eventually those deficits will have to be funded either through spending decreases or tax increases. To the extent we cut mandatory spending programs, the overall effect will be to

make the Tax Cuts and Jobs Act even more regressive since most spending programs predominantly help low-income Americans. If we instead increase future taxes, we are shifting a major fiscal burden on to our children and grandchildren. None of these choices seems particularly appetizing.

Fourth, while the Tax Cuts and Jobs Act has improved the international tax regime and brought our corporate rate in line with our peers, the law also introduces a new avenue for business tax avoidance. The new passthrough rule provides a 20-percent deduction for income earned by sole proprietors, partnerships, and LLCs. This provision is a maze of complexity, which creates arbitrary distinctions between different types of economic activity. Why should engineers and architects pay lower taxes than doctors and consultants? It is an expensive provision projected to cost over $400 billion in the budgetary window, and even though this deduction will provide some tax cuts to small businesses, the primary beneficiaries are again the rich. JCT predicts that roughly half of the benefits of the passthrough deduction will go to households that earn over a million dollars.

Finally, my research finds that tax legislation is fundamentally unstable. This is true even when a law has strong bipartisan support as was the case with the Tax Reform Act of 1986. Although the Tax Reform Act of 1986 gets all the attention, people often forget that Congress passed major legislation in 1987, 1990, and 1993 to make important changes in the aftermath of reform. In particular, the changes in 1990 and 1993 substantially increased the revenue raised by the tax system and changed the distribution of the tax burden. A lot of the hard work comes after major legislation has passed.

I applaud this Committee for examining the effects of the Tax Cuts and Jobs Act. You as a Committee have a real opportunity to improve on pieces of the law that work while reconsidering others that don't. Thank you so much.

[The statement of Mr. Oh follows:]

The Distributional and Tax Planning Consequences of the Tax Cuts and Jobs Act

Testimony before the U.S. House of Representatives Ways and Means Committee

Jason S. Oh, Professor of Law, UCLA School of Law

Chairman Neal, Ranking Member Brady, and Members of the Committee. Thank you for inviting me to testify on the "Tax Cuts and Jobs Act" (TCJA) and in particular on its distributional effects and tax planning opportunities. My name is Jason Oh. I am a tax law professor at the UCLA School of Law. My primary areas of research are tax law and policy and the political economy of taxation.

The TCJA was the most significant overhaul of the tax system in over three decades. It is commendable that this committee is evaluating how this law affects the American public. We are fortunate to have the projections of the Joint Committee on Taxation and various think tanks, but the sheer amount of data can be overwhelming. The goal of my testimony is to crystallize that data into five major takeaways. I pair each takeaway with a figure that captures the point visually.

Who received tax cuts and how much? Will that change over time? How are we as Americans going to pay for the deficits created by the TCJA? How does the new law make taxes easier to avoid? What can history tell us about how tax laws change after major legislation?

The tax cuts in the TCJA are weighted towards the rich.

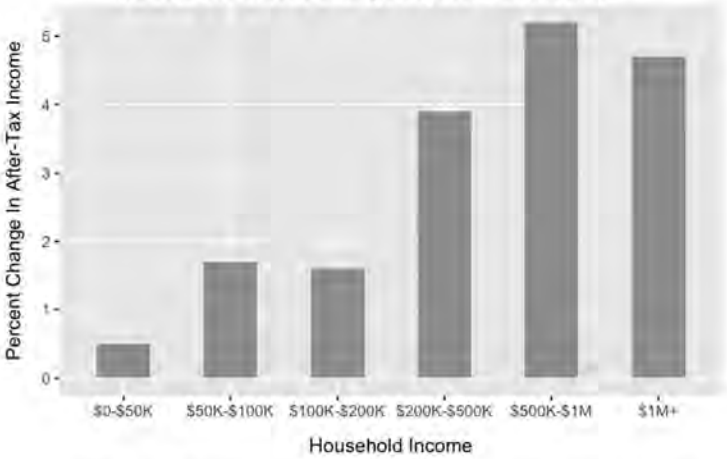
The TCJA disproportionately benefits the rich. For comparison purposes, let us focus on households that earn less than $50K and those that earn more than a million. In 2019, low-income households are projected to save roughly $200 dollars in taxes – one car payment or five trips to the gas station.[1] Millionaire households are projected to save over 300 times more, or roughly $64,000 dollars. That's either a lot of gas or a brand-new BMW X-5. Of course, richer households paid more taxes before the law change, and so it is somewhat unsurprising that they are saving more in taxes.

However, the same pattern emerges if we consider the percent increase in after-tax income. Using those same comparison groups, low-income households see their after-tax income go up by roughly 0.5%. Wealthier groups enjoy a much more significant increase of three to five percent. The TCJA makes the tax system less progressive. This basic

[1] Changes to wage withholding made the tax cuts seem more dramatic than they actually were. As they file their 2018 tax returns, many taxpayers are finding that their refunds are much smaller than in past years or that they owe additional taxes.

takeaway is confirmed by various think tanks and is robust to different assumptions regarding economic growth.[2] The tax cuts are heavily tilted towards the wealthy.[3]

FIGURE 1: Percent Change in After-Tax Income[4]



- Poorer households receive an increase in after-tax income of less than 1%.
- Wealthier households experience an increase in after-tax income of 3% to 5%.

The distribution of tax cuts from the TCJA will become even more unequal over time.

The second takeaway is that over time the distribution of tax cuts will become even more unequal. In 2025, the majority of the individual income tax changes sunset. The remaining tax cuts will be concentrated among the wealthy. By 2027, the Tax Policy Center predicts that the top 1% of US households will receive 83% of the benefits.[5]

For the poorest households, the tax-cuts disappear after 2025. In 2027, low-income households will actually owe an average of $264 *more*. For many low-income households that's a month's rent. This point is worth reiterating. By 2027, many of the poorest households will actually owe more in taxes than they would have under the old law.

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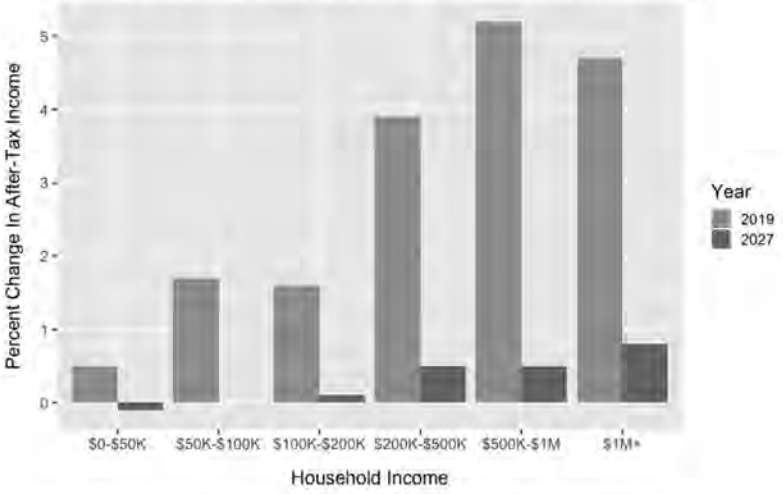
[2] Tax Policy Center, Distributional Analysis of the Conference Agreement for the Tax Cuts and Jobs Act. Tax Foundation, The Distributional Impact of the Tax Cuts and Jobs Act over the Next Decade.
[3] There are a few provisions that are primarily responsible for the uneven distribution. The reduction in the top marginal rate only benefits taxpayers that earn more than half-million dollars. The benefits of the pass-through deduction are heavily tilted towards the wealthy (discussed in greater depth below).
[4] Source: Author's Calculations Based on JCT Projections.
[5] Tax Policy Center, Distributional Analysis of the Conference Agreement for the Tax Cuts and Jobs Act.

Figure 2 adds dark blue bars to indicate the percent change in after-tax income in 2027. For the poorest households, the average change goes from an increase of 0.5% in 2019 to a 0.1% decrease in 2027. In 2027, only those households earning more than 200K see a meaningful increase in after-tax income.

FIGURE 2: Percent Change in After-Tax Income in 2019 and 2027[6]



- Poorer households will face a tax increase in 2027 relative to old law.
- Wealthier households continue to enjoy higher after-tax income in 2027 relative to old law.

JCT predicts that the TCJA will increase the deficit by over a trillion dollars. How will the American people pay that bill?

The third takeaway is that these tax cuts have to be paid for eventually. Once the financing of deficits is included in the analysis, the overall effect of the TCJA will likely be even more unequal. Most projections estimate that this legislation will add over a trillion dollars to the federal deficit even accounting for increased economic growth.[7] JCT and CBO originally estimated that the law would increase the deficit by roughly $1.5 trillion dollars between 2018 and 2027. JCT also used a variety of models to estimate the economic growth created by the TCJA. Including the effect on economic growth, JCT

[6] Source: Author's Calculations Based on JCT Projections.

[7] Even the rosiest forecasts provided by the Tax Foundation predict that the deficit will increase by almost a half-trillion dollars. Tax Foundation, Preliminary Details and Analysis of the Tax Cuts and Jobs Act. These deficits will be even larger if the sunsetting tax provision are renewed.

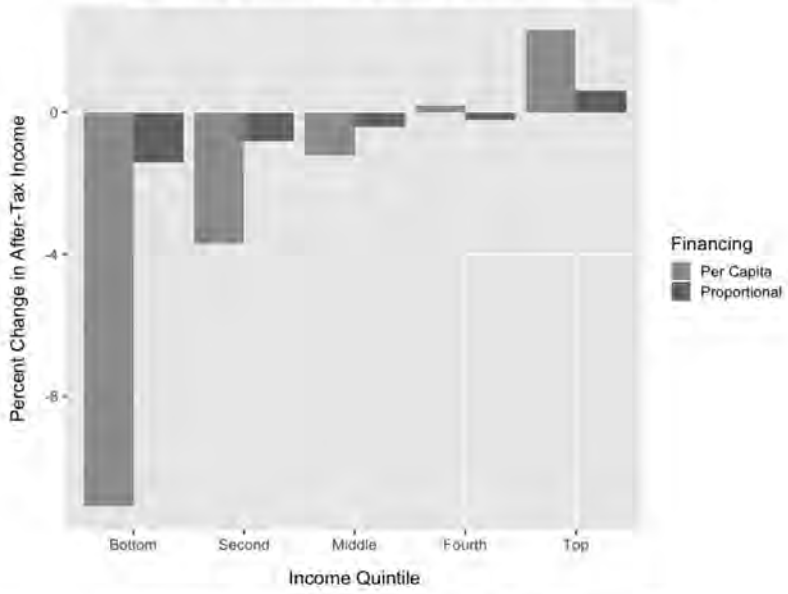
estimated that the increase in the deficit would still be over $1 trillion. CBO has revised these estimates upwards in its most recent estimates. The tax cuts are most assuredly not paying for themselves.

Eventually, those deficits will have to be funded either through tax increases or spending reductions. To the extent we cut mandatory spending programs, the overall effect will be to make the TCJA even more regressive since mandatory spending programs predominantly help lower-income Americans. If we instead increase future taxes, we are shifting a fiscal burden onto our children and grandchildren. Neither choice is particularly appetizing.

The Tax Policy Center has published distributional tables that incorporate various assumptions regarding the financing of the tax cuts. Figure 3 displays the consequences to after-tax income under two different assumptions. The red bars show the change in after-tax income assuming that the tax cut is paid for by decreasing spending (or increasing taxes) on each American household equally. It roughly approximates the net effect of funding the deficits through a spending cut. The poorest Americans, those in the bottom quintile, are projected to have an average 11.1% reduction in their after-tax income relative to old law. Only the top 40% of American households would be better off assuming the deficit is financed through a per capita spending cut.

An alternative which may more closely approximate financing the tax cut with a tax increase is to assume that the deficits will be financed by a tax increase proportional to income. The dark blue bars show the difference in after-tax income relative to old law. Only the richest 20% of taxpayers would be better off. All other groups would have less after-tax income than before the TCJA.

Figure 3: Change in After-Tax Income If Tax Cut Is Financed By A Per Capita Spending Cut or Proportional Tax Increase[8]



- If the tax cuts are financed by per capita spending cuts or proportional tax increases, the distributional effect of the TCJA becomes even more unequal.

How does the TCJA make business taxes easier to avoid?

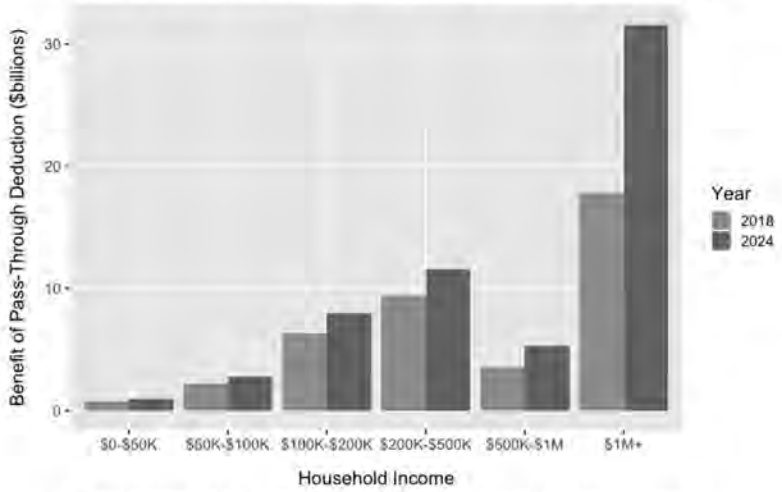
The TCJA also creates several new opportunities for businesses to engage in tax planning. The pass-through deduction provides a 20% deduction for income earned by sole proprietors, partnerships, and LLCs. The deduction draws arbitrary distinctions between different types of business activities. For example, the deduction is much more generous to architecture and engineering than to medicine, law, and accounting. Horizontal equity is a basic concept in tax policy that similar activities should be taxed the same. The pass-through deduction violates that concept: pushing market actors into certain sectors over others, violating basic notions of fairness, and creating substantial planning opportunities for sophisticated taxpayers.

This provision is projected to cost over $400 billion dollars over the next decade. This number could increase dramatically as wealthy taxpayers restructure their business

[8] Source: Tax Policy Center, Effects of the Tax Cuts and Jobs Act: A Preliminary Analysis, tbl. 8.

activities to take advantage.[9] Even though this deduction will provide some tax cuts to small businesses, the primary beneficiaries are rich Americans who can structure their business activities to take advantage of this provision. JCT predicts that roughly half of the benefits of the pass-through deduction will go to millionaire households. The benefits of the deduction are distributed very unequally in 2018 and even more unequally in 2024.

FIGURE 4: Distributional Benefits of the Pass-Through Deduction[10]



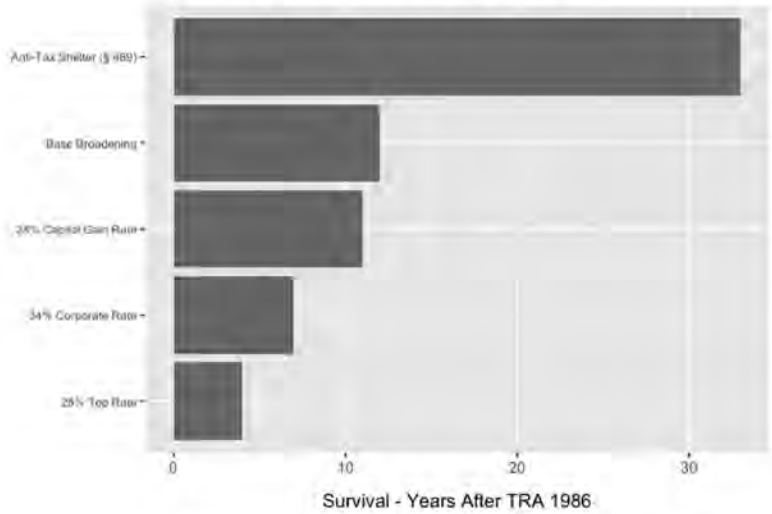
- The benefits of the pass-through deduction are heavily weighted towards wealthy households.
- The distribution becomes more unequal over time.

Tax legislation is unstable. Partisan tax legislation is particularly unstable.

My research finds that tax legislation is fundamentally unstable. This is true even when a law has strong bipartisan support as was the case with the Tax Reform Act of 1986. Many of the key features of that law unraveled slowly over the past thirty years.

[9] The Treasury Regulations interpret the "skill and reputation" exclusion in Section 199A very narrowly. This may open the door for many high-income earners to take advantage of the pass-through deduction. David Kamin, *"Reputation or Skill" in the New Pass-Through Regulation.*
[10] Source: Author's Calculations Based on JCT Projections.

Stability of Tax Reform Act of 1986[11]



* The important pieces of the Tax Reform Act had differential political stability. Some provisions lasted for a very short time, while others have lasted for decades.

However, the political instability of legislation is exacerbated when legislation is passed without bipartisan support and legislation tends to unravel much more quickly. When political coalitions shift, tax legislation is often amended or reversed within years. This instability creates real costs for the American people. It makes compliance more difficult. It makes long-term planning for businesses and families uncertain.

This is not to say that the most egregious parts of the TCJA should be left untouched. Rather this is a plea from one American citizen for a return to more stable bipartisan tax policymaking.

Thank you again for the invitation. These are pressing issues for the American public, and I look forward to addressing them with you.

[11] The corporate tax rate was increased by only one-percentage-point in 1993 and then remained unchanged until the TCJA. Total tax expenditures adjusted for inflation did not reach their 1985 levels until 1998 (after the enactment of the Taxpayer Relief of 1997). When tax rates go up, the cost of tax expenditures also rises.

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Tax Policy Center, Distributional Analysis of the Conference Agreement for the Tax Cuts and Jobs Act.

Chairman NEAL. Thank you, Professor Oh.

Mr. Shelton, please begin.

STATEMENT OF CHRISTOPHER M. SHELTON, PRESIDENT, COMMUNICATION WORKERS OF AMERICA

Mr. SHELTON. Thank you, Chairman Neal, Ranking Member Brady, and Members of the Committee for inviting me to testify today. During the debate on the Tax Cuts and Jobs Act, the President and his administration made three key promises, which were echoed over and over again by Members of Congress and corporate executives. They promised it would lead to, one, a minimum increase of $4,000 in annual American household wages; two, an end to the incentives for corporations to offshore American jobs; and, three, an explosion of corporate investment and job growth in the United States.

I am here to tell you that these three promises just were not kept. I would like to use the company where the largest number of CWA members work, AT&T, as a case study. Are the tax cuts delivering robust job creation? At AT&T, the answer is an emphatic no. Instead of the 7,000 new jobs AT&T's Randall Stephenson promised if the bill passed, AT&T has actually eliminated over 12,000 union jobs: 7,000 new jobs promised; over 12,000 jobs actually eliminated.

Has offshoring jobs stopped? From 2011 to 2018, AT&T closed 44 call centers in the United States. Nothing has stemmed that tide. AT&T has announced closures of seven call centers in just the past 4 months. Meanwhile, AT&T has opened two of its own call centers in Mexico. These centers currently employ 2,475 people and continue to grow every day.

What about more investment? Despite promises to invest more, AT&T's capital expenditures declined by $300 million year over year. This is all very troubling to us. AT&T publicly reported an expected $21 billion windfall from the tax cuts. You may ask, what is AT&T doing with this money if it is not being used to create jobs and invest in the U.S.? We would like to know that as well.

Here are some of the things we do know AT&T is using its profit for. AT&T's top five executives received compensation of $89 million in 2018. During 2018, AT&T distributed $14 billion to shareholders in dividends and stock buybacks. That is right: more money for executives and Wall Street.

Unfortunately, AT&T is not unique. American Airlines has carried out $837 million in stock buybacks in the last year yet pays wages as low as $9.50 an hour, forcing workers to rely on public assistance to survive. General Motors reported net income of over $8 billion for fiscal year 2018 but has announced plans to shutter four U.S. plants while also laying off 8,000 white-collar workers in the U.S. The lives of nearly 12,000 American workers will be directly harmed while GM continues to manufacture some of its most popular and profitable products in Mexico.

Wells Fargo is predicted to benefit from the tax cut more than any other bank, and their annual profits were over $6 billion last year while laying off 26,500 employees and sending those U.S. jobs overseas. Investment didn't soar, but stock buybacks did to the tune of a record $1 trillion last year. We are grateful that you have

called this hearing, but executives like AT&T's Randall Stephenson, GM's Mary Barra, Tim Sloan of Wells Fargo, and others should be brought before this Committee to explain why the predictions made were so incorrect.

Thousands of CWA members have already written Congress demanding such a hearing. I have brought with me today hundreds of those letters from your constituents. In closing, I would like to quote two of the letters. One is from Joseph in Kent, Ohio: Without these jobs, the middle class is disappearing at an alarming rate. Our communities suffer, our families are faced with insurmountable obstacles every day, and we continue to scramble in the face of exponential increases in healthcare costs, housing costs, and fewer employment options that offer a living wage. It is truly a race to the bottom.

And from Betsy in Oshkosh, Wisconsin, whose call center has recently shut down: AT&T will not commit to growing and creating jobs. What are they doing instead? You need to support your working class base vigorously and demand a congressional hearing to make CEO Randall Stephenson answer to this. Can we count on your support?

Again, thank you for giving me the opportunity to testify today, and I look forward to answering any questions that you may have.

[The prepared statement of Mr. Shelton follows:]

Testimony of Christopher M. Shelton,
President
Communications Workers of America (CWA)
Before the Committee on Ways and Means
Hearing: "The 2017 Tax Law and Who it left Behind"
March 27, 2019

Thank you Chairman Neal, Ranking Member Brady and Members of the Committee for inviting me to testify today. My name is Christopher Shelton and I am the President of the Communications Workers of America (CWA). CWA represents approximately 700,000 workers in the telecommunications, media, airline, manufacturing, health care and public sectors in the United States, Puerto Rico and Canada. We appreciate having the opportunity to testify today at this hearing on the 2017 tax law because it was one of the most consequential pieces of legislation to be enacted in some time that directly impacts all our members' lives in many ways, regardless of the sector of the economy they work in.

Unfortunately, during the debate and consideration of that legislation there were no hearings or forums where we were given an opportunity to directly share with this Committee or others in Congress our views on how the tax code could be reformed or restructured to benefit working American families. Hearings like this one should have been held before the law was rushed through Congress. So we are deeply grateful Chairman Neal for you and the Committee now giving us an opportunity to share our views on how the new tax law has impacted working Americans' lives.

CWA strongly believes that our tax code needs restructuring and reform and we followed the debate on the tax cut closely. We were hopeful that needed reforms that have bipartisan support like closing the carried interest loophole - something promoted by the former Chairman of this Committee, Representative Dave Camp, and then candidate Donald Trump in 2016 - would be part of the package of reforms. Reforms that would provide tax fairness and equity between capitol on Wall Street and working families. And we listened with concern as the focus shifted more to tax cuts to benefit corporations than working families.

Promises Made

During that debate and consideration we heard several key promises made by the proponents of the legislation from the President, members of his Administration, Members of Congress and corporate executives. In particular President Trump and the Administration stated that enactment of the law would mean a minimum annual increase in American household wages of $4,000.[1] Speaker Ryan stated on his website that enactment of the tax law would end the incentive for corporations to offshore American jobs.[2] And various corporate CEO's proclaimed that the new corporate tax cuts would lead to an explosion of investment in expanding capacity

[1] Whitehouse.gov, "Remarks by President Trump on Tax Reform," October 11, 2017. Available at: https://www.whitehouse.gov/briefings-statements/remarks-president-trump-tax-reform/
[2] Available through the Internet Archive at https://paulryan.house.gov/issues/issue/?IssueID=12228. Snapshot dated December 21, 2018.

and employment in the U.S. In fact, Randall Stephenson, CEO of CWA's largest employer of our members, said that if the tax bill were to become law, it would lead to the creation of a minimum of 7,000 new jobs for every billion dollars in benefits.[3,4]

Having watched these sorts of debates before and knowing how exuberant proponents of massive tax cuts can be in claiming the trickle down benefits, we decided to urge some of our largest employers to put their promises to paper. Before the tax bill passed, I sent a proposal to seven of our key employers, including AT&T, asking them to agree in writing to follow through on these jobs and wage promises as part of our current contracts. This proposal required that, if the corporate tax cut was enacted, AT&T and the other six employers would raise all bargaining unit members' pay by $4,000 annually and stop offshoring workers' jobs. Not a single employer signed the proposal.

While the companies would not sign our wage and jobs proposal, AT&T did offer one-time $1,000 bonuses upon enactment.[5] We accepted those bonuses, but explained we would be coming back for the rest of the promised wages and jobs. After AT&T acted, a slew of other national companies followed suit with one-time bonuses of their own - a far cry from permanent wage increases and a drop in the bucket of the total amounts these companies are receiving from the corporate tax cut.[6]

This should have been an early warning sign for U.S. workers that these companies had no intention of living up to the promises that they were making publicly in order to build enthusiasm for the bill or those being made by the tax cuts authors here in Congress. And since the changes in the tax code have been in place for just over one year, we can report that from our perspective, none of those promises - permanent wage increases of at least $4,000 per household, an end to the offshoring of U.S. jobs and greater investment in the United States leading to major job creation - have been delivered on.

AT&T as an example of promises broken

Our experience at CWA and public data suggest that at a minimum these promises were overstated. One need look no further than our experience at AT&T for a prime example of how those promises have not become reality. As I mentioned earlier, AT&T CEO Randall Stephenson was one of the most visible and aggressive supporters of the corporate tax cuts. In his public statements in the media and to employees, he promised that AT&T would create at

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[3] CNBC, "AT&T CEO says a corporate tax cut would mean thousands more jobs for 'hard had' workers," May 4, 2017. Available at: https://www.cnbc.com/2017/05/04/att-ceo-says-a-corporate-tax-cut-would-mean-thousands-more-jobs-for-hard-hat-workers.html

[4] Yahoo Finance, "AT&T CEO says they'll invest 'at least' $1 billion and create 7,000 jobs if tax reform passes," November 29, 2017. Available at: https://finance.yahoo.com/news/atandt-ceo-says-theyll-invest-least-1-billion-create-7000-jobs-tax-reform-passes-200245187.html

[5] AT&T Inc., Press Release, "With Tax Reform, AT&T Plans to Increase U.S. Capital Spending $1 Billion and Provide $1,000 Special Bonus to more than 200,000 U.S. Employees," November 8, 2017. Available at: https://about.att.com/story/att_tax_reform.html

[6] CNBC, "These companies are paying bonuses with their tax savings," January 26, 2018. Available at: https://www.cnbc.com/2018/01/26/us-companies-that-have-announced-bonuses-investments-after-tax-cut.html

least 7,000 new jobs if the tax cuts were to become law. Instead, since December of 2017 when the tax law was passed by Congress and signed by the President, AT&T has eliminated 12,321 union jobs.[7] The company has announced an additional 1,026 involuntary "surpluses" in the first three months of 2019.[8] These are planned reductions in union represented positions that require employees to separate from employment or accept job offers in other locations or titles, which may require moving far from home.

We have been engaged in bargaining with AT&T on behalf of our members for a new contract at the AT&T Midwest bargaining unit, covering Ohio, Indiana, Wisconsin, Michigan, and Illinois, as well as the national AT&T Legacy T bargaining unit. Considering the years of job loss in these states from decades of misguided trade policies, this would be a good place for AT&T to use their windfall from the tax cuts to begin investing once again in the United States and the U.S. workers.

AT&T is currently refusing to maintain job security for the approximately 14,000 union members located primarily in these Midwest states. Instead of standing by its existing employees, AT&T is looking to cut these good middle class jobs. The company is seeking future workforce reductions in Ohio and Michigan. Their proposal would require our members to move their families anywhere in the state to maintain employment with AT&T if their current position is eliminated and the company is requesting a future reduction of 1,600 bargaining unit positions nationwide across the Legacy T unit. On top of that, in bargaining with the Mobility division of AT&T in Puerto Rico, another economically ravaged part of the United States in need of good jobs and further investment, the company is refusing to follow its own recent practice and guarantee a percentage of calls to be handled by call centers in the Commonwealth.

Are the tax cuts delivering robust job creation? In the case of AT&T, the answer is an emphatic no. The company is eliminating thousands of existing jobs and tries to get away with trumpeting normal hiring to address turnover as supposed job creation. But it's simple math -- AT&T's total employment is down by nearly 12,000 people since December 31, 2017.[9] This is not the picture of a job creator.

We are seeing the same in regards to the promises from the supporters of the legislation around the offshoring of jobs. As I mentioned earlier, then Speaker Paul Ryan said on his website after passage of the tax cuts that its passage "Prevents American jobs, headquarters, and research from moving overseas by eliminating incentives that now reward companies for shifting jobs, profits, and manufacturing plants abroad."[10] Unfortunately, I can tell you that not only do those incentives still exist, but the tax law actually made it worse.

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[7] Data provided to CWA by AT&T.
[8] Data provided to CWA by AT&T
[9] AT&T Inc., Form 10-K for the years 2018 and 2017, adjusted for 26,000 Time Warner employees added in the second quarter of 2018.
[10] Available through the Internet Archive at https://paulryan.house.gov/issues/issue/?IssueID=12228. Snapshot dated December 21, 2018.

Again, AT&T provides an example of how the reverse is the case. From 2011 to 2018, AT&T closed 44 call centers.[11] The Tax Cuts and Jobs Act has done nothing to stem this tide. AT&T has announced closure of 7 call centers in just the past four months - three throughout the Midwest, one in upstate New York and three in Connecticut.[12,13,14] One of AT&T's major outsourcers, Convergys (now owned by Concentrix), said in May 2018 that it had just finished moving much of its call center work for AT&T offshore to cheaper foreign call centers.[15] Meanwhile, AT&T has opened two of its own call centers in Mexico that currently employ 2,475 people and continue to grow.

AT&T is also looking for employees to pay more for health care, rather than defraying costs with the company's massive tax cut savings. The company is seeking cuts and new surcharges to the health plan that would result in our members paying an additional $3,000 per year on average for their care. The company is also seeking to establish a permanent second tier of benefits to exclude recently hired workers from the lower cost union health plan.[16]

This is all very troubling to us, because from publicly available information, we know that AT&T reaped a massive windfall from the Tax Cuts and Jobs Act, and appears to be bent on reducing its tax burden even further. After announcing a $20.3 billion reduction in tax liabilities due to the Tax Cuts and Jobs Act back in January 2018, the company has continued to see its windfall increase.[17] In its 2018 annual report, AT&T disclosed $718 million in additional profits bringing the total to $21 billion in one-time benefits.[18] For its ongoing operations, AT&T predicted a $3 billion annual increase in cash profits starting in 2018 as a result of the tax cuts.[19]

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[11] Communications Workers of America, "AT&T 2018 Jobs Report," Updated January 2019. Available at: https://cwa-union.org/sites/default/files/201901-att-offshoring-report.pdf

[12] CWA, Press Release, "Following AT&T's Promise to Invest Tax Windfall in U.S. Workforce, Report Reveals AT&T Cut More Than 10,000 Us Jobs Since Congress Passed Tax Bill," January 7, 2019. Avaialble at: https://cwa-union.org/news/releases/following-atts-promise-invest-tax-windfall-in-us-workforce-report-reveals-att-cut-more

[13] Syracuse.Com, "Union blasts AT&T decision to close 150-worker Syracuse call center," January 10, 2019. Available at: https://www.syracuse.com/business/2019/01/union-blasts-att-decision-to-close-150-worker-syracuse-call-center.html

[14] New Haven Register, "Workers to protest closure of Meriden AT&T call centers," February 24, 2019. Available at: https://www.nhregister.com/news/article/Workers-to-protest-closure-of-Meriden-AT-T-call-13640670.php

[15] Convergys Corp., First Quarter 2018 Results, Conference Call Transcript, May 9, 2018. Available at: https://seekingalpha.com/article/4171713-convergys-cvg-q1-2018-results-earnings-call-transcript?part=single

[16] Data provided to CWA by AT&T.

[17] AT&T Inc., Press Release, "AT&T Reports Fourth-Quarter and Full-Year Results," January 31, 2018. Available at: http://about.att.com/story/att_fourth_quarter_earnings_2017.html

[18] AT&T Inc., 2018 Annual Report, at page 92. Available at: https://investors.att.com/financial-reports/annual-reports/2018

[19] AT&T Inc., 2017 Fourth Quarter Earnings Call Transcript, available at: https://seekingalpha.com/article/4141971-ts-t-ceo-randall-stephenson-q4-2017-results-earnings-call-transcript?part=single

But is AT&T meeting the baseline of corporate accountability expected even after the tax cuts? In 2018, AT&T reported substantially less in taxes than prescribed by the new corporate tax rate of 21%, with current federal tax expenses of only 13% on its pre-tax profits.[20] Further, AT&T reported a net tax refund of $354 million on the actual cash taxes it paid 2018, suggesting that the company may have paid less than zero taxes since the passage of the Tax Cuts and Jobs Act.[21] These limited disclosures raise more questions than they answer, and AT&T should be made to answer these questions before the American people.

Where's the money going?

You may ask "what are they doing with this money?" We'd like to know as well. CWA has been asking AT&T and other employers to provide updates on the status of their plans for this new wealth. We filed information requests to find out where the windfalls are going. The company refused to tell us. A group of AT&T employees event took a road trip across the Midwest looking for these promised jobs, talking to their coworkers, and finding out that at one location after another, AT&T has been eliminating jobs. These workers documented their trip on social media and ended up in Dallas at AT&T corporate headquarters, delivering thousands of petition signatures calling for the promised jobs, to no avail.[22]

CWA filed unfair labor practice (ULP) charges against AT&T at the National Labor Relations Board when it refused to provide us with information about its plan to use the tax bill savings to invest in its workforce. Those acting on behalf of President Trump's NLRB General Counsel Peter Robb already dismissed the charges and denied our appeal.[23] Apparently, the Administration's view is that ensuring that these tax savings benefit workers as promised goes beyond our statutory role as a union. All efforts to determine what has happened with these new profits have been rebuffed. That's why we are appealing to Congress to help us get to the bottom of - where did the tax cut money go?

As I reported to you earlier, the employees are not seeing any benefit in terms of increased wages or job opportunities. Here's what we do know what AT&T is spending on:

- After the passage of tax reform, the company announced plans to pay a bonus of $1,000 to its employees. The bonus amounted to a one-time $200 million expenditure in 2017, or 7% of AT&T's expected annual benefit from the tax cuts.[24]

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[20] AT&T Inc., 2018 Annual Report, at page 92. Available at: https://investors.att.com/financial-reports/annual-reports/2018

[21] Ibid., at page 105.

[22] For documentation of this worker road trip, visit: https://attbrokenpromises.org/

[23] NLRB Denial of Appeal Letter dated December 7, 2018 in AT&T Services, Inc., Case 13-CA-220124; NLRB Denial of Appeal Letter dated February 15, 2019 in AT&T, Case 01-CA-220092.

[24] AT&T Inc., Press Release, "With Tax Reform, AT&T Plans to Increase U.S. Capital Spending $1 Billion and Provide $1,000 Special Bonus to more than 200,000 U.S. Employees," November 8, 2017. Available at: https://about.att.com/story/att_tax_reform.html

- AT&T's top 5 executives received compensation of $89 million in 2018. CEO Stephenson received $29.1 million in compensation in 2018 and $135 million over the past five years.[25]
- Despite promises to invest more, the company's 2018 capital expenditures declined by $300 million year over year, and fell by 7% as a share of revenues (what's known as capital intensity).[26] Excluding reimbursements from the federal government for AT&T's build-out of the FirstNet wireless network, investments dropped $1.4 billion and capital intensity fell by 12%.[27]
- During 2018, AT&T distributed $14.0 billion to shareholders in dividends and stock buybacks. This represents a $1.5 billion dollar increase from 2017. AT&T's shareholder payments represented 72% of total profits over this period.[28]

AT&T not the only CWA employer not sharing the benefits

We are seeing similar results at other large CWA employees. For example, in the wake of the new tax law, industrial giant General Electric (GE) has continued its slash and burn approach to plant closings and offshoring of manufacturing jobs. In June, the company announced the closure of a 260-person manufacturing plant in Salem, Virginia.[29] As IUE Local 161 said, "This story has become all too familiar, as GE has outsourced thousands of American workers' jobs in the last decades to countries including Mexico, China and Hungary."[30] The plant, which at its peak employed 3,500 people, designed and produced control systems and integrated circuit boards for gas and steam generators, pitch systems for wind turbine blade controls, starters for gas turbines and down-tower assembly for wind power conversion systems. GE has a plant in India producing the same products that can expand its capacity, though the company claims this plant's work is not being shifted there.[31]

American Airlines, where CWA represents passengers service agents, is another company that is benefiting from the tax cuts while callously under-investing in workers. In brief, the company predicts a tax refund of $170 million in 2019 and 2020, even while it pays no federal tax due to losses prior to its bankruptcy.[32] Further, American has carried out nearly $12 billion in stock

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[25] AT&T Inc, Proxy Statements (Def14A) 2016 - 2018 available at: https://investors.att.com/financial-reports/sec-filings

[26] AT&T Inc, Annual Report, at pages 60, 63.

[27] Ibid., at page 18.

[28] AT&T Inc, Annual Report, at page 63. Dividends paid = $13.41B; Purchase of treasury stock = $609M; Net Income = 19.95B.

[29] WSLS, "General Electric to close Salem manufacturing plant, eliminating 265 jobs," June 8, 2018. Available at: https://www.wsls.com/news/virginia/roanoke/general-electric-to-close-salem-manufacturing-plant

[30] Virginia First, "Salem GE plant officially to close after union negotiations fail," August 9, 2018. Available at: https://www.virginiafirst.com/news/local-news/salem-ge-plant-officially-to-close-after-union-negotiations-fail/1356918565

[31] WSLS, "General Electric to close Salem manufacturing plant, eliminating 265 jobs," June 8, 2018.

[32] The company expected tax refunds of $170 million in 2019 and 2020 because of the elimination of the corporate alternative minimum tax. See Q4 2018 earnings call transcript:

buybacks in the past 5 years (the most of any airline), including $837 million last year.[33] Meanwhile, American pays workers at its regional subsidiary Envoy Air -- known as American Eagle -- poverty wages as low as $9.50 an hour. Workers are forced to rely on public assistance and even sell blood to get by.[34]

Not unique to CWA employers - GM and Wells Fargo

General Motors, who's employees are represented by the United Auto Workers (UAW) presents another example of an iconic American company that received a 40% reduction in its U.S. corporate tax rate (from 35% to 21%), but then turned around and announced corporate restructuring that harms American workers. Despite recently reporting bottom line net income of over $8 billion for fiscal year 2018[35], GM has announced plans to shutter four plants located in Michigan, Ohio, and Maryland[36], while also laying off 8,000 white-collar workers in the U.S.[37] In total, the lives of nearly 12,000 American workers will be directly harmed.[38] This does not

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https://seekingalpha.com/article/4140185-american-airlines-aal-ceo-doug-parker-q4-2017-results-earnings-call-transcript?part=single

[33] American Airlines Group, Form 10-K for the year ended December 31, 2018, at page 84. Available at: https://americanairlines.gcs-web.com/node/37211/html; American Airlines Group, Form 10-K for the year ended December 31, 2016, at page 88. Available at: https://americanairlines.gcs-web.com/node/31111/html

[34] CWA, "Poverty Pay and Food Stamps at American Airlines," February 2018. Available at: https://cwa-union.org/news/new-report-passenger-service-agents-american-airlines-subsidiary-are-making-poverty-wages

[35] [35] https://investor.gm.com/static-files/cbb78eee-fd3b-47bc-93c8-2c73c4800042

[36] https://media.gm.com/media/us/en/gm/news.detail.html/content/Pages/news/us/en/2018/nov/1126-gm.html; Although, in late February, GM announced keeping the Hamtramck plant open for an additional 7 months: https://www.freep.com/story/money/cars/general-motors/2019/02/22/gm-detroit-hamtramck-workers-impala-cadillac/2950160002/

[37] https://www.usatoday.com/story/money/cars/2018/11/26/gm-general-motors-plant-closures-job-cuts/2113275002/

[38] [38] https://www.pbs.org/newshour/economy/gm-to-announce-company-wide-restructuring (8,100 white collar, 3,600 blue collar Americans). Independently trying to back into these numbers, we come to roughly the same numbers. In 2018 GM offered buyouts to 18,000 North American white-collar workers. (https://www.freep.com/story/money/cars/2018/10/31/gm-buyouts/1832705002/) In GM's plant closing announcement it reaffirmed its intentions to "reduce salaried and salaried contact staff by 15 percent" (https://media.gm.com/media/us/en/gm/news.detail.html/content/Pages/news/us/en/2018/nov/1126-gm.html). News reports stated the bulk of the remaining cuts would occur in the U.S. In the company's 2018 10k (https://www.sec.gov/Archives/edgar/data/1467858/000146785819000033/gm201810k.htm) it put its U.S. salaried workforce at 53k – with 15% working out to roughly **8,000 workers.**
The **3,600** blue collar workers roughly matches the number of workers we have paying dues in these facilities.
See also the following WARN notices: https://www.michigan.gov/documents/wda/GM_Hamtramck_1_641159_7.pdf; https://www.michigan.gov/documents/wda/GM_Hamtramck_2_641162_7.pdf; https://www.michigan.gov/documents/wda/GM_Brownstown_Plant_641164_7.pdf; http://jfs.ohio.gov/warn/WARN2018.stm; https://www.dllr.state.md.us/employment/warn.shtml; Warren Transmission has not filed a WARN Act notice to date, although the news has reported 335 workers will be laid off: https://www.macombdaily.com/news/local/gm-to-shutter-warren-transmission-and-detroit-hamtramck-assembly-plants/article_dc2bc0d2-f19c-11e8-a4ae-5b552e410f9d.html.
These reports work out to 2,932 workers being laid off, with GM reporting (https://www.michigan.gov/documents/wda/GM_Hamtramck_1_641159_7.pdf) 1,100 workers would take be transferred to other facilities. Totaling **4,032.** The difference between this number and our headcount is presumably the white collar workers at the plants.

include the substantial impact that the restructuring will have on GM's parts suppliers and numerous other small businesses in surrounding communities such as barber shops, restaurants, and grocery stores.

Additionally, there has also been no evidence to date that the corporate tax cuts have encouraged GM to bring back any production from Mexico to the U.S.[39] In fact, GM continues to manufacture some of its most popular and profitable products in Mexico – just to be shipped back to the U.S. for sale.[40][41] GM is now the largest automaker in Mexico[42], and by 2020, nearly a third of all of its North American vehicles are projected to be produced in Mexico.[43]

Our experiences at CWA and UAW are not unique. Across the economy, large corporations are retaining profits for wealthy executives and shareholders rather than investing in the U.S economy. For example, Wells Fargo is predicted to benefit more from the tax cuts than any other bank. These predictions appear to becoming true, with Wells Fargo beating Wall Street analysts' expectations in the fourth quarter of 2018 with annual profits of over $6 billion total. Instead of using this windfall to increase employment, Wells Fargo announced it was reducing its 265,000 person workforce by 10 percent. Citing "changing customer preferences," CEO Tim Sloan disingenuously said the bank would lay off up to 26,500 people in the coming months. In fact, the U.S. Department of Labor has investigated several of the announced layoffs in recent months and found that the jobs were being offshored primarily to the Philippines and India.

Reporting and analysis have demonstrated that corporate profits are indeed up as a result of the tax cuts, and companies have invested these profits not in workers or capital projects, but in a record level of corporate stock buybacks in 2018, surpassing the $1 trillion mark. As we've seen with AT&T's failure to expand job opportunities or invest in growth, recent reports have shown that only 4% of businesses reported increasing hiring because of the tax cuts and only 10% reported that they increased investment in things like purchasing new equipment, expanding factories or buying new software.

What real tax reform would look like

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[39] On March 22, 2019, GM announced an EV that was originally supposed to be built overseas was now being built at its Lake Orion, Michigan plant. (https://www.cnbc.com/2019/03/22/gm-invests-400-million-in-orion-assembly-plant-adds-300-jobs.html) GM did not state the decision to bring the car to the US was the US tax code, but rather, it specifically stated it was because:

- The Orion plant currently builds the Bolt EV, and the new Chevrolet EV will be based off an advanced version of the same vehicle architecture.
- Moving production to a U.S. manufacturing plant supports the rules of origin provisions in the proposed United States, Mexico and Canada Agreement.

https://media.gm.com/media/us/en/gm/news.detail.html/content/Pages/news/us/en/2019/mar/0322-orion.html.

[40] https://www.gm.com.mx/corporativo/estadisticas/. See tabs "Prod_Exportación" and "Vtas_Exportación". Mexican produced Silverados, Sierras, Equinoxes, Blazers, and Terrains are almost entirely exported to the U.S.

[41] According to Wards Auto, GM top selling U.S. vehicles in 2018 were: 1. Silverado, 2. Equinox, 3. Sierra, and 8. Terrain.

[42] According to Wards Auto, GM manufactured 834,414 vehicles in Mexico in 2018, the next largest manufacturer was Nissan who produced 734,730 vehicles.

[43] Wards Auto forecasts GM will produce 3,096,357 vehicles in North America in 2020. 956,103 of these will be produced in Mexico.

As I said at the beginning of this testimony, CWA believes our tax code needs to be reformed. We believe that it's well past time that the idle capital class pay its fair share of taxes. For too long, the tax code has been structured to benefit the super wealthy, private equity, major corporations and Wall Street rather than working people and main street. Our tax code should be designed to benefit working people, ensure that the super-wealthy and multinational corporations pay their fair share, and help create good jobs in the United States. Congress can achieve that by passing legislation to fix some of the worst aspects of the current law.

- H.R. 1711, the No Tax Breaks for Outsourcing Act would eliminate the new law's incentives that provide benefits to companies that send jobs and money overseas. The 2017 tax law allows many companies to pay a much lower tax rate for profits earned overseas and even includes a deduction for return on tangible investments made outside the U.S. That last provision creates a direct tax benefit for building a factory or call center or investing in equipment overseas.
- H.R. 1735, the Carried Interest Fairness Act would get rid of provisions that allow billionaire private equity and hedge fund managers who make their fortunes by destroying working peoples' lives to pay a lower tax rate than teachers, firefighters, or call center customer service representatives. This proposal has long had bipartisan support, including from President Trump, and it's long overdue that this loophole be closed.
- A Wall Street Sales tax , which would ensure that Wall Street traders pay small fees for buying stocks, bonds and securities, just like working people do on our purchases.
- H.R. 748, the Middle Class Health Benefits Tax Repeal Act, which would ensure that working people and their employers aren't penalized for negotiating for quality health insurance.
- H.R. 1712, the Stop Tax Haven Abuse Act, which would close loopholes that allow wealthy tax cheats to dodge paying their fair share of taxes by hiding profits in non-transparent overseas tax havens.
- The Bring Jobs Home Act (H.R. 685 in the 115th Congress), which would eliminate the outrageous deduction for outsourcing expenses incurred in moving production outside the U.S. and provide a new credit for companies that incur insourcing expenses for bringing jobs back to the U.S.

In closing, our lived reality over the past year has made it clear that the current tax law was nothing more than an effort to increase Wall Street profits and line the pockets of executives. From our perspective, the corporate tax cut was a massive failure if judged on the promises made to U.S. workers. It has not brought jobs back from overseas nor stopped the offshoring of U.S. jobs. It has not raised wages significantly.

We are grateful that you have called this hearing and hope that it is just the first of many hearings to explore how the 2017 tax law has only increased income inequality, led to greater offshoring of U.S. jobs and done nothing to help working families increase their incomes. More hearings need to be held to explore how this trend could be reversed rather than exacerbated. And corporate executives like AT&T's Randall Stephenson, GM's Mary Barra and Tim Sloan of Wells Fargo among other corporate leaders should be brought before this Committee and be

required to explain why the predictions and promises made by them and authors of this tax policy changes were so seriously incorrect.

Again, thank you for giving me the opportunity to testify today and I look forward to answering any questions that you may have.

Chairman NEAL. Thank you, Mr. Shelton.

Let me proceed to recognize Professor Abramowitz. Please begin.

STATEMENT OF NANCY ABRAMOWITZ, PROFESSOR OF LAW AND DIRECTOR OF THE JANET R. SPRAGENS FEDERAL TAX CLINIC, AMERICAN UNIVERSITY WASHINGTON COLLEGE OF LAW

Ms. ABRAMOWITZ. Good morning, Chairman Neal, Ranking Member Brady——

Chairman NEAL. Put your microphone on, please.

Ms. ABRAMOWITZ [continuing]. Members of the Committee. Thank you for the invitation to appear today to share some experiences about the new tax law and the working poor. I am Nancy Abramowitz, and I direct the Spragens Tax Clinic at American University Law School. I speak for myself, but my views are the result of the last 22 years I have spent supervising hundreds of students handling thousands of tax controversies for low-income taxpayers.

Our tax clinic was founded by my colleague—my late colleague, Janet Spragens, and was among the earliest of its kind. A bit more than 20 years ago, it was Janet's testimony before the IRS restructuring commission about our clinic that prompted Congress to provide grant funding for the now more than 130 clinics nationwide.

The cases we handle are essentially controversy work, liability cases, and collections cases where people are unable to pay amounts they may otherwise agree they pay. Our students, not as part of clinic, but all participate in the Volunteer Income Tax Assistance Program, and through our work we have developed what we believe is a pretty good understanding of the working poor.

It would appear that the 2017 tax law's promise of reduced taxes, greater simplicity, and new jobs has fallen flat insofar as the working poor are concerned. I leave it to the economists and others to explain the allocation or misallocation of the law's tax expenditures by income class as well as the use of tax windfalls by businesses and higher income taxpayers who were expected to expand jobs. Suffice it to say, the working poor seem to derive little, if any, benefit, and, in fact, depending upon certain factors, such as the configuration of family or immigration status, there may actually be an increase in tax or a reduction in tax benefits.

As for simplicity, neither the law nor return preparation seems to have gotten much simpler. Returns—as for returns, the front page of the Form 1040 does achieve aspirational postcard size but only by adding six new schedules containing essentially the balance of the old 1040.

As for the low-income population more generally, I would point out that the law continues and expands the practice of singling out

the working poor and their issues for special due diligence and special penalties for misclaims. These provisions are only remarkable in that they do not apply in a host of other potential revenue loss situations involving taxpayers in other income classes. The law's section 199A deduction, as Professor Oh has noted, which provides benefits for the self-employed, may have the ironic effect of promoting further misclassification of workers as contractors rather than employees. We have seen articles suggesting that the new law provides the opportunity for payors to sell contractor status, and at the lowest income levels, the 199A deduction against income tax is useless if you are not earning enough to pay income tax.

In addition, people who may fall into contractor status additional misclassification suffer the regressivity of the self-employment tax, which falls with undue harshness on the working poor.

We think that other provisions in the law may affect people indirectly, such as reduced charitable giving, the SALT deduction, as well as opportunities on legislation, all of which may have negative impacts on services intended or previously provided to the poor.

Finally Congress' reduction in appropriations for the IRS over the past several years has hit the poor the hardest in terms of tax administration and enforcement. They get the short end of the stick. They find themselves in court without any administrative process, and they find that they are unable to have meaningful dialogues with the IRS. The lack of resources undoubtedly contributed to the IRS' treatment of low-income taxpayers or low-hanging fruit this way.

The 2017 law did not address any of these issues. It exacerbated some, and we could do so much more to lift people out of poverty, make childcare better and more affordable, and to even out unfair differences in our tax system and its administration.

[The prepared statement of Ms. Abramowitz follows:]

STATEMENT OF

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March 27, 2019 before
The United States House of Representatives
Ways and Means Committee
Hearing Topic: "The 2017 Tax Law and Who It Left Behind"

Mr. Chairman, Ranking Member Brady and Members of the Committee,

Thank you for the invitation to appear before you today to share my observations about the impact of The Tax Cuts and Jobs Act of 2017 ("TCJA") on the working poor. My name is Nancy Abramowitz and I am on the faculty at American University Washington College of Law, where my duties include directing the Janet R. Spragens Federal Tax Clinic. I speak to you today to express my personal views of the TCJA and low income taxpayers based upon my tax clinic experience. These views are mine alone; I do not speak for my employer or any other individual or institution.

Our clinic was started in 1990 by my late colleague, Janet Spragens. It was then one of a handful of law school clinical programs wading into the tax law area to represent low income earners with IRS controversies but without resources to obtain paid legal assistance. The clinic was a huge success internally, as more students sought to participate and, externally, as Janet became a powerful voice for the underserved community.

I joined Janet in 1996 as our clinic doubled in size. Shortly thereafter, as Congress began its study of the possible IRS restructuring, Janet testified before the National Commission on Restructuring about the problems encountered by lower income taxpayers in navigating the IRS maze and the type of legal assistance our clinic provided. When asked how Congress might help, Janet offered that Congress might provide funding for the creation of more clinics like ours. Janet's response became a reality with the enactment of Internal Revenue Code Section 7526 as part of the Restructuring Act of 1998. Today, our clinic is among more than 130 nationwide clinic grant recipients offering tax controversy legal services to low income taxpayers.

Allow me to describe briefly the nature of our clinical operation and the nature of our case inventory that form the bases of the experience from which I draw my comments today. Law students working under close supervision handle primarily (1) tax matters for individuals who may be disputing an asserted liability for a past year before the IRS or in U.S. Tax Court ("liability cases") and (2) tax collection matters for individuals who may be before the IRS or in court ("collection cases"). This controversy or dispute work is generally retrospective; it involves past tax years. However, we certainly confront current tax liability in looking at taxpayers' current financial profiles for our collection cases. And, while our clinic does not handle current year tax planning or return preparation, our students generally train and volunteer with the Volunteer Income Tax Assistance program purely, as a pro bono activity and see the impact of the new law in that capacity.

To the extent the TCJA dangled the prospects of eased tax liability, tax simplicity, and improved job prospects, we have not seen any real evidence of results for the working poor. Moreover, it would appear that key features of the law benefiting middle and higher income taxpayers and businesses may result in direct as well as indirect adverse consequences for those on the lowest rungs of the income scale.

You will hear from economists and others about the specific dollar impact of the law. What I would like to emphasize today, from my view "from the trenches," is that the TCJA did not address the opportunity to improve the lot of the poor by offering them a greater share of the some $1.5 trillion in tax expenditures, the opportunity to offer the poor a simpler law and better means to understand and fulfill their filing obligations, the opportunity to reduce (rather than increase) opportunistic misclassification of workers as contractors with serious adverse consequences for workers, and the opportunity to address the IRS' enforcement resources so as to alleviate disproportionate examination and abbreviated and heavy-handed processing of low income taxpayer returns and tax collection.

THE TAX CUTS AND JOBS ACT

Tax Law Changes and the Bottom Line. For the poorest of the working poor, incomes generally fall below the income tax threshold and the law may not impact actual income tax liability, per se. However, for some households, depending upon their circumstances, changes such as the interplay of the suspension of dependency exemptions and new child tax credit rules may result in less favorable results post- 2017. The largely unchanged earned income credit and revised child tax credits seem to result generally in rather small, if any, changes for the low income wage earners. For taxpayers who cannot meet new rules about social security numbers for qualifying children, the refundable CTC disappears so we would expect to see an additional burden on immigrant taxpayers.

Overall, the TCJA does not seem to offer measurable direct dollar change to the low income population.

Simplified Reporting/Compliance. As for tax simplification, the law has eliminated (for now) exemptions in favor of credits, has largely left the earned income credit as is, and increased the standard deduction. The execution of a 2018 return, however, is seemingly NOT simplified and, in fact, seems to require more schedules than ever before. The new Form 1040 cover page is about post-card sized; however, the balance of the old 1040 form did not retreat---- it is now spread out over at least six additional new schedules, in addition to the continuation of existing schedules, and is supplemented by additional worksheets. Moreover, preparers are now under legislative mandate to complete due diligence forms for head of household filing status in addition to Earned Income ("EIC"), Child Tax ("CTC" or "ACTC"), and American Opportunity ('AOTC") credits.

While neither the law nor return preparation is simpler, it would appear that Congress could have, but did not, direct nor allocate sufficient additional IRS resources to offer more and better assistance specifically targeted to low income taxpayers already struggling with tax return responsibilities.

The very nature of the family status benefits overhaul as a temporary measure only, thereby leaving intact old law for possible resurrection, makes for even further confusion.

Adverse Consequences of Section 199A. The new law's allowance of an income deduction under new Section 199A for self-employed workers touches on an existing problem and exacerbates it.

It has long been the case that employers/payors benefit from classification of workers as contractors rather than employees. The contractor label offers employers/payors reduced payroll taxes, escape from numerous otherwise applicable labor laws, avoidance of unemployment insurance taxes and workmen's compensation, avoidance of benefits coverage, etc. For a worker or for the IRS to challenge an employer/payor's characterization of work status can be an uphill battle. In the current labor market, employers often opt for contractor status whenever they can, including using this status as a test run in lieu of a probationary employment even where employee status might eventually be acknowledged. Workers who are desperate for income often have no power to resist or challenge the classification. If a worker does not dispute status, the IRS may not choose to do so either.

As we know from many of our clients, the misclassification is very costly to workers. First, there are often problems in establishing amounts actually paid to the worker. Second, whether or not a worker earns above the income tax threshold, the worker becomes liable for self-employment tax at a total rate of 15.3% on earnings. In contrast, employees have 7.65% of their wages withheld as FICA tax and the employer pays the remaining 7.65%. The employer may then deduct its share of FICA as a business expense. In an attempt to create some parity, the self-employed are allowed to deduct one half of their SECA tax burden from taxable income. Because the poorest workers likely have little or no taxable income, the deduction is virtually worthless.

So the marginal worker who has no choice about status may face a full 15.3% burden on earnings. For someone earning just enough to avoid hunger or homelessness, this tax bill, often first confronted at tax return preparation, is a real hardship. Some taxpayers may entirely ignore tax filing because they believe they have not earned enough to file. Others may believe they were misclassified, but may not wish to challenge the person or entity for which they still work. Or, a worker may simply feel too weary or too vulnerable to contest classification. Because satisfying the SECA tax bill is simply an impossibility, the taxpayer may file and just not pay. We see many taxpayers seeking collections relief from the IRS where this is the case. For workers whose situation does not change year to year, the problem is an ongoing, pyramiding problem. Carrying the unpaid tax liability may result in tax liens further complicating access to housing, jobs, credit, etc.

Rather than address an already problematic situation, the TCJA offers employers/payors ammunition to further the practice of using contractor classification. According to news reports, the 20% income tax deduction that may be available to the self-employed is being used to "sell" workers on taking contractor status. The "sale" offers little to the poor who cannot use the deduction and would surrender many benefits and protections for the "privilege" of only owing more in SECA tax.

Potential Other Indirect Harms To the Poor in TCJA. It seems that some of the benefits for taxpayers at the higher end of the income scale may, directly or indirectly, not be so neutral or benign for the poor. For example, the TCJA allows taxpayers (with the resources to do so) to utilize tax-favored Section 529 plans to finance private school elementary and secondary school education, in addition to college education. This is substantial tax subsidy for the private schooling for the children of taxpayers with means to save. Apart from the choice of enacting this tax expenditure for a limited class, the provision will divert students away from the public school system; those who must rely on the public system may suffer.

The potential impact on public schools, as well as other governmental functions and services, may be intensified by the limitation of state and local tax deductibility. While the working poor may not feel the limitation directly, state and local governments may feel a pinch.

The TCJA offers new incentives for investment in "opportunity zones" or economically distressed areas. Early anecdotal reports are that investments may be directed at already gentrifying zones and thereby not likely to produce tangible benefits for those in the truly distressed areas.

The TCJA has increased the standard deduction in an amount that is likely to significantly affect charitable deductions claimed. To the extent that tax benefits are no longer available for some givers, the question of whether those individuals will continue to give is as yet unanswered. If giving to the charitable sector is reduced, the further question is what types of charities are affected and whether there is an adverse impact on certain charities, including those furnishing services to low income individuals.

The TCJA's impact on numerous other areas (e.g. health care) similarly bears close study for impact on low income individuals.

Finally, it seems plain that the sheer size of tax expenditures for the "haves," pushes them even further ahead of the "have-nots" and tends to increase income and wealth disparities.

ISSUES TO CONSIDER REGARDING TAX ADMINISTRATION AND ENFORCEMENT AND LOW INCOME TAXPAYERS

Our work in the clinic area highlights for us the various ways in which low income taxpayers are treated differently and less favorably than other taxpayers.

Legislation of special rules and penalties directed to the low income population. It has not gone unnoticed that Congress, long prior to the TCJA, took pains to establish special enforcement tools and penalties directed at the working poor. While enacting the earned income credit on the one hand, Congress has singled out the EIC for special scrutiny. Special penalties for misclaimed EIC, in addition to generally applicable penalties, include limitations on future tax years' EIC claims, irrespective of eligibility. This is in stark contrast to other taxpayers' erroneous reporting positions (e.g. income omission, erroneous business deductions, erroneous

charitable deductions, erroneous foreign income characterization, etc.) as well as generally accepted policy notions of the annual accounting period.

While Congress may have reasonable concerns about potential misclaims of EIC, surely there are concerns in other areas as well. Moreover, on an aggregate basis, overclaimed EIC is offset by substantial UNDERCLAIMED EIC—income supplements targeted for taxpayers who, for one reason or other, do not claim. And, as noted by the National Taxpayer Advocate, overclaims may be attributable to issues of complexity and plain error rather than design. It would be far better to deal with complexity and simple error by improving education and outreach.

Prior to the TCJA, Congress also imposed special preparer due diligence requirements for returns claiming the EIC. Several years ago, the requirement was extended to returns claiming child tax credits and the American Opportunity Tax Credit. The TCJA has now added returns claiming head of household status to the special due diligence rules. Failure to comply results in a preparer penalty.[1]

It is hard to argue with due diligence. However, we might ask why all return preparation should not be subject to the same standards or why issues affecting low income taxpayers are deserving of this unique treatment.

IRS Resources and Tax Administration. The IRS budget has been substantially reduced in recent years, prompting a characterization of the agency as a "bureaucracy on life support."[2] With limited resources, enforcement activity is necessarily reduced, at least for businesses and higher income taxpayers. Because the IRS is also charged to do more with less and to keep the heat on EIC enforcement, the working poor are more frequent audit subjects than others.

Low income taxpayers are essentially "low hanging fruit" in the collections sphere. The examination of returns is generally reduced to a computer- generated letter or two ("correspondence audit") and followed rather quickly by a statutory Notice of Deficiency — forcing a taxpayer either to surrender or to bring the dispute to U.S. Tax Court. In some cases, the IRS takes a broad view of its "math error" authority and attempts to force quick assessment by characterizing a reporting position as a math error, leaving the taxpayer without the Tax Court option.

We see more cases getting to Tax Court without any real communication between the IRS and the taxpayer. The IRS has technically fulfilled its legislatively prescribed job of offering an entry to a court forum, but many easily resolvable disputes may not resolve unless and until the taxpayer accepts the burden and potential public exposure of commencing a Tax Court case, not to mention a court filing fee. Once a case is filed in court, the IRS will only then generally continue the administrative process ("appeals") while the case awaits trial. Essentially, the taxpayer must pay a court fee to continue a discussion with the IRS ("appeals") and, in some cases, to have a first contact with a live person.

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[1] See IR-2018-216 (11/7/18).
[2] Paul Kiel & Jesse Eisinger, "How the IRS Was Gutted," *ProPublica (12/11/18).*

Again, it appears that audit processes of the better-resoureed taxpayers have not been so abbreviated by IRS budgetary constraints, they have simply become less frequent, despite the greater revenue they might yield.

For the taxpayer facing an audit but who has properly claimed family status benefits, his/her overpayment is generally withheld by the IRS pending resolution. Where administrative process is virtually nonexistent and the taxpayer is forced to challenge in court, it may be a matter of many months to find resolution. The critical EIC funds targeted for the working poor to rise above the poverty level are then so delayed so as to cause substantial hardship

IRS Communications Generally. While the poor feel a disproportionate share of enforcement activity, it is seemingly justified by the fear of improper EIC payments. Again, the National Taxpayer Advocate's observation is that the errors are quite frequently a result of complexity. Perhaps diversion of audit resources to better, clearer and more education and taxpayer service may be better spent.

IRS Notices and the Collections Process. Finally, from our perch, we see numerous taxpayers facing the IRS in the tax collections process. As a result of the 1998 Restructuring Act, taxpayers are afforded certain rights to notices, hearings, and court review of the IRS' decisions about granting collections relief. The tone and the quality of the IRS notices/communications are increasingly troublesome.

As noted above, we see growing IRS reliance on "math error" notices to promote virtually process-less assessment; we see increasing reliance on confusing "quasi" Notices of Intent to Levy offering collections appeal review rather than court-reviewable Collection Due Process hearings, etc. These notices and communications may allow the IRS to achieve greater "efficiency" in case and collection processing. It is, however, it is at the cost of clarity and fairness. Recipients of these notices are at a loss to understand their rights.

To the extent these undertakings are encouraged or required by lack of appropriations or other concerns emanating from Congress, we respectfully suggest rethinking how much and how best tax administration dollars are used.

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Again, from my vantage point, the TCJA did not advance the economic interests of the working poor, nor did it address some of the existing issues that are attributable to existing law and/or existing appropriations.

Thank you for the opportunity to share these observations.

Chairman NEAL. I thank the gentlelady.

With that, let me recognize Dr. Holtz-Eakin, a familiar face here at the Committee. Dr. Holtz-Eakin.

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

Mr. HOLTZ-EAKIN. Thank you, Mr. Chairman, Ranking Member Brady, and Members of the Committee. It is a privilege to be here today. Let me make three points at the outset, and then I look forward to answering your questions.

Point number one is that going into the deliberations over the Tax Cuts and Jobs Act, the U.S. had severe problems in growth and in competitiveness.

Point number two is that the TCJA targeted the incentives at the core of those growth and competitiveness problems.

And point number three is that recent economic performance has been markedly improved, and that is good news for everyone, but it is especially good news for those Americans who are part of the 44 to 45 percent who are not affected by the U.S. individual income tax, do not pay income taxes but benefit from improved economic performance.

Let me talk about those in turn.

In the post-war period from the end of World War II to 2007, the U.S. experienced rapid productivity growth above 2 percent per year, rising labor force participation, and the upshot was a top line growth in the economy at about 3.2 percent annually and growth in income per capita that was above 2 percent. What that meant for the average American was that, every 35 years on average, the standard of living doubled. So, in one working career, Americans had a chance to access their version of the American dream.

After the Great Recession and the financial crisis, we saw a diminished product growth under 1 percent, declining labor force participation, top line economic growth of under 2 percent, and per capita income growth of 1 percent or less. What that meant was that access to the American dream was disappearing over the horizon. The standard of living was on track to double only every 70 years, two working lifetimes.

To adding to these growth problems were severe problems in international competitiveness. U.S. multinational firms faced the highest statutory tax rate on the globe, 35 percent, and were subjected to the last worldwide income tax system in the developed world. The result of that was that when competing in neutral countries, a German firm and a U.S. firm competing in Brazil, the German firm paid the Brazilian tax and was done. U.S. firms paid the Brazilian tax and owed a second layer of tax up to the highest rate in the United States. That put us, our firms and our workers, at an immediate disadvantage.

On top of that, we saw marked declines in the headquarters in the United States. This Committee is familiar with the terrible rash of inversions and mergers and acquisitions that led to loss of headquarters, and overall, the Tax Code was complex and not conducive to growth and competitiveness.

The TCJA addressed these core issues. The international tax regime has been markedly improved, moved toward a territorial sys-

tem. The top rate has been moved to an internationally competitive 21 percent rate. If one does that as matter of tax policy, you have to recognize that over half of business income is not corporate income, not C corporation. It is taxed as passthrough income on individual income tax returns. The TCJA instituted a regime of a 20-percent deduction to address the imbalance in the taxation of business income and had numerous other individual provisions that I am sure we will have time to talk about.

All of this sent the following message to the American business community: Invest in the United States, not abroad; invest more; raise capital per worker; raise the technological sophistication of that capital; raise productivity; and, thus, ultimately raise wages.

More recent economic performance has in fact markedly improved. After a recent low of 1.3 over year growth in 2016, growth has improved every quarter since reaching a 3.1 percent rate year over year at the end of 2018. Where did that growth come from? Improved business investment. Nonresidential fixed investment rose rapidly in 2017 and especially 2018. It is the source of this recent growth spurt. That has carried along with it the things one would expect. We saw 223,000 jobs on average created every month in 2018. That is an astonishing performance. Normal demographics would have predicted about 90,000 jobs. We drew into the labor market and employed people who had not been familiar with work for years. It is the single most important thing that happened in 2018. And underneath that, we saw increasing wages. Wages are rising at over 3 percent up 50 percent from 2016, and as I show in my written testimony, if you look at the wage distribution at the low end, the 10th percentile, the median and the high end, the fastest growth rate in 2018 was at the low end at the 10th percentile. These are the people who most needed a raise, and they are now starting to see their wages rise.

Is this all because of the TCJA? No. There was an enormous change in the regulatory environment. There was some bad news in my personal opinion on the trade policy front, which hurt economic performance. And it is simply too soon to make definitive statements about how much is due to the TCJA. But the timing and the location of the improvement in the investment world really does suggest that it has had a marked impact, and our hope is that will continue in the future.

[The prepared statement of Mr. Holtz-Eakin follows:]

A Preliminary Evaluation of the Tax Cuts and Jobs Act

United States House of Representatives

Committee on Ways and Means

Douglas Holtz-Eakin, President

American Action Forum*

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* The views expressed here are my own and not those of the American Action Forum. I have benefitted enormously from numerous discussions with my colleague Gordon Gray. I thank Ben Gits and Tom Lee for their assistance.

Chairman Neal, Ranking Member Brady, and members of the Committee, thank you for the opportunity to discuss the impact of the Tax Cuts and Jobs Act (TCJA) now that it has been law for about 15 months. I believe it is important to frame any evaluation of the TCJA relative to the rationale for tax reform in the first place: the weak U.S. economic outlook. Having identified the "problem," we should consider whether the major provisions of the TCJA addressed the deficiencies of the tax code, examine recent economic performance, and assess the degree to which this can be tied to the TCJA itself. Finally, it is important to discuss how best to evaluate more definitively in the future. As part of this assessment, I would like to make three points:

- The overriding rationale for the TCJA was the need for better incentives for long-term economic growth, improving disappointing wage growth and raising the growth of the standard of living for American families;

- The TCJA, while imperfect, addressed many of the most anti-growth elements of the old tax code; and

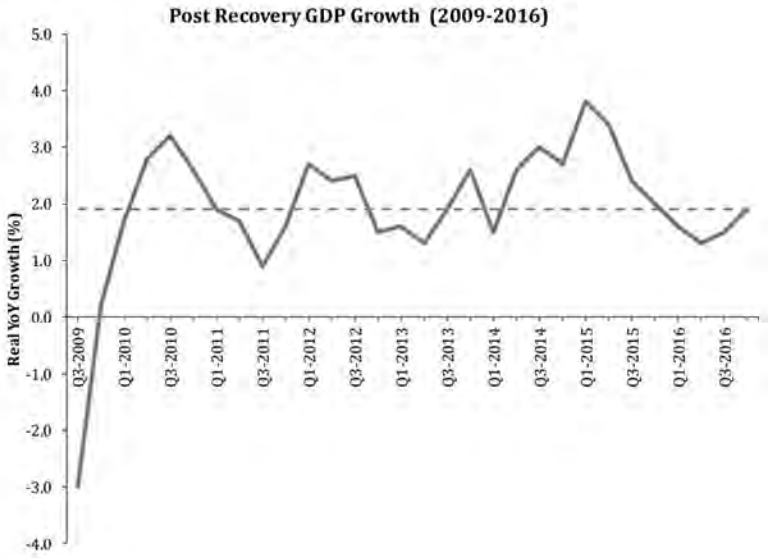
- U.S. economic performance has improved meaningfully since the passage of the TCJA, including objectives like top-line economic growth, business investment and wage growth. This is promising, but not definitive. At this juncture it is simply premature to pass judgement on the TCJA.

Let me discuss these in turn.

The Growth Challenge and Tax Reform

As of 2017, the need to support more rapid-trend economic growth was the preeminent policy challenge. The nation experienced a disappointing recovery from the most recent recession and was confronted with a future defined by weak long-term economic growth. Left unaddressed, this trajectory would leave to the next generation a less secure and less prosperous nation.

The figure below shows quarterly, year-over-year growth rates for real gross domestic product (GDP) beginning with the official end of the Great Recession in June of 2009. As shown, real GDP growth had been stubbornly weak, averaging 1.9 percent annually (the dotted line). While recoveries from recessions precipitated by financial crises tend to be weaker, the persistence of the nation's weak economy should not have been considered inevitable, but rather as an encouragement to implement better economic policy.



A related shortcoming had been the growth in productivity (see below).

Source: BLS

In recent years the actual growth in productivity had fallen below its recent trend (2001 to 2007) and far below the postwar average (1947 to 2007).[1] Accepting diminished productivity growth would mean being resigned to slow growth in real (inflation-adjusted) wages and labor incomes.

Household income, a metric that more working Americans can appreciate, underscores the tepid economic recovery. According to the U.S. Census Bureau, earnings growth of men and women who worked full-time and year-round was essentially zero in 2016.[2]

The final essential building block for stronger trend economic growth is growth in the labor force – the population willing and able to work. As a share of the population, the labor force had declined from historical highs in 2000, but this decline accelerated after the Great Recession.

Even more troubling than the poor recovery was the fact that the Congressional Budget Office (CBO) projected poor economic growth – averaging at best 2 percent per year – in the future. That rate of growth is certainly below that needed to improve the standard of living at the pace typically enjoyed in post-war America. During the early postwar period, from 1947 to 1969, trend economic growth rates were quite rapid. GDP and GDP per capita grew at rates of 4.0 percent and 2.4 percent, respectively. Over the subsequent 25 years, however, these rates fell to 2.9 percent and 1.9 percent, respectively. During the years 1986 to 2007, trend growth in GDP recovered to 3.2 percent, while trend GDP per capita growth rose to 2.0 percent.

These rates were quite close to the overall historic performance for the period. The lesson of these distinct periods is that the trend growth rate is far from a fixed, immutable economic law that dictates the pace of expansion, but rather is subject to outside influences – including public policy.

The trend growth rate of postwar GDP per capita (a rough measure of the standard of living) has been about 2.1 percent. As the table below indicates, at this pace of expansion an individual could expect the standard of living to double in 30 to 35 years. Put differently, during the course of one's working career, the overall ability to support a family and pursue retirement would become twice as large.

In contrast, the long-term growth rate of GDP in the most recent CBO projection is 1.8 percent. When combined with population growth of 0.8 percent, this implies the trend

growth in GDP per capita will average about 1.0 percent. At that pace of expansion, it will take 70 years to double income per person. The American Dream is disappearing over the horizon.

Trend Growth Rate Per Capita (%)	Years for Income to Double
0.50	139
0.75	93
1.00	70
1.25	56
1.50	47
1.75	40
2.00	35
2.25	31
2.50	28
2.75	26
3.00	23

More rapid growth is not an abstract goal; faster growth is essential to the well-being of American families.

The Need for Tax Reform

Economic performance was not the only spur to tax reform. Prior to the enactment of the TCJA, the U.S. tax code was broadly viewed as broken and in need of repair, and for good reason.

International Competitiveness and Headquarter Decisions[3]

Prior to the enactment of the TCJA, the U.S. corporate tax code remained largely unchanged for decades, with the last major rate reduction passed by Congress in 1986.[4] During the interim, competitor nations made significant changes to their business tax systems by reducing tax rates and moving away from the taxation of worldwide income. Relative to other major economies, the United States went from being roughly on par with major trading partners to imposing the highest statutory rate of tax on corporation income. While less stark than the United States's high statutory rate, the United States also imposed large *effective* rates. According to a study by PricewaterhouseCoopers, "companies headquartered in the United States faced an average effective tax rate of 27.7 percent compared to a rate of 19.5 percent for their foreign-headquartered counterparts. By country, U.S.-headquartered companies faced a higher worldwide effective tax rate than their counterparts headquartered in 53 of the 58 foreign countries."[5]

The United States failed another competitiveness test in the design of its international tax system. The U.S. corporation income tax applied to the worldwide earnings of U.S.

headquartered firms. U.S. companies paid U.S. income taxes on income earned both domestically and abroad, although the United States allows a foreign tax credit up to the U.S. tax liability for taxes paid to foreign governments. Active income earned in foreign countries was generally only subject to U.S. income tax once it was repatriated, giving an incentive for companies to reinvest earnings anywhere but in the United States. This system distorted the international behavior of U.S. firms and essentially trapped foreign earnings that might otherwise be repatriated back to the United States.

While the United States maintained an international tax system that disadvantaged U.S. firms competing abroad, many U.S. trading partners shifted toward territorial systems that exempt, either entirely or to a large degree, foreign-source income. Of the 34 economies in the Organisation for Economic Co-operation and Development, for example, 29 have adopted systems with some form of exemption or deduction for dividend income.[6]

One manifestation of the competitive disadvantage faced by U.S. corporations was decisions on the location of headquarters. The issue of so-called "inversions" remained at the forefront of tax policy and politics. Originally, tax inversions involved a single company flipping the roles of U.S. headquarters and foreign subsidiary — i.e. "inverting." Tax changes in the early 2000s largely ended this practice. Next, whenever a U.S. firm sought to acquire or merge with a foreign firm, the tax advantages of being subjected to a lower rate and a territorial base made it inevitable that the combined firm would be headquartered outside the United States. In these cases, inversions took place in the context of these otherwise strategic and valued business opportunities. Most recently, foreign firms have recognized that freeing U.S. companies of their tax disadvantage allows foreign acquirers to use the same capital, technologies and workers more effectively. Inversions were occurring because foreign firms were acquiring U.S. firms.

A macroeconomic analysis of former House Ways and Means Chairman Camp's tax reform proposal is instructive on the incentives inherent in the old tax code for capital flight. John Diamond and George Zodrow examined how reform similar to that proposed by former Chairman Camp would affect capital flows compared to pre-TCJA law.[7] In the long-run, the authors estimated that a reform that lowered corporate rates and moved to an internationally competitive divided-exemption system would *increase* U.S. holdings of firm-specific capital by 23.5 percent, while the net change in domestic ordinary capital would be a 5 percent increase. It is important to note that these are relative measurements – they were relative to current law at the time. If the spate of announcements of inversions in the years leading up to the enactment of the TCJA is any indication, the old tax code was inducing capital flight. Accordingly, the 23.5 percent and 5 percent *increases* in firm-specific and ordinary stock, respectively, may be interpreted in part as the effect of precluding future tax inversions.

Placing a value on this potential equity flight is uncertain, but based on these estimates, roughly 15 percent, or $876 billion in U.S.-based capital was estimated to be at risk of moving overseas under the old code.[8]

Finally, it is an important reminder that the burden of the corporate tax is borne by everyone. Corporations are not walled off from the broader economy, and neither are the taxes imposed on corporate income. Taxes on corporations fall on stockholders, employees, and consumers alike. The incidence of the corporate tax continues to be debated, but it is clear that the burden on labor must be acknowledged. A survey compiled by the president's Council of Economic Advisers aptly summarizes the economics literature, and finds that while differing greatly, empirical estimates have been trending upwards over time, reflecting the dynamism of global capital flows that characterize the modern economy.[9] One study by economists at the American Enterprise Institute, for example, concluded that for every 1-percent increase in corporate tax rates, wages decrease by 1 percent.[10]

Flaws in the Individual Tax Code

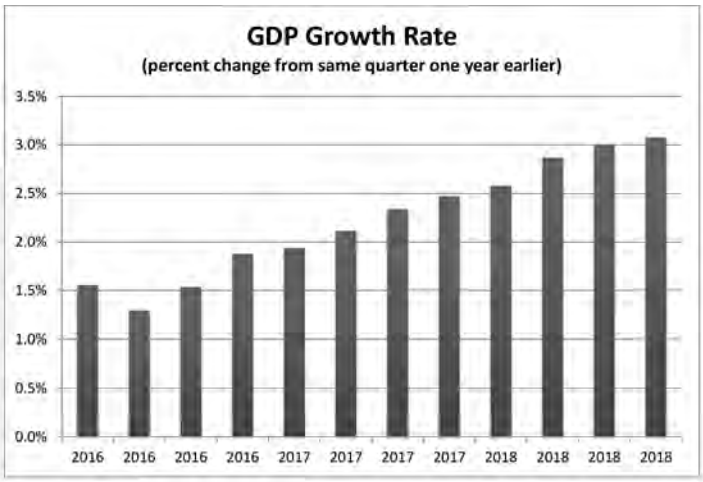
As taxpayers rediscover every April, the U.S. code has been complex, confusing, costly to operate and comply with, and leaves taxpayers distrustful that everyone is paying the share Congress intended. In 2016, over 150 million individual tax returns were filed, covering over $10.2 trillion in income.[11] These returns also include millions of businesses that do not file as C corporations. As of 2012, there were 31.1 million non-farm businesses filing tax returns: 23.6 million sole-proprietors, 4.2 million S corporations, and 3.4 million partnerships (including limited liability companies). The Internal Revenue Service (IRS) also recognized 1.6 million C corporations.[12] The tax system is often the most direct interface between individuals and businesses and the federal government.

Unfortunately, that experience is often deeply unsatisfactory. The IRS has 1,186 forms with which taxpayers must contend and requires an average of 11.8 hours per paperwork submission. The overall burden on taxpayers is 8.1 billion hours in paperwork burden imposed by the tax collection system on taxpayers.[13]

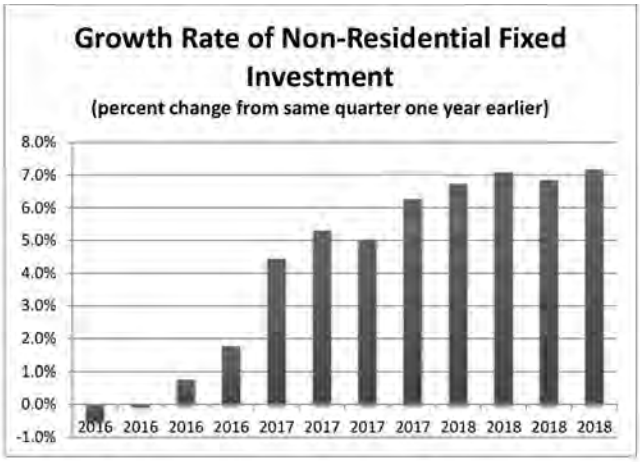
As many Americans have experienced, the tax filing process is extremely time intensive and often requires the help of outside expertise. Tax compliance is so onerous for individual taxpayers, over 90 percent of individual taxpayers used a preparer or tax software to prepare their returns. The Taxpayer Advocate Service (TAS), the watchdog office within the IRS, has stated that complexity is the single most serious problem with the tax code. Fichtner and Feldman assessed the costs that the U.S. tax code extracts taxpayers through complexity and inefficiency. The study finds that, in addition to time and money expended in compliance, foregone economic growth, and lobbying expenditures amount to hidden costs are estimated to range from $215 billion to $987 billion.[14]

Recent Economic Developments

There has been a meaningful improvement in the pace of economic growth over the past two years. Let me begin with GDP growth, measured as the growth from the same quarter in the previous year. As shown below, year-over-year GDP growth has accelerated steadily from a low of 1.3 percent in the 2nd quarter of 2106 to a 3.1 percent in the 4th quarter of 2018.

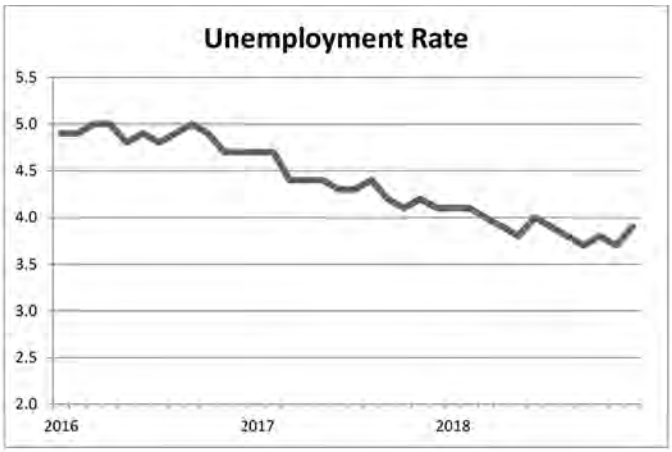


An important source of this acceleration is an increase in the pace of business investment. Household spending growth (as measured by personal consumption expenditures) has been rising steadily and solidly between 2.4 percent and 2.9 percent year-over-year over this period. As shown in the chart below, however, non-residential fixed investment ("business fixed investment") has grown much more rapidly since the start of 2017, and even faster (nearly 7 percent versus just over 5 percent annually) in the past year.

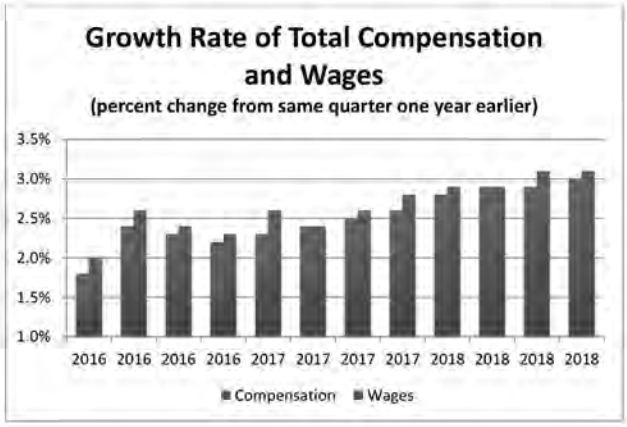


The more rapid growth in GDP has translated into a very strong labor market. After creating an average of 193,000 jobs monthly in 2016, it has averaged 201,000 new jobs in 2017 and 2018, accelerating to an average of 223,000 in 2018. This acceleration is an especially remarkable accomplishment this late in the expansion, when one might have expected the labor force participation and unemployment rates to stabilize.

Had that been the case, job growth would have averaged roughly 90,000 per month. Instead, the unemployment rate has plummeted sharply to below 4.0 percent (see below).

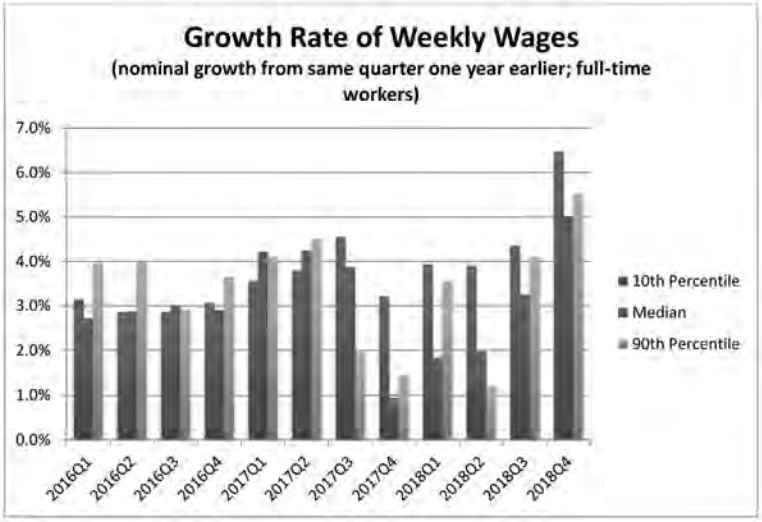


As the labor market continued to heat up, competition for workers has become more fierce and has led to rising wages and other compensation. The best measure of wage and non-wage compensation is the Employment Cost Index (ECI) from the Bureau of Labor Statistics (BLS). As can be seen in the chart below, wage growth in 2018 has been about 3 percent annually – higher than the same quarter in 2017 and up noticeably since prior to 2016.



Moreover, wage gains have been widely shared. The BLS provide data on weekly earnings of full-time workers at a variety of points in the earnings distribution – the 10th percentile (low-paid workers), the 50th percentile or median, and the 90th percentile (highly paid workers). The year-over-year growth in these wages is displayed in the chart below.

Clearly nominal wages have been rising across the distribution. More important, however, wage increases have been the most rapid at the 10th percentile since the start of 2018.



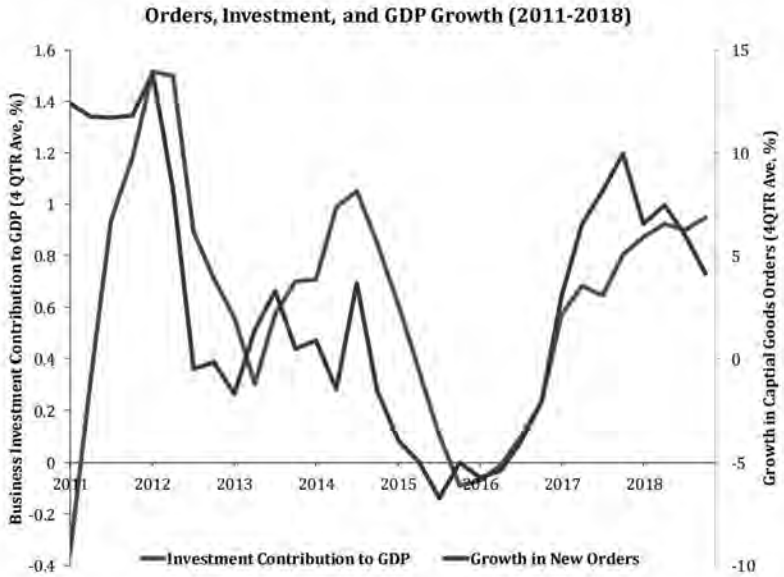
Evaluating the TCJA

How much of the recent improvement in economic performance can be attributed to the TCJA? As a matter of economic science, it is certainly too soon to say, but there are good reasons to credit the new law.

The TCJA addressed some of the most glaring flaws in the business tax code. It lowered the corporation income tax rate to a more globally competitive 21 percent, enhanced incentives to investment in equipment, addressed some of the disparate tax treatment between debt and equity, and refashioned the nation's international tax regime. Primarily for these reasons, the TCJA will enhance incentives for business investment in the United States.

A simple way to measure this effect is shown in the chart below. The red line shows the contribution (in percentage points) of business investment to growth in GDP, as measured by a 4-quarter moving average. The clear need is for investment to surge and push up both the growth rate of the economy and investment's contribution to that growth.

How can we see if that is coming? The blue line shows a 4-quarter moving average of new orders for capital goods, which fairly closely tracks the investment.



It remains too early to evaluate completely the degree to which the TCJA is boosting investment, but there are clearly some promising indicators. Since the beginning of the current recovery and prior to the enactment of the TCJA, the average contribution of real business fixed investment to GDP growth was 0.6 percentage points. But in the first four quarters after the TCJA's passage, the contribution of real business fixed investment to GDP growth rose to about 0.95 percentage points. According to the *Economic Report of the President,* overall private nonresidential fixed investment was up $150 billion (5.8 percent) over recent trends since the enactment of the TCJA trend through the third quarter of 2018.[15] Among nonfinancial businesses, overall capital expenditures were up 12.1 percent over recent trends. According to a research report compiled by Morgan Stanley and Co., plans for future capital expenditures reached "an all-time high" not long after the enactment of the TCJA.[16] This index was ticking up prior to the TCJA enactment and has

moderated somewhat since, so its implications should not be overstated, but this is an indicator to monitor for trends in investment behavior subsequent to the TCJA's enactment. There is also a burgeoning literature on the TCJA's economic effects, aptly summarized in the most recent *Economic Report of the President.* One study by Karel Mertens of the Dallas Federal Reserve finds that the cumulative effect on GDP between 2018 and 2020 of individual tax reform to be 0.5 percent, and the cumulative effect of business tax reform to be 1.9 percent.[17]

What is *not* a meaningful indicator for the TCJA's effect on investment are stock buybacks. The news is filled with reports that the TCJA has spawned "share buybacks" – corporations purchasing their own stock – and opponents of the law have characterized this as evidence of failed policy. A little reflection, however, indicates that share buybacks tell you essentially nothing about the success of the TCJA.

As noted above, investment is the channel through which the TCJA will most meaningfully improve the U.S. economic growth outlook and standards of living. Critics argue that share buybacks are not investment in new inventions, new business models, or new equipment. Similarly, they are not higher wages for workers. Taken to its logical conclusion, this view regards share buybacks as a reflection of policy failure.

This reasoning is incomplete. When firms repurchase their stock, the dollars they pay do not disappear into a black hole. The sellers could easily turn around and invest themselves. Indeed, only about a fifth of corporate-source earnings are distributed to taxable entities, which means the vast majority of those earnings are going to things like pension funds, whose incentive is to channel the dollars to the place with the highest return – those firms doing the best investment in inventions, business models, and equipment. This is precisely how markets should channel capital for productive investment.

In fact, there could be many more intermediaries and many, many links in the investment chain. The bottom line is that success or failure is measured by the final transaction in that chain, not the first. As long as investment in the economy as a whole rises, the TCJA will have done its job.

As an aside, it is probably a good thing when there are share buybacks. They suggest that the firm has little in the way of high-return investments to make. It is far better to avoid having the dollars trapped in a low-return firm and instead have them flow through financial markets to the best investment opportunities.

Conclusion

Prior to the enactment of the TCJA, the U.S. tax code hadn't been overhauled in over 30 years. The tax code was widely viewed as broken – a conspicuous drag on the economy that chased U.S. firms overseas while suppressing investment here at home. Major elements of the TCJA, particularly the lower corporate tax rate, expensing of qualified equipment, and the broad architecture of the international reforms, should improve the investment climate in the United States.

Notes

[1] https://www.americanactionforum.org/research/does-compensation-lag-behind-productivity/; Also see https://www.bls.gov/opub/btn/volume-6/below-trend-the-us-productivity-slowdown-since-the-great-recession.htm on which figure 2 is based

[2] https://www.census.gov/library/publications/2017/demo/p60-259.html

[3] See: https://waysandmeans.house.gov/wp-content/uploads/2016/05/20160525TP-Testimony-Holtz-Eakin.pdf

[4] http://americanactionforum.org/research/economic-and-budgetary-consequences-of-pro-growth-tax-modernization

[5] PricewaterhouseCoopers (2011). *Global Effective Tax Rates*. Washington, DC

[6] https://taxfoundation.org/territorial-tax-system-oecd-review/

[7] http://businessroundtable.org/sites/default/files/reports/Diamond-Zodrow%20Analysis%20for%20Business%20Roundtable_Final%20for%20Release.pdf

[8] http://www.americanactionforum.org/research/economic-risks-proposed-anti-inversion-policy-update/

[9] https://www.whitehouse.gov/sites/whitehouse.gov/files/documents/Tax%20Reform%20and%20Wages.pdf

[10] Kevin A. Hassett and Aparna Mathur, "Taxes and Wages," American Enterprise Institute *Working Paper* No. 128, June 2006.

[11] https://www.irs.gov/statistics/soi-tax-stats-individual-income-tax-returns-publication-1304-complete-report#_pt1

[12] https://www.jct.gov/publications.html?func=startdown&id=4903

[13] https://www.americanactionforum.org/research/tax-day-2018-compliance-costs-approach-200-billion/

[14] Fichtner, Jason J. and Jacob M. Feldman, "The Hidden Costs Of Tax Compliance." Mercatus Center 2015 Web. http://mercatus.org/sites/default/files/Fichtner-Hidden-Cost-ch1-web.pdf

[15] https://www.whitehouse.gov/wp-content/uploads/2019/03/ERP-2019.pdf

[16] http://www.taxanalysts.org/content/economic-report-gives-white-house-support-tax-cut-prediction

[17] Mertens, K. 2018. The Near-Term Growth Impact of the Tax Cuts and Jobs Act. Research Department Working Paper 1803. Dallas: Federal Reserve Bank of Dallas.

Chairman NEAL. I thank the gentleman. We will now proceed to questioning under the 5-minute rule. Consistent with Committee practice, I will first recognize those members present at the time of the gavel—in terms of the gavel having come down, recognizing seniority.

Let me begin by recognizing myself. Dr. Gould, everyone here agrees that it is good news that the unemployment rate is below 4 percent, but that is a lone data point that can't begin to describe economic well-being alone in this country. Here are some other statistics that also describe our economy. According to the Federal Reserve, over a fifth of American adults can't pay their current month's bills in full. Given that backdrop, if you were to prescribe economic policies to stimulate the economy and elevate economic well-being to all Americans, would you have aimed to benefit those at the bottom or those at the top?

Ms. GOULD. You are absolutely right. Americans across the country are feeling financially insecure. I would absolutely prescribe economic policies that are targeted to benefit the vast majority of Americans. As I stated previously in my testimony, this slow growth in the economic well-being of Americans has been driven by a pronounced reduction in the collective individual bargaining power of most workers, and I would do whatever it is that I can to strengthen that.

Chairman NEAL. So you would suggest that collective bargaining would be an important part of that?

Ms. GOULD. Yes, absolutely. I can't overstate the importance of workers being able to come together and collectively bargain for higher wages. When unions are weak, the highest incomes go up even more, but when unions are strong, the bottom 90 percent

enjoy more income growth. We know that a big force for equality—we would know how much of a big force for equality unions are by looking at how much their decline is contributed to inequality. Union decline in the U.S. can explain one-third of the rise in wage inequality among men and one-fifth of the rise in wage inequality among women from 1973 to 2007. Among men, the erosion of collective bargaining has been the largest single factor driving a wedge between middle- and high-wage workers.

Chairman NEAL. Thank you.

Professor Oh, the Tax Policy Center ran an analysis of alternative tax reform bills that Republicans could have considered back in 2017. This analysis looked at over 9,000 hypothetical tax reform bills, each of which tweaked TCJA provisions related to individuals without decreasing overall revenue. What the analysis shows is disturbing. Over 99 percent of the hypothetical tax reform bills provide a larger benefit for taxpayers earning less than $153,000 in the Republican tax law.

Professor Oh, you have spent a lot of time thinking about the distributional impact of the Republican tax law. Do you find this result surprising?

Mr. OH. I think the most interesting thing about that Tax Policy Center report is how there were slight changes one could make due to the Tax Cuts and Jobs Act that would result in a much more equal distribution of tax cuts.

So, for example, they run a bunch of alternative tax cut plans that result in between 1 percent and 2 percent after-tax income increases for all income households. And so some of the changes that they test are increasing the child tax credit, making it fully refundable, and removing the income threshold. It turns out that those three changes make a huge difference for income at the very lowest level.

Chairman NEAL. Thank you.

And, Ms. Abramowitz, in your testimony, you have stated that, quote, to the extent that the TCJA dangled the prospects of eased tax liability, tax simplicity, and improved job prospects, we have not seen any real evidence of that helping the working poor.

Can you explain how that statement relates to your experience in working with low-income taxpayers in the Janet Spragens Federal Tax Clinic?

Ms. ABRAMOWITZ. Thank you.

Chairman NEAL. Put your microphone on, please.

Ms. ABRAMOWITZ. Thank you. With respect to the jobs issue I can only say anecdotally, we don't—and we see hundreds of people coming through the clinic each year. Again, they are all low income. We don't see any meaningful change. We see job loss. We don't see people getting better jobs. We see people working in the gig economy as contractors at the edges of the economy and just trying to make a living that way.

With respect to the actual tax liability, I think we have said that some low-income taxpayers may experience a small perhaps $100 or $200 benefit this year. Others will receive actually a tax increase by virtue of their status. It may be having to do with their number of dependents, their immigration status, and what have you. As you may know, the child tax credit now requires children

to have Social Security numbers in order to get a tax credit, and that will eliminate the credit for a number of people.

Finally, with respect to simplicity, I know we all talk about, first of all, just the filing obligation, and I did bring with me a sample of the 1040, and you can see, if you can, that the front page does look like the postcard, but you can't really just fill out the front page. There are numerous schedules you are required to fill out. Some precede the tax law, but there are an additional six schedules that came by virtue of the tax law.

Chairman NEAL. Mr. Shelton, as you know, the cost of living continues to go up, and most of those costs for families are related to childcare. Affordable, good, reliable childcare is a major struggle for many working families. The average cost of enrolling a child in a childcare center in Massachusetts is almost $19,000 a year, one of the highest in the country. Republicans predicted that their tax law would boost household income by $4,000 to $9,000 a year. Are your members finding it any easier to afford childcare?

Mr. SHELTON. Absolutely not, Mr. Chairman. You know, all the cost-of-living normal costs—going to work, buying gas, whatever—are going up, and there have been no real wage increases since the tax law. So my members have been in a downward spiral since the tax law has happened.

Chairman NEAL. Thank you. And, with that, let me recognize Mr. Brady for 5 minutes.

Mr. BRADY. Thank you, Mr. Chairman.

A couple quick things. First, without objection, I would like to enter for the record a paper by Lawrence Lindsey showing that income inequality rose more under Bill Clinton than under Ronald Reagan, rose more under Barack Obama than under George Bush, and began to decline, get better, starting in 2018.

Chairman NEAL. So ordered.

[The information follows:]

Income Inequality Started Declining in 2018
Lawrence Lindsey

One of the most vexing problems in the American economy has been the rise in income inequality. It has been in a steady uptrend since the early 1970s, rising under every President since Nixon. It is not a partisan problem. Income inequality rose more under Bill Clinton than under Ronald Reagan. It rose more under Barack Obama than under George Bush. Expansion of government welfare programs and higher taxes on the rich are supposed to ameliorate the problem, and perhaps they do to some extent. But those same programs create disincentives to work and often trap people in a lower income status. In truth, the best way to lower inequality is to create jobs and to run the economy "hot" so that job creation grows disproportionately among individuals with lower skills.

Consider the economic expansion from 2008 – 2017. Real median household income rose 6.9 percent. It rose 7 percent for households with no earners, 8.8 percent for households with one earner, 9.8 percent for households with two earners, and 12.8 percent for households with three earners. A seeming conundrum: every group of households ranked by number of earners saw their incomes rise by more than the population at large. The answer: the number of households with no earners rose 21.8 percent. Households with one earner rose 8.1 percent, while households with two or more earners rose only 2.6 percent. If the distribution of workers per household had been the same in 2017 as in 2008, median income would have risen 9.1 percent, not 6.9 percent, or 32 percent faster!

With the labor force participation rate and the employment to population ratios both up half a point during 2018, households had more workers on average. The employment to population ratio rose eight-tenths of a point for individuals with no college but was essentially flat for individuals with at least some college. So, much of the gain in workers per household was at the bottom end of the distribution based on education.

The same conclusion can be drawn based on standard ethnic/racial groupings. The employment to population ratio among whites rose three-tenths of a percent. It rose 1.1 percent among blacks and 1.5 percent among Hispanics. The latter two groups have incomes below the norm. Increased employment rates among these two groups is also indicative of declining inequality.

In addition, it appears that lower ranked employees saw their average hourly earnings rise significantly more than their managers. Average hourly earnings rose

3.4 percent for production and non-supervisory workers but only 3.2 percent for all workers. Since production and non-supervisory workers make up 80 percent of the total, math indicates that "supervisors" saw only a 2.8 percent average income increase, 0.6 points lower than the people they supervise.

Finally, wages and salaries grew faster than property income (interest and dividends) in 2018. From November 2017 to November 2018 (the latest data available) wages and salaries grew 4.2 percent while receipts on assets grew 3.4 percent. Given that labor income is more equally distributed than property income, this is another indicator that income inequality declined during 2018. By contrast, between the third quarter of 2010 and the third quarter of 2017 wages and salaries grew 38 percent while dividends and interest rose 69 percent.

Formal inequality measures for 2018 will not come out until this summer. But all indications to date suggest that the distribution of income in America turned a corner in 2018. Moreover, on current trends that process should continue in 2019 and 2020. Back in 2017, shortly after the tax bill was introduced, we offered a $10,000 bet to Paul Krugman and Larry Summers that the Census Bureau's measures of income inequality would be lower in 2020 than in 2016. That would make Trump the first President in nearly half a century to see inequality decline in his watch. Krugman and Summers wisely declined to take the bet; but, gentlemen, the offer is still open.

Mr. BRADY. Secondly, Mr. Shelton, I don't follow individual businesses very closely, but I think I could swear AT&T has hired 20,000 more workers, substantially increased their business investment—infrastructure investment in the U.S. I know they paid $1,000 per person bonuses, and I think maybe the call centers in Mexico were related to their expansion into Mexico, part of which is part of what we are reinforcing in the new U.S.-Mexico-Canada trade agreement. And GM, again, I don't follow these companies individually, but I could swear when they made the announcement on layoffs, there were 4,000 layoffs, mainly executive white-collar workers, and the plants that were closed related to cars that just aren't selling. Nothing in the Tax Code requires businesses to keep producing cars the American people don't want. So I don't think any of those examples frankly are tied to tax reform.

Thirdly, we are told our Democrat colleagues would like to fully repeal the entire Tax Code, every word and provision in it. Let me ask you about an easy one. We simplified the Tax Code for Main Street businesses, small businesses. One, we made it significantly bigger for them and better for them to be able to write off from their taxes their purchase of new equipment, technology, things really important to staying competitive. We also allowed many more small businesses to qualify for cash method of accounting, which dramatically simplified the tax and accounting system for them. Can I see a show of hands of the panelists who believe we should repeal those two small business simplification provisions making it harder for local businesses to buy new equipment and making their accounting more complicated? How many recommend we do that? So, for the record, I think clearly those are provisions that need to stay.

Mr. Holtz-Eakin, for too long—you referenced this—the old Tax Code really disincentivized companies, made it harder for them to grow here at home. Really sort of pushed investment to other countries and, when they did compete and win, made it very difficult for them to bring those profits back home to invest here in the U.S. That has all changed. And for the first time in memory, more foreign direct investment is coming into the U.S. than outbound. We want that giant sucking sound coming this direction. Jobs, research, and production are starting now to come back from overseas, and many of these positive decisions will take some years to manifest in the economy. My question for you is so how would repealing the reforms we made to the international side of the Tax Code, how does that help growth in the U.S. and how does that help workers in America if we—if Democrats repeal those provisions?

Mr. HOLTZ-EAKIN. I think it would be unwise to go back to the previous regime. There was, quite frankly, agreement across the ideological spectrum that the U.S. had to do something with its business tax system. As I explained very quickly, we got into situations where U.S. firms competing, in my example in Brazil, with German firms were at an immediate tax disadvantage. The only way they could fix that was to not bring the money back. So lock all the U.S. earnings offshore. If it stays offshore long enough, it must stay offshore. Those are the rules. So it doesn't get invested in the United States. And any time there was a crossborder merger

acquisition initiated by any party, if you ran the numbers, the headquarters were going to end up outside the United States. And for that reason, the New York Stock Exchange, the iconic symbol of American capitalism, is headquartered in Europe for tax purposes. That is a problem, and this attempts to fix that problem. It is not perfect, but to go back I think would be a dramatic mistake.

Mr. BRADY. And you strongly recommend not going back to the bad old Tax Code?

Mr. HOLTZ-EAKIN. I strongly recommend that.

Mr. BRADY. Thank you.

Mr. HOLTZ-EAKIN. And if I could add one thing.

Mr. BRADY. Yes, sir.

Mr. HOLTZ-EAKIN. There was a built in test, which is the moment the law was signed there was a deemed repatriation of overseas earnings. If the U.S. was not a better place to do business, those earnings would have stayed overseas. It was no longer any tax consequence to where you located them. They came back. And so we have made improvements, and that is an important thing.

Mr. BRADY. All right. Thank you.

I yield back, Mr. Chairman.

Chairman NEAL. Thank you, Mr. Brady.

And, with that, let me recognize the gentleman from Georgia, Mr. Lewis, to inquire.

Mr. LEWIS. Thank you very much, Mr. Chairman, for holding this hearing. I think it is good and necessary that we do it, that we put the cards on the table face up. I want the record to be crystal clear about the true cost of the tax law. I think every single warning has come true. This law did not make the Tax Code any simpler. It did not balance the budget. It does not ease the burden on working families. Instead, this law put politics before the people. It continues to be a shame and a disgrace. I appreciate that each and every one of you would come to testify today. It is true that you cannot get blood from a turnip, and you cannot justify robbing poor Peter to pay visionary Paul. You cannot do it. It is crystal true.

Professor, I know you have been working at American University, teaching, educating brilliant young minds. Do you have any suggestion how to improve the tax administration to ease the burden on low-income taxpayers?

Ms. ABRAMOWITZ. Yes, Mr. Lewis. I think that it is time that we actually spend a greater portion of our studies thinking about what our objectives are and thinking about looking at some of the existing provisions whether we can do better, whether we can increase the earned income tax credit to help bring more people up into a livable income zone, whether we can improve childcare, make employment a better reality for people through better childcare incentives, and as I said, in addition to direct benefits for the working poor, and again, I want to emphasize here the Tax Cuts and Jobs Act at $1.5 trillion or whatever the number was, we are talking about tax expenditures, tax expenditures are the same whether you are foregoing income you otherwise would have collected or whether you are giving out tax benefits out-of-pocket. So, again, giving attention to the working poor and what we would like to see.

Secondly, I think that we need to think about appropriations to the Internal Revenue Service and directions to think about the rights of the working poor who very often get short shrift in the administrative process by the IRS largely because of recent cuts to their budget and the inability to pay attention, to educate, and to listen when disputes arise.

Mr. LEWIS. Thank you very much.

President Shelton, I know that a number of workers in metro Atlanta are upset with the burden promises of the Republican tax bill. May you speak more about what they are experiencing—of what people are experiencing in other parts of America?

Mr. SHELTON. What my members saw from the tax cut basically is maybe a $4 or a $5 a week increase in their take-home pay because of the tax cut, which could buy them a cup of coffee at Starbucks, but they have also seen, as I said before, prices for commuting and childcare and other things go up. But what they are really worried about because a lot of the companies that we represent are laying people off every day and sending a lot of the jobs overseas, what they are really worried about is their job security because if you don't have a job, you don't have to worry about what the tax rate is because it doesn't matter what the tax rate is because you don't pay taxes.

So, you know, this is just—the tax bill from what I know of it cut the tax rate on profits made overseas to half of what it is in the United States so that a 21 percent corporate tax rate in the United States becomes a 10.5 percent corporate tax rate in Mexico or in whatever country you want to, the Philippines or India, which is causing these companies to send more and more jobs overseas. So that is what my members are mainly worried about.

Mr. LEWIS. Thank you very much.

Thank you, Mr. Chairman.

Chairman NEAL. I thank the gentleman.

Let me recognize the gentleman from California to inquire, Mr. Nunes.

Mr. NUNES. Thank you, Mr. Chairman.

Mr. Holtz-Eakin, Ranking Member Brady was talking to you just briefly about and you mentioned the inversions that were happening. So before the tax bill passed, it was every day we had someone in our office visiting us saying that they were preparing to sell their company, move their company overseas. I don't take those meetings anymore. You started to get into why that happened. Can you just explain a little further why that stopped happening?

Mr. HOLTZ-EAKIN. Prior to the passage of the law, the U.S. had the highest statutory rate, 35 percent, and it taxed the worldwide income of all of the U.S. headquartered firms. Our developed country competitors had steadily moved toward more territorial systems, basically one a year in the OECD, which taxed only the earnings within the nation itself in Britain or France, whatever it might be.

What they meant was if you were looking at any kind of merger or acquisition and you started running the numbers, if you put the headquarters in the U.S., you are going to tax the whole world's income at the highest rate, or you can put it in the other company's

country and tax it at a lower rate on a territorial basis. It would be financial malpractice to put the headquarters in the U.S. in those circumstances. So we lost headquarter after headquarter. There were a variety of attempts to remedy this through regulation at the Treasury. It simply wasn't going to work, and that had, you know, the potential to be damaging to the U.S. economy. And so this is a much more internationally competitive approach to taxation.

Mr. NUNES. So now you don't see companies leaving the United States to headquarter overseas. You actually see—we are seeing some come back, but you also mentioned the repatriation money, and I am going to—you may not know this off the top of your head, but what was the—do you recall the number that was estimated that was going to return to the U.S., and so far, how much has returned to the U.S.?

Mr. HOLTZ-EAKIN. I am not going to get those right, but we have had a little under a trillion dollars come back in the first year.

Mr. NUNES. Say that again.

Mr. HOLTZ-EAKIN. A little under a trillion. You know, I can get you numbers with more precision. I would have guessed something like 2.5 trillion would have been overseas available to come back. There are bigger numbers out there, but I think they are misleading and that some of those things are reserves and financial services companies that can't come back. So, of the available amount, some has come back relatively quickly.

I would, you know, emphasize that the Treasury just finished really writing the rules that the large global companies will have to obey underneath the Tax Cuts and Jobs Act, and it will be in 2019 and 2020 that we genuinely see its impact on that part of the economy.

Mr. NUNES. So we are just starting now just to see the real results of the certainty now that companies have in order to either locate in the United States or to stop shipping their headquarters overseas.

Mr. HOLTZ-EAKIN. And to me, the most important thing is not the label on the headquarters, U.S. versus others, but the fact that the factories will be in the U.S., the improved technologies will be in the U.S., the productivity growth and wages will be in the U.S. It is that aspect, regardless of whether it is foreign inbound investment or a U.S. domestic firm electing to stay here. That is what you want to look at, the impact on the ground.

Mr. NUNES. Let me yield quickly to Mr. Brady.

Mr. BRADY. Well, if I may, Mr. Nunes, just to follow up, I was in New England last year with a company, a medical company working on their fourth breakthrough drug, and their point to me was because of the new Tax Code, their new research won't be done in London; it will be done here in New England. Their patents are not remaining in Ireland; they now fit better here in the United States. And if they can find the workers, key phrase, they will be doing their advanced manufacturing in New England rather than overseas, all because the new Tax Code allows them to actually make those decisions for here in the United States.

I yield back, Mr. Nunes.

Mr. NUNES. I thank the gentleman. And I also want to talk about wage growth because a lot of the other witnesses said that, you know, America is not growing, that the middle class is not growing, and I will tell you that—and I just took a meeting outside from businesses from California—their number one problem is that they cannot find workers. They can't find a trained workforce. So wage growth is up. It continues to go up. Did that even surprise you as quickly as the wage growth has grown in the last couple years, Dr. Holtz-Eakin?

Mr. HOLTZ-EAKIN. I think I have emphasized that I want to agree with most of the witnesses on the fact that we have had a wage growth problem. A lot of people remained employed throughout the recovery from the Great Recession and didn't get a raise. It is encouraging to me that, in the more recent data, from 2016 on, we have seen wages ramp up across the spectrum and, especially in 2018, the low end of the wage distribution rise rapidly. That is important.

Mr. NUNES. Thank you, Doctor.

Thank you, Mr. Chairman.

Chairman NEAL. I thank the gentleman.

With that, let me recognize the gentleman from Texas to inquire, Mr. Doggett.

Mr. DOGGETT. Well, thank you very much. There have been so many false claims made about this Trump tax law. It is hard to know where to begin, but just to perhaps provide Dr. Holtz-Eakin the number he couldn't come up with, President Trump promised $4 trillion would be coming back in repatriation if we gave this huge discount on international money abroad or really across the street in a different Wall Street account, and so we have gotten back a little less than a fourth of what was promised.

Mr. Shelton, you talked about what the impact is as far as outsourcing, and I appreciate the support that you have offered for the legislation that I have to try to stop outsourcing by eliminating not the reform of corporate taxation but the specific provisions that Republicans added in the bill to encourage outsourcing, like letting someone who chooses instead of investing here in the United States, wants to invest abroad, they can pay at most half the rate that they would be paying here. Isn't that true?

Mr. SHELTON. That is absolutely true, and that is why these companies are moving jobs overseas in wheelbarrows.

Mr. DOGGETT. So the claims that outsourcing would be stopped, just like the claims that all this repatriated money would come back and we would see the spurt in investment, they just have proven to be false, in fact, haven't they?

Mr. SHELTON. Yes, they have. Just the companies that I mentioned, you take AT&T, which, by the way, the two call centers in Mexico, one is for the U.S. market, and one is for the Mexican market. The one for the U.S. market is a 5,000-seat call center in Mexico City. You take Wells Fargo, who moves 26,500 jobs overseas, it is because of the tax cut. It has got to be because of the tax cut. And you take General Motors moving their plants to Mexico.

Mr. DOGGETT. Thank you very much. And, Professor Oh, let me move then to small business. Of course, we heard all kinds of claims about how much small business would be helped by this tax

law recognizing that I believe about 90 percent of small businesses earn less than $150,000 a year. Hasn't the analysis of the passthrough provisions, $400 billion of passthrough changes that Republicans made in their tax law, shown that about half of all that went to those who were making over a million dollars a year?

Mr. OH. That is correct. It is one of the most complicated tax provisions I have ever seen, and there are some relatively easy fixes one can envision for making the passthrough deduction help small businesses specifically, but the way it is drafted now—you are right—about half of the benefits go to households earning more than a million dollars.

Mr. DOGGETT. And, Professor Abramowitz, I represent a number of pockets of poverty from the west side of San Antonio to the north end of Austin, and I am eager to see relief that helps those neighborhoods. We have already had this morning more testimony and inquiry about the tax law than we had during all the time on the bill itself because the Republicans were afraid to bring any administration witness to answer questions. They didn't want academics. They didn't want businesses, unless they were meeting back in their offices, to come here and be questioned about this.

And so one of the provisions that was buried in the law was something called the opportunity zone. And it does offer some opportunity, but you make reference in your testimony to some of the challenges. Given the lack of any really specific guidelines about opportunity zones, what do you think the challenges are for that legislation?

Ms. ABRAMOWITZ. If the goal of the opportunity zone was to encourage investment in order to provide benefits for the lowest income categories, I think it is difficult to evaluate yet, but the only thing I can say is early reports in the news and in industry suggest that some investment in opportunity zones is going into areas that are already gentrified, areas that may not benefit those who we would like to see benefited, and it may be a real challenge trying to target that investment properly.

Mr. DOGGETT. Lastly, one of the other false claims was about all you need was a stamp and a postcard to file your tax returns. In fact, and you referenced this, we have actually made the filing season more complicated. A teacher, for example, who was able to claim on Form 1040 a small deduction that the Republicans wanted to eliminate—but we were able to prevent that—they now can no longer claim on their basic form. They have got to go and file a schedule before they can claim that modest deduction for the money that they put into their classroom. Isn't that right?

Ms. ABRAMOWITZ. That is correct.

Mr. DOGGETT. Thank you all very much for your testimony.

Chairman NEAL. I thank the gentleman.

With that, let me recognize the gentleman from Florida to inquire, Mr. Buchanan.

Mr. BUCHANAN. Thank you, Mr. Chairman. I appreciate the opportunity.

I want to take my time—we all have limited time—to focus on primarily small business passthroughs. I mean, there is a lot of discussion about corporations that separate passthroughs in terms of subchapter S and LLCs. What I am seeing from Florida is that if

you look at it from a jury standpoint, where we are at, we have had 3 percent growth. For the first 10 years I was here, we had 1 percent growth, 1.5 percent growth. We had a record 3.1 percent growth. Many people didn't think we could get there. Lowest unemployment in a long time, which also is making a big difference, at least in Florida, on paychecks, bigger paychecks, not only in terms of the refunds they are getting, but employers and supply and demand, they are having to pay more, and that is a big factor there. Optimism is at an all-time high. And, also, I can just tell you, people in general are very bullish.

Let me ask the panelists today just—this isn't good or bad; I just want to get your opinion. How many of you have ever been in business where you owned or operated your own business, signed the front of a paycheck? Can you raise your hand? Okay. Thank you.

My background: I was chairman of the Florida chamber for many years. We have 137,000 small businesses; 95 percent are small businesses. We are not talking about AT&T and others, but small businesses. And I want to say something. They are the job creators. They create over 50, 60 percent of the jobs. We should be in the business here doing everything we can to help startups and help them be more successful and help entrepreneurs.

I did a forum with 10 women, CEOs in my area, a couple of years back, and people say, why just women? Because, I said, 57 percent of the startups going forward are going to be women-led. So that is who we are as America, in my opinion. Apple started out in California in a garage, and we know where they are at today. But they are the job creators.

Let me just remind you, before tax reform, in terms of small businesses, the rate was 39.6. You had Obamacare was—or the ACA—was probably 3, 3.5 percent. I am just taking it from memory, and then I know you are from California. My friends in California, they had another 10, 15 percent; 13 percent I think was the rate. You are at 55 percent, the rate for taxes on small businesses, medium-size businesses.

So the question I would have for the panelists, and I would like kind of a yes or no: Would you, in your opinion, repeal the 20-percent deduction part of this tax reform we made available to small business? Doctor? Why don't we start on the left and go over? Would you repeal the 20 percent for small business?

Ms. GOULD. I am sorry. I would have to say I am not an expert on that issue.

Mr. BUCHANAN. Pardon?

Ms. GOULD. I am not an expert on that issue.

Mr. BUCHANAN. Okay. It is just a yes or no, just kind of want to get your opinion.

Mr. OH. I could imagine keeping it with some changes.

Mr. BUCHANAN. Okay.

Mr. Shelton.

Mr. SHELTON. I am also not an expert on that, but I don't repeal anything, so——

Mr. BUCHANAN. Okay.

Ms. ABRAMOWITZ. With respect to the lowest income folks, I would just hope that the provision doesn't have unintended consequences for the poorest——

Mr. BUCHANAN. But would you, yes or no, cut—would you not repeal the tax or——

Ms. ABRAMOWITZ. I would certainly study it very carefully.

Mr. HOLTZ-EAKIN. No.

Mr. BUCHANAN. Dr. Holtz-Eakin, let me ask you, the impact that the 20-percent reduction has had for small business, in your opinion, how big of an impact has that been as a result to our growth and our country?

Mr. HOLTZ-EAKIN. Well, as I mentioned briefly in my opening, passthrough businesses have more than one half the business income. We have seen a dramatic improvement in the business climate measured by confidence, intention to invest. So, if you look at, for example, the NFIB, small business confidence indices and their planned capital investment, in the immediate aftermath of the passage of the law, both spiked sharply.

And then, in the data, we see improved investment and faster growth, and that has to be in substantial part due to the passthrough community because the large C corporations are still waiting for the regs to get written throughout 2018.

Mr. BUCHANAN. What I am seeing, you know, in Florida, anyway, it is an explosion. People are bullish. It is a combination of the leadership here and this tax reform and also I think the leadership in Florida, that dual combination. People are very bullish about where we are at but, more importantly, where we are going.

Thank you, and I yield back.

Chairman NEAL. I thank the gentleman.

Let me recognize the gentleman from California, Mr. Thompson, to inquire.

Mr. THOMPSON. Thank you, Mr. Chairman, for holding this hearing.

And thanks to all the witnesses.

Mr. Chairman, we have heard time and time again over the years from expert witnesses that tax cuts don't pay for themselves. As a matter of fact, Mr. Holtz-Eakin, Dr. Holtz-Eakin, you said that yourself on this panel. And we know that this bill cost $2.3 trillion, $2.3 trillion in unpaid-for tax cuts.

I would like to ask unanimous consent to read into the record this news article that says, "It's Official: The Trump Tax Cuts Didn't Pay for Themselves in Year One."

[The information follows:]

The New York Times

NEWS ANALYSIS

It's Official: The Trump Tax Cuts Didn't Pay for Themselves in Year One

Federal tax revenues declined in 2018 while economic growth accelerated, undercutting the Trump administration's insistence that the $1.5 trillion tax package would pay for itself.

By Jim Tankersley

Jan. 11, 2019

It's time to put to rest any notion that President Trump's signature tax cuts are paying for themselves. Anyone who says otherwise is lying with numbers.

A year after the $1.5 trillion tax-cut package took effect, economic growth has accelerated, just as Republicans promised it would when pushing the law through Congress. Growth appears likely to hit 3 percent for 2018, after adjusting for inflation, which is a full percentage point higher than the Congressional Budget Office forecast for the year in 2017. Not all of that increase is attributable to the tax cuts, but some of it is.

That's good news for Republicans' longstanding claim that cutting taxes would provide such an economic bump that additional tax revenue would flow in to make up for what was lost through lower tax rates.

But the bad news is that hasn't happened. The additional tax revenue has yet to show up, even with stronger growth.

Data released this week by the budget office provides the first complete picture of federal revenues for the 2018 calendar year, when the tax cuts were in full effect. (The government's 2018 fiscal year included three months from the end of 2017, when most of the tax cuts were not in effect.)

In the inaugural year of the tax cuts — with economic growth accelerating and the jobless rate falling to an 18-year low — federal revenues from corporate, payroll and personal income taxes actually fell.

That's true whether you adjust revenues and growth for inflation — or not.

After adjusting, it looks even worse. Revenues fell by 2.7 percent — or $83 billion — from 2017. Contrast that with the last time economic growth approached 3 percent, back in 2015. The economy grew by 2.9 percent after adjusting for inflation that year — and tax revenues grew by 7 percent.

The historical contrast makes the drop-off look even steeper. Typically, economists expect stronger growth to generate more revenue. People earn more money, corporations generate higher profits and they all pay taxes on it.

The way most economists "score" a tax proposal is to ask how it would change revenue levels compared to what you would expect the government to collect if the tax cut had not passed — what economists call a "baseline."

In the summer of 2017, for example, the budget office projected that the economy would grow by 2 percent in the 2018 fiscal year, and that personal, corporate and payroll taxes would add up to $3.24 trillion. Then the tax cuts passed, growth accelerated and, for the 2018 fiscal year, tax revenues fell $183 billion — or 5.6 percent — short of that projection.

Republicans, particularly in the Trump administration, sold the tax law on claims that it would pay for itself — even when economists outside the administration, like the congressional Joint Committee on Taxation, released models contradicting them. As corporate tax receipts fell significantly last year, some Republicans began to insist that, in fact, the bill was paying for itself, because total tax revenues were very slightly up.

The 2018 figures contradict that argument, too.

The uncomfortable truth for the bill's supporters is that the tax cuts are substantially contributing to a widening federal budget deficit, which now appears on track to top $1 trillion this year. If growth fades in the coming years — as many economists believe it will — the cuts could exacerbate the deficit even more.

The best-case scenario for proponents is that the cuts spur a sustained increase in productivity and growth, which in turn produces increasingly higher revenues several years down the road — enough to reduce the "cost" of the bill to the budget deficit.

The 2018 results are, oddly enough, what a lot of economists predicted would happen with Mr. Trump's cuts, including ones who generally favor tax cuts. Total federal revenues in 2018 came in roughly where the Tax Foundation, a Washington think tank that typically projects large growth boosts from tax cuts, had forecast — which is to say, well below the budget office's baseline.

Just because the new law helped to increase economic growth, said Kyle Pomerleau, an economist with the Tax Foundation, "it doesn't mean that it is going to pay for itself." Mr. Pomerleau said additional growth from the law "will continue to be modest over the next couple of years."

"That will offset some of the initial cost," he continued, "but it will still be nowhere near enough to make the tax cut self-financing."

In December 2017, as Republicans sped the tax cuts through Congress, the Tax Foundation released a projection that the cuts would add about $450 billion to federal deficits over 10 years, after accounting for the additional economic growth it would spur. The group has since redone the analysis, with what Mr. Pomerleau called improvements to its methodology. It now predicts deficits will increase by $900 billion — double its original forecast.

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A version of this article appears in print on Jan. 12, 2019, on Page A13 of the New York edition with the headline: Tax Cut Paid for Itself? It Isn't Even Close

Chairman NEAL. Will the gentleman yield?

Mr. THOMPSON. I will.

Chairman NEAL. Mr. Eakin, you nodded in the affirmative. Would you say yes or no to Mr. Thompson's question?

Mr. HOLTZ-EAKIN. I have said many times at this table that tax cuts do not pay for themselves.

Chairman NEAL. I have tortured you with that question.

Mr. HOLTZ-EAKIN. I believe that is correct, sir.

Chairman NEAL. Thank you.

Mr. THOMPSON. Mr. Chairman, thanks for holding the hearing, the first hearing we have had on this tax bill. And as you can expect, when you pass a major tax rewrite in 51 days without holding a single hearing to receive expert input, the Republican tax plan has seen one problematic surprise after another for taxpayers. Last Congress, we saw one rewrite have to take place to fix a policy that was grossly distorting the marketplace by incentivizing farmers to sell their products to agricultural co-ops over other businesses.

Now, in addition to just outright drafting errors in the bill that are causing real harm to businesses, the true impacts are being felt of unvetted policy hastily passed into law. This includes churches and other nonprofits who may, for the first time, be forced to pay taxes due to a change in the tax bill to the treatment of some types of fringe benefits they provide their employees. We have seen small wineries paying more to house their wine in warehouses, impractical depreciation schedules for restaurant construction.

Professor Oh, what are some of the other problems with this tax bill that might have been avoided had the Republicans held hearings and consulted with experts before ramming this through?

Mr. OH. I think we would have had a better handle on the distributional issues that are created by this legislation, the fact that the progressivity of the tax cuts as measured by increases in after-tax income are heavily tilted towards the rich.

I also think that we would have had an opportunity to more closely examine the passthrough deduction. I agree with the Congressman from Florida that small businesses are very important and that the passthrough deduction does help some small businesses, but it helps a lot of very, very wealthy people as well. And I think that is the type of thing that comes out when you have hearings and expert testimony at some time.

Mr. THOMPSON. And despite the Republicans and the President's promise of 6 percent economic growth and repeated claims by Members of the administration and my colleagues across the aisle that the bill would pay for itself, already we know these promises were empty. What is more, the Republican tax bill increased Federal borrowing, not to expand programs aimed at the struggling low and middle class, the working people of this country, but to provide handouts to the richest 1 percent. The bill is expected to increase deficits by $2.3 trillion over 10 years and by over $5 trillion if Congress extends and delays the time bombs that the Republicans built into this bill.

The rising deficits aren't a surprise, and they aren't an accident. The Republicans will turn around and use them as an excuse to call for cutting essential social safety net programs like Social Security, Medicare, and Medicaid.

Dr. Gould, how will the coming deficits affect spending on important programs such as Social Security, Medicare, and Medicaid?

Ms. GOULD. Absolutely. I think that we have demonstrated here that the tax cut has been a wasteful use of fiscal resources. We should also be clear that any argument that it must be paid for by cutting spending is based on politics, not economics. There is no evidence right now that deficits are doing economic harm to the U.S. economy, but if tax cut supporters manage to politically leverage the deficit they created to cut spending, it would, indeed, do harm to working families. Cuts to programs that you mentioned, Social Security, Medicare, Medicaid, would do measurable harm.

Mr. THOMPSON. Thank you.

Dr. Oh, who will be left behind if the tax cuts are eventually funded by cutting Social Security, Medicare, and Medicaid?

Mr. OH. Those programs predominantly help low-income Americans, and so if the Tax Cuts and Jobs Act is funded through a cut to mandatory spending programs, that makes the distributional effect much, much worse.

Mr. THOMPSON. Thank you.

Thank you, Mr. Chairman.

Chairman NEAL. I thank the gentleman.

With that, we recognize the gentleman from Nebraska, Mr. Smith, to inquire.

Mr. SMITH OF NEBRASKA. Thank you, Mr. Chairman.

Thank you to our panel as well for your input today.

President Obama in his budgets reflected a reduction in the corporate tax rate to be more competitive. He elaborated on that as well in moving to a territorial system for corporate taxation and obviously to be more competitive and to bring jobs and business back to America or prevent it from leaving. Just real quick, yes or no or a show of hands, could I see a show of hands of who would like to take us back to the 39.6-percent corporate tax structure and the taxes on the worldwide basis instead of a territorial basis like TCJA? Any hands that would want us to return to those levels? Okay. Just hopefully, the record will reflect that there were no hands that went up.

And so I hope that we can work together as we do move forward. We shouldn't wait for tax changes to happen only once every 30 years. And as we do move forward, I think there are ways we can look to work together. In fact, when we finished our work on the TCJA, we just didn't sit back and relax; we asked ourselves what could we do to bring folks off the sidelines of our economy, and certainly that is why I worked on the Jobs for Success Act. This was a way to reform TANF, the Temporary Assistance for Needy Families, so we could reconnect them with work.

Especially as I travel my district and I hear from colleagues across America that the tight labor market, as was indicated earlier today, is a major challenge that our country is facing. We have millions of Americans on the sidelines, and I hope we can pursue policies, whether it is our tax policy, whether it is other policies within this Committee, or even beyond, to bring folks off the sidelines of our economy. Job vacancies are out there. Help wanted signs are way more prevalent these days than they were not so long ago.

And I hope that we can—I was shocked by the opposition to some of the changes that we would make to TANF because I think there was a large agreement that we wanted our safety net to be friendlier to taxpayers, workers who have childcare expenses, who have transportation needs. Our bill had that, and so I hope that we can resolve some of these issues because the opposition I think was very unfortunate.

Ms. Abramowitz, I was wondering. You mentioned the Social Security number and the child tax credit. Can you elaborate? You would not want documentation for the child tax credit? Is that accurate?

Ms. ABRAMOWITZ. I think previously an ITIN was required. The new bill requires a Social Security number. I would say that it is a misperception that immigrants don't pay their fair share of taxes. We know that immigrants do for a lot of reasons. In fact, not only do they pay, but they pay payroll taxes and FICA taxes and Social Security taxes which they may never see in terms of Social Security benefits.

So, if we are trying to measure the income of people and trying to give benefits for childcare or for just the child tax credit for having a child in your home in lieu of a dependency, it seems to me that maybe we don't need a Social Security number in order to claim that child.

Mr. SMITH OF NEBRASKA. Okay. Thank you.

Dr. Holtz-Eakin, can you explain how the TCJA has helped lead to what we see as historically low unemployment rates, and does this create opportunities for those who have actually dropped out of the labor force, as I had mentioned earlier?

Mr. HOLTZ-EAKIN. Yeah. Prior to the passage, we had seen declining labor force participation and in the aggregate, and had we had traditional labor force participation rates, had the unemployment rate stayed something like 4.8 or 5 percent, that would have been roughly 90,000 jobs a month in 2018. We got 223,000 jobs a month. It kept labor force participation up, drew people in who might have otherwise exited, kept people from leaving. The unemployment rate fell to 3.8 percent.

And if you look at the data on those people who report themselves as marginally attached to the labor force or a discouraged worker, those categories are dropping, and that is exactly the place where you would like to see improvement in the labor market.

Mr. SMITH OF NEBRASKA. Very well. Thank you.

Thank you, Mr. Chairman.

Chairman NEAL. I thank the gentleman.

Let me recognize the gentleman from Connecticut, Mr. Larson, to inquire.

Mr. LARSON. Thank you, Mr. Chairman, and thank you so much for this hearing.

Thanks to our expert witnesses, et cetera. We are pleased that you are here so that we can have a hearing on tax cuts that never took place when they should have.

And I think that that is the concern that a number of us have because both sides were in favor of a tax cut. Both sides recognized that there was inequality that existed. In fact, President Obama had proposed such a tax cut, 28 percent and then an incentive to

25. You would think that he never proposed it. Show of hands if any of you were invited to speak here at this Committee on President Obama's tax cuts. You were invited to this Committee to speak on the tax cut? Do you remember that hearing?

Mr. HOLTZ-EAKIN. I could have the wrong hearing, but I was here.

Mr. LARSON. I think you probably do, but in fairness to you because you have spoken so many times and you are held in such respect——

Mr. BLUMENAUER. I will stipulate he was.

Mr. LARSON. Yes. So the point is this. Dave Camp did a great job in terms of trying to hold hearings, et cetera, and bring everybody together, and then we have no hearings. And in 51 days, as Mr. Thompson eloquently stated, all of a sudden, without the benefit of any give and take or back and forth, we get a bill dropped on us that was loaded with mistakes and inaccuracies. Now, that can happen. It is not that they intended it to happen that way, but that is what the results were. And so now we have to come together to change the results, and I think the galling thing for a number of us up here is that immediately after passage of the bill, they said: Well, what the problem is, is not the inequities.

And if you live in Connecticut, and you are completing filling out your tax form this past month, and you find that you have been double taxed under the law because of the 750,000 people in Connecticut who itemized deductions with an average of 19,000 per individual, when you are capped at 10, someone is making up that difference. So to know—it is somewhat not heartening to all of my constituents to know that they are subsidizing the tax cut of the wealthiest in this Nation.

Having said that, I think the most galling thing is this shift towards entitlements. And all of you had something to say about that, the shift being that, "Oh, no, what the real problem is in this country is what we need is entitlement reform." Social Security and Medicare are not entitlements. There are benefits that people paid for. They are earned benefits. Credit President Trump at least for standing up and saying that in a debate and saying it directly to the Republicans that were countering him and trying to say, "Oh, no, Mr. President."

So, Mr. Oh, in your testimony, you eloquently described how the tax cuts went primarily to the wealthy. If the $2 trillion tax cut is offset by future cuts to programs like Social Security and Medicare, what would the impact be?

Mr. OH. It would make the overall distributional effect of the Tax Cuts and Jobs Act much more unequal, particularly burdening the bottom 20 percent or 40 percent of the American public.

Mr. LARSON. Dr. Gould, what do you think the impact would be?

Ms. GOULD. Yeah. Absolutely right. We know that Social Security is the number one poverty reducer in this country. We make cuts to that, we increase poverty. That increases the inequality that we have in the country. Absolutely.

Mr. LARSON. Mr. Shelton.

Mr. SHELTON. We would be adding insult to injury. A tax cut that went mainly to the rich and corporations is now going to be

paid for by everybody else who would take advantage of the Social Security and Medicare or Medicaid.

Mr. LARSON. Ms. Abramowitz.

Ms. ABRAMOWITZ. I would say not only would it have short-term, it would have long-term effects. Less than half of the people in this country have retirement savings and rely on Social Security. So, to the extent you are talking about reducing that, I think you are looking at a disaster in the future.

Mr. LARSON. Dr. Holtz.

Mr. HOLTZ-EAKIN. I would just stipulate that you can do progressive Social Security reform as well as for Medicare, you know. There would premiums for high-income individuals that are just——

Mr. LARSON. I don't disagree with you, but I don't think it is an entitlement, either. I think it is an earned benefit that people paid for.

Ms. Gould, the impact on women specifically with regard to Social Security. Currently, in our country, amidst all of this, and I would like to, Mr. Chairman, for the record, The FEDS Notes, "A Wealthless Recovery? Asset Ownership and the Uneven Recovery from the Great Recession." I would like to institute that for the record.

Chairman NEAL. So ordered.

[The information follows:]

FEDS Notes

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September 13, 2018

A Wealthless Recovery? Asset Ownership and the Uneven Recovery from the Great Recession

Lisa Dettling, Joanne Hsu and Elizabeth Llanes

Aggregate measures of household wealth have broadly followed the business cycle. Between 2007 and 2009, American households as a whole lost 20 percent of their wealth.[1] Household wealth increased during the economic recovery from its nadir in the Great Recession, and by late 2012, aggregate household net worth surpassed its previous 2007 peak, and continued to grow through 2016.

These aggregate patterns obscure the extent to which gains from the recovery are shared across the population. Wealth is highly concentrated--as of 2016, 80 percent of aggregate wealth was held by only 10 percent of households (Bricker et al., 2017)--which suggests that aggregate wealth measures may insufficiently describe how most households fared financially in the recent economic recovery.[2] Such an analysis requires detailed microdata on the wealth of households, including enough coverage of the top of the wealth distribution to differentiate their experiences from those of the rest of the population.

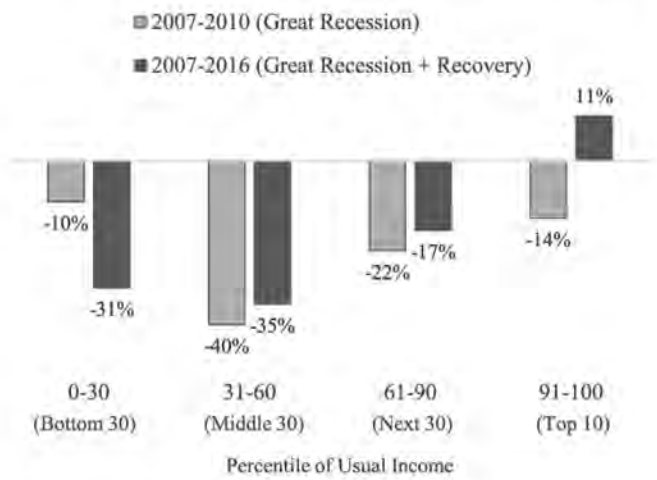
In this Note, we turn to data from the Federal Reserve Board's triennial Survey of Consumer Finances (SCF) to examine trends in the distribution of household wealth during the Great Recession and subsequent recovery. The SCF is ideally suited for our purposes because it includes an oversample of wealthy families and a weighting scheme that allows for comparisons across the entire distribution of wealth, including the very top. The SCF also allows us to construct a broad measure of household wealth that includes financial assets and liabilities (including IRAs and retirement accounts), the value of vehicles less any debt against them, the value of any homes or other properties owned less their debt, and the net value of any businesses.[3]

Trends in the distribution of household wealth during the Great Recession and recovery

We examine the evolution of wealth for different types of families, where families are grouped according to their reported "usual income." Usual income is a measure of family resources that smooths away temporary fluctuations in income, such as an unexpected bonus or a temporary unemployment spell. We divide the usual income distribution into four groups. First, given the well-documented concentration of wealth at the top, we separately examine the top 10 percent of families by usual income (the "Top 10"). Then, we split the other 90 percent of the distribution (the "Bottom 90") into three equal-sized groups: the "Bottom 30" (the bottom 30 percent), "Middle 30" (the 31st to 60th percentile), and the "Next 30" (61st to 90th percentile). We restrict our analysis to working-age households, defined as those headed by individuals between the ages of 25 and 64, to facilitate comparisons over time.[4]

Figure 1 displays changes in real mean wealth for the four income groups during the Great Recession and recovery, as captured in the triennial SCF.[5] The bars show changes in wealth since the 2007 SCF, or just before the onset of the Great Recession. The blue bars show changes in wealth through 2010--roughly the end of the Great Recession as captured in the triennial SCF. And the green bars show changes in wealth through 2016--the most recent survey year. This time period includes both the recession and a substantial portion of the recovery.

Figure 1: Percent changes in real mean wealth since the onset of the Great Recession



Source: Survey of Consumer Finances 2007-2016.

Accessible version

During the Great Recession, wealth fell for all usual income groups, although some groups lost more wealth than others (Figure 1, blue bars). The Middle 30 experienced the largest percentage losses in wealth from $214,000 to $128,000. The Next 30 also faced substantial wealth losses, from $510,000 to $395,000. For the Bottom 30, wealth fell from $83,000 to $75,000. The Top 10's wealth dropped from $3.7 million to $3.2 million.

In 2016--well into the recovery--wealth remained below 2007 levels for all three subgroups in the Bottom 90, but the Top 10 had more wealth than in 2007 (Figure 1, green bars). In 2016, average wealth was $57,000 for the Bottom 30, $139,000 for the Middle 30, and $424,000 for the Next 30; all of these values were *below* 2007 levels. On the other hand, the Top 10's 2016 mean wealth was $4.1 million, well *above* the 2007 value.[6]

The Bottom 90 and Top 10 alike lost wealth during the Great Recession (figure 1, blue bars). However, the changes in wealth during the cumulative Great Recession and recovery period (figure 1, green bars) illustrate that the Bottom 90 and the Top 10 had vastly different experiences during the recovery. The Bottom 90 experienced little to no wealth gains, whereas the Top 10 experienced outsized gains. The remainder of this note will unpack some determinants and implications of families' varied experiences in the Great Recession and subsequent recovery.

Why did some families experience larger wealth losses 2007-2010?

Between 2007 and 2010, house prices fell 23 percent and stock prices fell 21 percent, but these changes affected household wealth differently for the Bottom 90 and Top 10.[7] The first reason for this differential effect stems from variation in families' portfolios before the Great Recession. In 2007, the primary residence represented more than a third of wealth of the Bottom 90, compared with 15 percent for the Top 10, making

the Bottom 90's total wealth relatively more sensitive to changes in house prices (Table 1). Furthermore, families in the Bottom 90 also stored a non-negligible share of their wealth in stocks, making them sensitive to changes in stock prices as well. In contrast, families in the Top 10 held a relatively larger proportion of their wealth outside of these two types of assets, making their wealth less sensitive to changes in home and stock prices.

Table 1: Wealth concentration and leverage in 2007

	Bottom 30 (0-30)	Middle 30 (31-60)	Next 30 (61-90)	Top 10 (91-100)
Share of wealth in...				
...housing	45%	41%	33%	15%
...stocks	11%	15%	21%	24%
...other	44%	44%	46%	61%
Share of homeowners with mortgage LTV over 80 percent	13%	22%	16%	6%

Note: Stock wealth includes stocks held directly and indirectly. Housing wealth and debt includes the primary residence only.

Source: Survey of Consumer Finances.

A second reason for the differential effect of price declines in the Great Recession is differences in leverage. In particular, the Bottom 90 were more leveraged on their homes before the Great Recession and thus suffered larger proportional declines in wealth when house prices fell. Families in the Middle 30 were the most leveraged group; 22 percent of owners had mortgage LTVs of more than 80 percent (Table 1) and thus would have had their housing wealth erased by the 23 percent decline in home prices that occurred in the Great Recession. Because families in the Top 10 were considerably less leveraged on their homes than other families, their total wealth was more insulated from the house prices declines.

Why has the recovery been weak for the Bottom 90?

The patterns above can explain why families in the Bottom 90 experienced larger proportional losses during the Great Recession than the Top 10, but not why their recovery has also been weaker. By 2016, house prices had increased by 26 percent from their trough, and stock prices had risen by more than 160 percent; so why haven't families in the Bottom 90 shared in those gains?

One reason the Bottom 90 experienced little to no recovery is their homeownership rate declined between 2007 and 2016 (Table 2). Families who do not own a home will not experience an increase in housing wealth when house prices rise.

Table 2: Homeownership rates and decomposition of increase in renter share

	Bottom 30 (0-30)	Middle 30 (31-60)	Next 30 (61-90)	Top 10 (91-100)
Share of families that are homeowners...				
...in 2007	41%	71%	89%	91%
...in 2016	33%	59%	81%	92%
Change in renter share 2007-2016*...	7%	12%	8%	0%
...previously owned a home	-1%	3%	3%	0%
...never owned a home	9%	9%	5%	0%

* May not sum due to rounding.

Source: Survey of Consumer Finances 2007, 2016.

Further inspection of the data indicates that the decline in homeownership for the Bottom 90 can be explained by a decline in first-time home buying. Between 2007 and 2016, the share of families in the Bottom 90 who have never owned a home (e.g., families who would become first-time buyers if they did purchase homes)

increased, while the share of renters who used to own a home (perhaps due to a previous foreclosure) fell or increased only modestly (Table 2).

What explains this decline in first time home-buying among the Bottom 90? Several recent papers indicate that a reduction in mortgage credit availability is a likely culprit (Acolin et al, 2016; Bhutta, 2015). Also, the SCF shows that rent-to-income ratios rose between 2 and 9 percentage points for renters in the Bottom 90 during this time period, which would have reduced renter families' ability to save for a down payment.[6]

A second reason the Bottom 90 has not experienced a stronger recovery is that stock market participation has declined since 2007. Between 2007 and 2016, stock market participation--defined as holding stocks directly or indirectly, such as through a pooled investment fund or a defined contribution retirement account like a 401 (k) or IRA--fell for the Bottom 30 and Middle 30, but increased slightly or was unchanged for the Next 30 and Top 10 (Table 3).

Table 3: Stock Market Participation and the availability of employer-sponsored retirement plans

	Bottom 30 (0-30)	Middle 30 (31-60)	Next 30 (61-90)	Top 10 (91-100)
Share of families that participate in stock market:...				
...in 2007	24%	56%	80%	93%
...in 2016	20%	50%	80%	95%
Change in share of families that do not participate in stock market 2007-2016*...	4%	6%	-1%	-2%
...employer plan available, but does not participate	-2%	1%	0%	0%
...employer plan not available...	6%	5%	0%	-2%
...part-time at main job(s)	7%	2%	0%	-1%
...full-time at main job(s)	-4%	0%	0%	-1%
...not working	3%	2%	0%	0%

* May not sum due to rounding.

Data source: Survey of Consumer Finances 2007, 2016.

Why did stock market participation decline among the Bottom 30 and Middle 30, but not the Next 30 or Top 10? Table 3 reveals differential declines in retirement plan eligibility across groups. Most families in the Bottom 90 only hold stocks through defined contribution retirement accounts, such as 401(k)s or IRAs. Between 2007 and 2016, the share of families in the Bottom 30 and Middle 30 with access to retirement plans through an employer dropped by 5 to 6 percentage points. Most of this decline in plan availability appears to stem from changes in work patterns between 2007 and 2016: families in the Bottom and Middle 30 were more likely to work part-time at the their main job, or not work at all (due to declining participation rates and elevated unemployment rates), which would typically make those families ineligible to participate in employer-sponsored plans (Table 3). These changes in plan eligibility also appear related to the increase in contract work and the gig-economy, since those jobs are often part-time and typically do not offer plans (GAO, 2015; Katz and Krueger, 2016).

What would the recovery look like for the Bottom 90 if homeownership and stock market participation had not declined between 2007 and 2016? We can conduct a counterfactual exercise where we assume group-level homeownership and stock market participation rates had remained at their 2007 level and allow each group's wealth to be affected by changes in home and stock prices that occurred between 2007 and 2016.[7] The results of this experiment reveal that the changes in asset ownership described in this Note played a key role in generating a "wealthless recovery": Bottom 90 wealth would be 50-60 percent higher in 2016 if home ownership and stock market participation rates had not fallen (Table 4).

Table 4: Counterfactual change in Bottom 90 wealth 2007-2016 assuming 2007 home and stock ownership rates

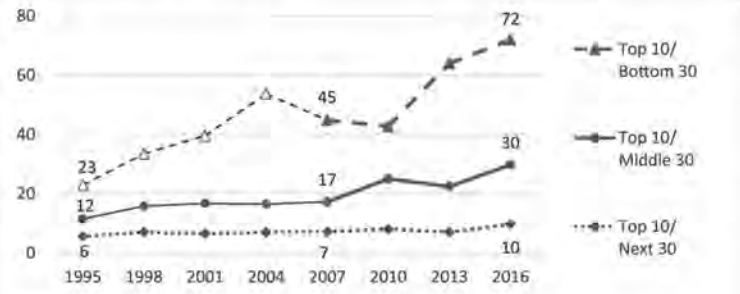
	Bottom 30 (0-30)	Middle 30 (31-60)	Next 30 (61-90)
Change in wealth 2007-2016			
...actual	-31%	-35%	-17%
...assuming 2007 ownership rates	-12%	-20%	-9%

Source: Survey of Consumer Finances 2007-2016.

Implications for wealth inequality and future outlook

One measure of wealth inequality is the ratio of the mean wealth of the top 10 to mean wealth of each subgroup of the Bottom 90. In 2007, that measure shows that the Top 10 had 45 times as much wealth as the Bottom 30, 17 times as much wealth as the Middle 30, and 7 times as much wealth as the Next 30 (Figure 2, solid markers). By 2016, those rates had increased substantially; the Top 10 had 72 times as much wealth as the Bottom 30, 30 times as much wealth as the Middle 30, and 10 times as much wealth as the Next 30. Furthermore, those ratios are considerably higher than any other time period going back to the mid-1990s (Figure 2, hollow markers).

Figure 2: Wealth inequality 1995-2016



Source: Survey of Consumer Finances, 1995-2016

Accessible version

This note has uncovered a divergence between changes in aggregate wealth and most families' wealth in the recovery from the Great Recession. The resulting increase in wealth inequality has important implications for understanding the recovery. For example, it may help explain why the long-standing connection between aggregate wealth and consumption is weaker than it once was, since higher income families tend to consume less out of wealth changes than lower income families (see Aladangady and Feiveson, 2018 for more on recent developments in the consumption-wealth relationship).

Furthermore, because these declines in wealth for the Bottom 90 are driven in part by declines in asset ownership, the outlook for the Bottom 90 as the economic recovery continues will depend on asset ownership rates. Recent data provides little evidence ownership rates have rebounded: for example, as of the second quarter of 2018, the home ownership rate was still below its 2007 level; and although data comparable to the SCF measure of stock market participation is not available, the share of families not participating in a retirement plan, as well as the share working part time, were still elevated relative to 2007.[10] This suggests

the wealth gaps uncovered in this Note may persist despite the continued economic recovery, as those families will not experience wealth gains from the rise in housing and stock prices since 2016. Data from the next SCF in 2019 will help to further uncover whether this "wealthless recovery" for the Bottom 90 persists.

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1. Financial Accounts of the United States, 2007Q2 to 2009Q1, available at www.federalreserve.gov/releases/z1. Return to text

2. See Bricker, et al. (2016) for more on wealth concentration in the Survey of Consumer Finances. Return to text

3. See Bricker, et al. (2017) for more details on the definition of net worth used here to measure household wealth. Return to text

4. We focus on working-age households to ensure that our comparisons are not confounded by time-varying factors that disproportionately affect young and old households. For example, the retirement of the baby boomer cohort might complicate comparisons over time if we were to examine families of all ages, since retired households tend to have low levels of retirement income, but wealth levels that reflect their higher pre-retirement income. Younger households can also complicate the analysis, since college-going tends to increase occurs during a recession and students' income and wealth levels are often low. Return to text

5. All dollar amounts from the SCF for this Note are adjusted to 2016 dollars using the CPI-U-RS. Return to text

6. We choose to focus primarily on mean values because we want to discuss the behavior of the group as whole and because the ability to add together values from subgroups is an important aspect of our analysis. But medians reflect a similar story from 2007 to 2016: median wealth fell from $13,000 to $8,000 for the Bottom 30, $99,000 to $56,000 for the Middle 30, and $316,000 to $195,000 for the Next 30. Additionally median wealth rose from $1.335 million to $1.460 million for the Top 10. Return to text

7. Changes between September 2007 and September 2010 (roughly the median SCF interview dates) were computed using Case-Shiller index and Wilshire index, both inflation-adjusted to 2016 dollars). Return to text

8. Another possibility is that preferences for home ownership declined among the Bottom 90, but there is little empirical evidence to support that notion. For example, surveys show that most renters would prefer to be owners, and crucially, there is very little difference in these preferences across high and low income renters over time, which would be consistent with the home-buying patterns observed in the SCF (Authors calculations from data in the FRBNY Survey of Consumer Expectations https://www.newyorkfed.org/microeconomics/sce). Return to text

9. This counterfactual exercise was conducted by estimating housing wealth, stock wealth and all other wealth for each income groups. Stock wealth is estimated by aging forward the group's 2007 stock wealth using the Wilshire Index. To estimate housing wealth, we first estimate mean mortgage LTVs by housing tenure, where tenure is defined as: owning current home less than 10 years, 10-20 year or 20 or more years. We then estimate 2007 house values by tenure, and age those values forward using the average change in the local FHFA house price index experienced by each group between 2007 and 2016. We combine the house values and mortgage LTVs to construct a weighted mean value of home equity, where the weights are the 2007 tenure distribution. The intuition behind targeting the tenure distribution is to match entry rates into first, second, third, etc. time home buying that was present in 2007. To estimate other wealth, we

used mean group-level non-housing, non-stock wealth by housing tenure and stock ownership, and construct a weighted average using the 2007 tenure distribution and stock ownership rate as weights. Return to text

10. As of 2018 Q2 the homeownership rate was 64.3 percent, well below the 2007 Q2 rate of 68.2 percent, and only slightly above the 2016 Q2 rate of 62.9 percent (see https://www.census.gov/housing/hvs/index.html). As of March 2017, the share of persons age 25-64 participating in a pension at work was 26.6 percent, compared to 35.3 percent in 2007 and 27.7 percent in 2016 (Author's calculations based on data from https://www.bls.gov/cps). As of 2018 Q2 the share of adult persons usually working part time was 13.2 percent, up from 12.9 percent in 2007 Q2 and only slightly below the 13.5 percent observed in 2016 Q2 (Authors calculations based on data from https://www.bls.gov/ces). Return to text

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Last Update: September 13, 2018

Mr. LARSON. And the "Distribution Analysis of the Conference Agreement for the Tax and Jobs Act" by the Tax Policy——

Chairman NEAL. So ordered.

[The information follows:]

DISTRIBUTIONAL ANALYSIS OF THE CONFERENCE AGREEMENT FOR THE TAX CUTS AND JOBS ACT

TPC Staff

December 18, 2017

The Tax Policy Center has released distributional estimates of the conference agreement for the Tax Cuts and Jobs Act as filed on December 15, 2017. We find the bill would reduce taxes on average for all income groups in both 2018 and 2025. In general, higher income households receive larger average tax cuts as a percentage of after-tax income, with the largest cuts as a share of income going to taxpayers in the 95th to 99th percentiles of the income distribution. On average, in 2027 taxes would change little for lower- and middle-income groups and decrease for higher-income groups. Compared to current law, 5 percent of taxpayers would pay more tax in 2018, 9 percent in 2025, and 53 percent in 2027.

The conference agreement for the Tax Cuts and Jobs Act that was filed on December 15, 2017 would make major changes to the individual and corporate income taxes, estate and gift taxes, and certain federal excise taxes.[1] The bill would also repeal the Affordable Care Act's (ACA) individual mandate, but the distributional estimates presented here do not include the effects of that provision.[2]

The Tax Policy Center has released distributional estimates of this legislation. We find the following:

- Compared to current law, taxes would fall for all income groups on average in 2018, increasing overall average after-tax income by 2.2 percent. In general, tax cuts as a percentage of after-tax income would be larger for higher-income groups, with the largest cuts as a share of income going to taxpayers in the 95th to 99th percentiles of the income distribution.

[1] This analysis is based on the conference report for the Tax Cuts and Jobs Act as filed on December 15, 2017. The text and descriptions of the bill and estimated revenue effects are available at https://rules.house.gov/conference-report/hr-1.

[2] The effects of this provision are not included because only a portion of the $314 billion change in the federal budget deficit over the 2018-2027 period is due to a change in tax receipts. A recent report from the Congressional Budget Office of the tax and non-tax effects of repealing the ACA's individual mandate is available at https://www.cbo.gov/publication/53300.

- The pattern of tax changes across income groups would be similar in 2025 (the last year before nearly all the individual provisions sunset) although the magnitude of average tax decreases would be slightly smaller for most income groups.
- In 2027, the overall tax reduction would be just 0.2 percent of after-tax income. On average, relative to current law, low- and middle-income taxpayers would see little change and taxpayers in the top 1 percent would receive an average tax cut of 0.9 percent of after-tax income.
- Some taxpayers would pay more in taxes under the proposal in 2018 and 2025 than under current law: about 5 percent of taxpayers in 2018 and 9 percent in 2025. In 2027, however, taxes would increase for 53 percent of taxpayers compared with current law.

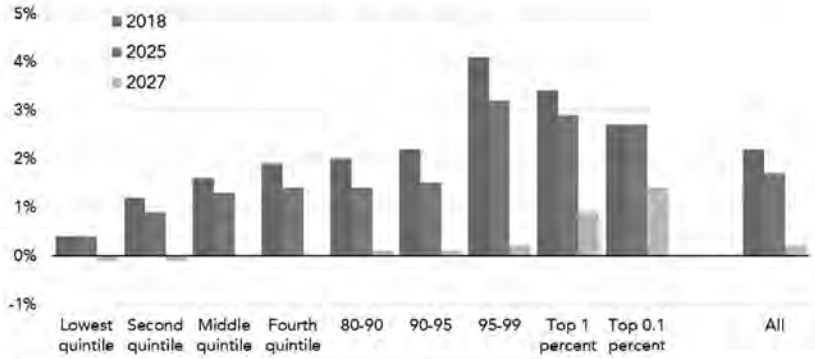
DISTRIBUTIONAL EFFECTS

The conference agreement would have different effects on the distribution of tax burdens in different years, so we present results for 2018, 2025, and 2027 (figure 1).

FIGURE 1

Percent Change in After-tax Income of the Conference Agreement for the Tax Cuts and Jobs Act

By expanded cash income percentile, 2018, 2025, and 2027



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

2018

In 2018, taxes would be reduced by about $1,600 on average, increasing after-tax incomes 2.2 percent (table 1). Taxes would decline on average across all income groups. Taxpayers in the bottom quintile (those with income less than $25,000) would see an average tax cut of $60, or 0.4 percent of after-tax income. Taxpayers in the middle income quintile (those with income between about $49,000 and $86,000) would receive an average tax cut of about $900, or 1.6 percent of after-tax income. Taxpayers in the 95th to 99th income percentiles (those with income between about $308,000 and $733,000) would benefit the most as a share of after-tax income, with an average tax cut of about $13,500 or 4.1 percent of after-tax income. Taxpayers in the top 1 percent of the income distribution (those with income more than $733,000) would receive an average cut of $51,000, or 3.4 percent of after-tax income.

TABLE 1

Distribution of Federal Tax Change of the Conference Agreement for the Tax Cuts and Jobs Act

By expanded cash income percentile, 2018[a]

Expanded cash income percentile[b]	Percent change in after-tax income[c]	Share of total federal tax change (%)	Average federal tax change (dollars)	Average federal tax rate[d]	
				Change (% points)	Under the proposal (%)
Lowest quintile	0.4	1.0	-60	-0.4	3.7
Second quintile	1.2	5.2	-380	-1.1	7.6
Middle quintile	1.6	11.2	-930	-1.4	12.4
Fourth quintile	1.9	18.4	-1,810	-1.6	15.8
Top quintile	2.9	65.3	-7,640	-2.2	23.3
All	2.2	100.0	-1,610	-1.8	18.1
Addendum					
80-90	2.0	13.1	-2,970	-1.6	18.5
90-95	2.2	9.6	-4,550	-1.8	20.2
95-99	4.1	22.1	-13,480	-3.1	22.2
Top 1 percent	3.4	20.5	-51,140	-2.3	30.3
Top 0.1 percent	2.7	7.9	-193,380	-1.8	31.6

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1)

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.2; Proposal: 0.2. Itemizers (millions): Baseline: 46.5; Proposal: 19.3.

(a) Calendar year. Baseline is current law. Proposal includes provisions contained in the conference agreement for the Tax Cuts and Jobs Act as filed on 12/15/2017. Excludes the effects of repealing the Affordable Care Act's Individual Shared Responsibility Payment (i.e., "individual mandate").

(b) Percentiles include both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $25,000; 40% $48,600; 60% $86,100; 80% $149,400; 90% $216,800; 95% $307,900; 99% $732,800; 99.9% $3,439,900. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.htm

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

(d) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

2025

In 2025, the average tax cut would be almost $1,600, or 1.7 percent of after-tax income (table 2). The magnitude of the average tax cut as a share of after-tax income would be smaller in 2025 than in 2018 for most income groups, mainly because the tax system would be indexed to the slower-growing chain-weighted consumer price index and due to the phase-out of certain business tax cuts, and phase-in of certain business tax increases.

Taxpayers in the bottom quintile would see an average tax cut of $70, or 0.4 percent of after-tax income. Taxpayers in the middle income quintile would receive an average tax cut of about $900, or 1.3 percent of after-tax income. Taxpayers in the 95th to 99th income percentiles would benefit the most as a share of after-tax income, with an average tax cut of almost $13,000, or 3.2 percent of after-tax income. Taxpayers in the top 1 percent of the income distribution would receive an average cut of about $61,000, or 2.9 percent of after-tax income.

TABLE 2

Distribution of Federal Tax Change of the Conference Agreement for the Tax Cuts and Jobs Act

By expanded cash income percentile, 2025[a]

Expanded cash income percentile[b]	Percent change in after-tax income[c]	Share of total federal tax change (%)	Average federal tax change (dollars)	Average federal tax rate[d]	
				Change (% points)	Under the proposal (%)
Lowest quintile	0.4	1.3	-70	-0.4	3.9
Second quintile	0.9	5.6	-390	-0.8	7.8
Middle quintile	1.3	11.4	-910	-1.1	12.8
Fourth quintile	1.4	17.4	-1,680	-1.2	15.8
Top quintile	2.3	65.8	-7,460	-1.7	24.4
All	1.7	100.0	-1,570	-1.4	18.7
Addendum					
80-90	1.4	11.0	-2,410	-1.1	18.7
90-95	1.5	7.9	-3,670	-1.2	20.8
95-99	3.2	21.6	-12,860	-2.4	23.1
Top 1 percent	2.9	25.3	-61,090	-1.9	31.4
Top 0.1 percent	2.7	10.5	-252,300	-1.8	32.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1)

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.7; Proposal: 0.2. Itemizers (millions): Baseline: 54.9; Proposal: 26.4.

(a) Calendar year. Baseline is current law. Proposal includes provisions contained in the conference agreement for the Tax Cuts and Jobs Act as filed on 12/15/2017. Excludes the effects of repealing the Affordable Care Act's Individual Shared Responsibility Payment (i.e., "individual mandate").

(b) Percentiles include both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $27,300; 40% $53,400; 60% $91,700; 80% $153,800; 90% $224,400; 95% $308,900; 99% $837,800; 99.9% $4,704,600. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

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

(d) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

2027

In 2027, the overall average tax cut would be $160, or 0.2 percent of after-tax income (table 3), largely because almost all individual income tax provisions would sunset after 2025.

On average, taxes would be little changed for taxpayers in the bottom 95 percent of the income distribution. Taxpayers in the bottom two quintiles of the income distribution would face an average tax increase of 0.1 percent of after-tax income; taxpayers in the middle income quintile would see no material change on average; and taxpayers in the 95th to 99th income percentiles would receive an average tax cut of 0.2 percent of after-tax income. Taxpayers in the top 1 percent of the income distribution would receive an average tax cut of 0.9 percent of after-tax income, accounting for 83 percent of the total benefit for that year.

TABLE 3

Distribution of Federal Tax Change of the Conference Agreement for the Tax Cuts and Jobs Act

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b]	Percent change in after-tax income[c]	Share of total federal tax change (%)	Average federal tax change (dollars)	Average federal tax rate[d]	
				Change (% points)	Under the proposal (%)
Lowest quintile	-0.1	-4.6	30	0.1	4.4
Second quintile	-0.1	-5.4	40	0.1	8.9
Middle quintile	0.0	-2.1	20	0.0	13.8
Fourth quintile	0.0	2.9	-30	0.0	16.9
Top quintile	0.4	107.3	-1,260	-0.3	26.0
All	0.2	100.0	-160	-0.1	20.0
Addendum					
80-90	0.1	4.4	-100	0.0	19.7
90-95	0.1	3.9	-190	-0.1	21.8
95-99	0.2	16.4	-1,010	-0.2	25.4
Top 1 percent	0.9	82.8	-20,660	-0.6	32.9
Top 0.1 percent	1.4	59.8	-148,260	-0.9	32.9

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1)

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.6; Proposal: 6.0. Itemizers (millions): Baseline: 56.8, Proposal: 57.4.

(a) Calendar year. Baseline is current law. Proposal includes provisions contained in the conference agreement for the Tax Cuts and Jobs Act as filed on 12/15/2017. Excludes the effects of repealing the Affordable Care Act's Individual Shared Responsibility Payment (i.e., "individual mandate").

(b) Percentiles include both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars). 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

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

(d) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

WINNERS AND LOSERS

The impact of the proposal on individual taxpayers differs depending on their income sources, demographic and family statuses, and other characteristics that affect eligibility for certain tax benefits. Our estimates of the number of taxpayers who would pay more tax or less tax than under current law exclude certain minor provisions (listed in tables 4, 5, and 6), for which it is difficult to assign the tax changes to specific taxpayers.[3]

In 2018, 80 percent of taxpayers would receive a tax cut from the included provisions--averaging about $2,100--and about 5 percent would face an average tax increase of about $2,800 (table 4).[4] In the bottom income quintile, 54 percent would receive a tax cut and 1 percent would face a tax increase. In the middle income quintile, 91 percent would receive a tax cut and 7 percent would face a tax increase. In the top 1 percent of the income distribution, 91 percent would receive a tax cut and 9 percent would face a tax increase.

TABLE 4

Tax Units with a Tax Change from Major Provisions of the Conference Agreement for the Tax Cuts and Jobs Act

By expanded cash income percentile, 2018[a]

Expanded cash income percentile[b]	Tax units with tax cut or increase[c]				Average federal tax change	
	With tax cut		With tax increase			
	Percent of tax units	Average tax cut	Percent of tax units	Average tax increase	All Provisions	Major Provisions included here
Lowest quintile	53.9	-130	1.2	810	-60	-60
Second quintile	86.8	-480	4.6	740	-380	-380
Middle quintile	91.3	-1,090	7.3	910	-930	-930
Fourth quintile	92.5	-2,070	7.3	1,360	-1,810	-1,810
Top quintile	93.7	-8,510	6.2	8,800	-7,640	-7,430
All	80.4	-2,140	4.8	2,770	-1,610	-1,590
Addendum						
80-90	92.3	-3,370	7.6	1,800	-2,970	-2,970
90-95	94.4	-4,910	5.5	1,890	-4,550	-4,530
95-99	97.3	-13,890	2.7	8,260	-13,480	-13,280
Top 1 percent	90.7	-61,940	9.3	93,910	-51,140	-47,550
Top 0.1 percent	83.7	-285,490	16.2	387,610	-193,380	-176,070

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1)

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.2; Proposal: 0.2. Itemizers (millions): Baseline: 46.5, Proposal: 19.3.

(a) Calendar year. Baseline is current law. Proposal includes provisions contained in the conference agreement for the Tax Cuts and Jobs Act as filed on 12/15/2017. Excludes the effects of repealing the Affordable Care Act's Individual Shared Responsibility Payment (i.e., "individual mandate"). Due to data limitations, also excludes the following provisions: repeal of exclusion for employer-provided qualified moving expense reimbursements; repeal of deduction for moving expenses (other than members of the Armed Forces); retirement plan and casualty loss relief for certain disaster areas; repeal of deduction for alimony payments and corresponding inclusion in income; simplified accounting for small business; modify treatment of S corporation conversions into C corporations; limitation and repeal of deduction by employers of expenses for certain fringe benefits; modification of limitation on excessive employee remuneration; tax gain on the sale of a partnership interest on look-thru basis; craft beverage modernization and tax reform; and individual income tax portion of certain business provisions.

(b) Percentiles include both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $25,000; 40% $48,600; 60% $86,100; 80% $149,400; 90% $216,800; 95% $307,900; 99% $732,800; 99.9% $3,439,900. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(c) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

[3] We do include the average effect of these provisions by income group in tables 1-3, but their effects vary substantially within each group and we do not have the information necessary to assign the tax changes to specific individuals or households.

[4] The remaining 15 percent of taxpayers would see no material change in their tax burden.

In 2025, 76 percent of taxpayers would experience a tax cut from the included provisions averaging about $2,500, and 9 percent would face an average tax increase of almost $2,500 (table 5). In the bottom income quintile, 50 percent would receive a tax cut and 5 percent would face a tax increase. In the middle income quintile, 87 percent would receive a tax cut and 11 percent would face a tax increase. In the top 1 percent of the income distribution, 85 percent would receive a tax cut and 15 percent would face a tax increase.

TABLE 5

Tax Units with a Tax Change from Major Provisions of the Conference Agreement for the Tax Cuts and Jobs Act

By expanded cash income percentile, 2025[a]

Expanded cash income percentile[b]	Tax units with tax cut or increase[c]				Average federal tax change	
	With tax cut		With tax increase			
	Percent of tax units	Average tax cut	Percent of tax units	Average tax increase	All Provisions	Major Provisions included here
Lowest quintile	49.8	-200	5.1	280	-70	-80
Second quintile	80.7	-570	7.0	680	-390	-420
Middle quintile	87.4	-1,220	10.9	1,040	-910	-950
Fourth quintile	87.2	-2,240	12.4	1,590	-1,680	-1,760
Top quintile	86.8	-10,370	13.1	6,890	-7,460	-8,100
All	75.5	-2,530	8.9	2,460	-1,570	-1,690
Addendum						
80-90	84.9	-3,410	15.0	2,140	-2,410	-2,570
90-95	85.6	-4,940	14.3	2,050	-3,670	-3,940
95-99	94.2	-14,900	5.7	8,440	-12,860	-13,560
Top 1 percent	84.9	-95,290	15.1	80,680	-61,090	-68,730
Top 0.1 percent	83.6	-432,730	16.3	462,630	-252,300	-286,280

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1)

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.7; Proposal: 0.2. Itemizers (millions): Baseline: 54.9, Proposal: 26.4.

(a) Calendar year. Baseline is current law. Proposal includes provisions contained in the conference agreement for the Tax Cuts and Jobs Act as filed on 12/15/2017. Excludes the effects of repealing the Affordable Care Act's Individual Shared Responsibility Payment (i.e., "individual mandate"). Due to data limitations, also excludes the following provisions: repeal of exclusion for employer-provided qualified moving expense reimbursements; repeal of deduction for moving expenses (other than members of the Armed Forces); retirement plan and casualty loss relief for certain disaster areas; repeal of deduction for alimony payments and corresponding inclusion in income; simplified accounting for small business; modify treatment of S corporation conversions into C corporations; limitation and repeal of deduction by employers of expenses for certain fringe benefits; modification of limitation on excessive employee remuneration; tax gain on the sale of a partnership interest on look-thru basis; craft beverage modernization and tax reform; and individual income tax portion of certain business provisions.

(b) Percentiles include both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $27,300; 40% $53,400; 60% $91,700; 80% $153,800; 90% $224,400; 95% $308,900; 99% $537,800; 99.9% $4,704,500. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(c) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

In 2027, 25 percent of taxpayers would experience a tax cut from the included provisions, averaging about $1,500, and 53 percent would face an average tax increase of $180 (table 6). In the bottom income quintile, 11 percent would receive a tax cut and 33 percent would face a tax increase. In the middle income quintile, 24 percent would receive a tax cut and 70 percent would face a tax increase. In the top 1 percent of the income distribution, 76 percent would receive a tax cut and 24 percent would face a tax increase.

TABLE 6

Tax Units with a Tax Change from Major Provisions of the Conference Agreement for the Tax Cuts and Jobs Act

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b]	Tax units with tax cut or increase[c]				Average federal tax change	
	With tax cut		With tax increase			
	Percent of tax units	Average tax cut	Percent of tax units	Average tax increase	All Provisions	Major Provisions included here
Lowest quintile	11.1	-120	32.6	90	30	20
Second quintile	23.3	-280	57.7	140	40	20
Middle quintile	24.4	-520	69.7	150	20	-30
Fourth quintile	33.2	-680	64.2	190	-30	-110
Top quintile	46.7	-4,710	52.3	420	-1,260	-1,980
All	25.2	-1,540	53.4	180	-160	-290
Addendum						
80-90	38.1	-1,150	60.5	300	-100	-260
90-95	50.2	-1,320	48.7	450	-190	-450
95-99	58.0	-3,510	41.5	740	-1,010	-1,730
Top 1 percent	75.9	-39,690	23.8	1,250	-20,660	-29,820
Top 0.1 percent	91.9	-206,280	8.0	3,200	-148,260	-189,360

Source: Urban Brookings Tax Policy Center Microsimulation Model (version 0217-1)

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.6; Proposal: 6.0. Itemizers (millions): Baseline: 56.8, Proposal: 57.4.

(a) Calendar year. Baseline is current law. Proposal includes provisions contained in the conference agreement for the Tax Cuts and Jobs Act as filed on 12/15/2017. Excludes the effects of repealing the Affordable Care Act's Individual Shared Responsibility Payment (i.e., "individual mandate"). Due to data limitations, also excludes the following provisions: repeal of exclusion for employer-provided qualified moving expense reimbursements; repeal of deduction for moving expenses (other than members of the Armed Forces); retirement plan and casualty loss relief for certain disaster areas; repeal of deduction for alimony payments and corresponding inclusion in income; simplified accounting for small business; modify treatment of S corporation conversions into C corporations; limitation and repeal of deduction by employers of expenses for certain fringe benefits; modification of limitation on excessive employee remuneration; tax gain on the sale of a partnership interest on look-thru basis; craft beverage modernization and tax reform; and individual income tax portion of certain business provisions.

(b) Percentiles include both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(c) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

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Mr. LARSON. Thank you, Mr. Chairman.

And, with that, I will yield back.

Chairman NEAL. I thank the gentleman.

With that, let me recognize the gentleman from Texas to inquire, Mr. Marchant.

Mr. MARCHANT. Thank you, Mr. Chairman.

I found that the best way to gauge a law that we have passed is to go back to the district and actually meet with the people that the bill that we passed affects. I had a great week last week. My regular drive every day goes by an aluminum factory that builds windows to my local Starbucks, and I saw as I drove there one day, it said, "$11.50, now hiring." The next day, I went by, and it said—it struck out "$11.50" and said, "$12.50," you know, "need workers." About towards the end of the week, it said "$15.50 to $18, please apply." So that particular company was saying tax reform is working; we need workers.

I met with a mortgage company that was doubling the size of their company, moving from one side of my district to the other side. I met with their employees. We talked about the tax bill. I asked them, how is the tax bill affecting you? How many of you in this room are making less money now than you were a year ago or before? Tell me now. Complain now. Not a hand went up. All their questions were about workers: Where can we get more workers?

A local city that I represent, Hurst, Texas, is building—has a gentrified area. Now, I thought that going into gentrified areas and revitalizing them, in my district, that is a really good thing. So they are going in there using the new market credits. They are using the opportunity zones, and they are building veterans housing and new development around those, and they are very excited about the tax bill and the opportunities that that city was given to go into their area and really do some good things.

And then I went to another company that is headquartered in the district, and they put wind turbines up all over west Texas. And so I was kind of braced for that company. I thought, hey, I am going to walk in, and they are going to talk to me about extenders, and they are going to want their tax credits increased, and they are going to—you know, they are going to ask me for a bunch of stuff that I really am not sure that I can deliver. The first minute of the conversation, he said: You can just relax.

He said: We are doing just fine. We appreciate the credits. We know they are phasing out. It is helping us. But our big problem is we can't find enough people to work, and we are raising our salaries, and we are improving the benefits of our company, and we are embracing the tax bill. Please tell us that this tax bill is not going to be changed. Let us have some—at least a year or two or three or four or five of this tax bill to sink our teeth into it and to really take advantage of it and employ more people.

And so, Mr. Chairman and Members, this is how I experienced the tax bill back when I was in the district. I thought, well, people are starting to fill their taxes out. I might ought to wear a helmet to some of these meetings because, you know, people might not be very happy. They may have every question in the world to ask me, but it didn't happen that way. And I have got a wonderful district.

It is growing, but even in the areas of my district that are gentrifying and need help, there are answers in this bill.

I yield back.

Chairman NEAL. I thank the gentleman.

Let me recognize the gentleman from Oregon to inquire, Mr. Blumenauer.

Mr. BLUMENAUER. Thank you, Mr. Chairman, and thank you for having the long-awaited hearing that we should have had when the proposal was before us.

You know, I hope we can explode some of the cartoon arguments about tax policy. I am looking forward to what my friend from Texas pointed out. I would like to have him interact with the policy questions we never had before this Committee about why architects and engineers pay a higher tax rate than doctors, lawyers, and CPAs. What is the policy rationale for that? How do you explain that to your constituents? Never heard from him.

Professor Oh, you are going provide us with some suggestions about how to make the passthrough provisions work better. I don't want to take the time now. I would like to see it in writing, but you know, it would have been nice if this Committee actually had done that rather than ramming something through without benefit of a hearing, without benefit of going back and forth and resolving those questions.

The GOP is going to give us a postcard size tax return, and it would be fun watching our Republican friends in a hearing trying to fill out the postcard size tax return with real life experience. And I appreciate Ms. Abramowitz having the rest of the story with the schedules that still have to be filled out. You didn't do away with them. You slid past it.

Explain why you gave most of the help to people in America who need it the least. We never had a debate on that, and the distribution, we tried to get at it. We made the arguments. We gave based on the best information we had, the evidence is coming forward in terms of what that impact is going to be over time. We never had a robust discussion about the hundreds—the millions of people who are going to pay higher taxes because they are going to pay a tax on a tax, and it is not just blue States. You have got a lot of them in your district, Kenny, who are going to pay more because they can no longer deduct to the full extent of the law. We have never talked about that and what the impact is going to be. We never really delved into what the impact is going to be really in terms of corporations.

My friend from Texas pointed out the problems of the incentive for outsourcing jobs because they have a lower tax rate. We never talked about that ever on this Committee. What is your policy rationale to incent more outsourcing? And I really appreciate our friends from CWA coming in with some real life examples, not hypothetical or a couple cherry picking here or there. You have talked about 5,000 call center jobs located to Mexico to serve America, and your tax bill provides incentives for that. We have never talked about what the costs are going to be for the benefits for people who don't need it.

No doubt there are lots of people who made out like bandits. I know some of them. But we didn't talk about what the short-term

and long-term costs are in terms of making a hash out of the Tax Code, making it more difficult to administer, problems for real live people.

I have got some of the largest corporations in my State who still don't know what the Republican bill did to them. They know their executives are getting hammered and lots of people who aren't executives because we have property tax and income tax in Oregon. They are going to be paying a tax on a tax. But the corporations themselves almost 2 years later are clueless.

I am hearing these questions about the opportunity zones. We didn't debate that in this Committee. We didn't get evidence on that, and now they are being dropped on us out of the sky. In some cases, they may be useful. In other cases, they are not. But we have created a cottage industry for lawyers and accountants. Oh. And by the way, they are going to pay higher rates than doctors who will treat the blood pressure for people who are trying to figure this out.

Mr. Chairman, thank you for doing this. I look forward to Chairman Thompson being able to do a deeper dive on his subcommittee to ferret this out and get the information we should have had in the first place, not to blow this up and repeal it, but to make sense out of it and fix the stuff that doesn't. Thank you.

Chairman NEAL. I thank the gentleman.

Let me recognize the gentleman from New York, Mr. Reed, to inquire.

Mr. REED. Well, thank you, Mr. Chairman, and thank you to our panelists today.

I just want to cut through a lot of the political rhetoric that you are hearing today from both sides of this aisle in regards to "tax cuts, boo," "tax cuts, yea," that type of debate because at the heart of what we have done in the tax cut bill is we have produced jobs. We have produced jobs. You cannot argue that fact: 493,000 manufacturing jobs added since the tax cut bill. We now have 7.3 million jobs available with only 6.2 million people on unemployment. We have more jobs than people looking for those jobs.

What we did on our side in regards to focusing on and being the party of jobs is we recognize that a job is more than a paycheck as Republicans. Jobs bring to you—somebody who was raised by a single mother whose father passed when I was 2 and saw firsthand—a job brings dignity—dignity, pride, optimism. So that is when I see the numbers of 71 percent of Americans believing the economy is in a good shape and the consumer optimism is high, that is a good thing. We should both be celebrating these numbers, not chastising one side or the other.

I want—oh. And one thing here from our panelists because we often hear the top 1 percent argument day in and day out. I come from New York. State and local taxes and that deduction in the cap of $10,000 is a very important issue to us in New York State. Now, I stand for repealing that provision and putting the full set of—the full SALT deduction back on the books, but I will tell you. I want to go into this eyes wide open and understand exactly what we are doing to my colleagues that advocate for the SALT and argue about the SALT cap in these high-tax States. If we did that, the bene-

ficiaries of that move will be the 1 percent. Does any panelist on this dais today disagree with the conclusion?

Chairman NEAL. Will the gentleman yield?

Mr. REED. I will not. But if I have time, I will yield to my good friend——

Chairman NEAL. Thank you.

Mr. REED [continuing]. From New Jersey.

Does any panelist on this dais today disagree with the assertions that have been concluded by the Tax Policy Foundation, by Bloomberg, by numerous organizations that have studied that if we repeal the $10,000 cap, that that is going to go primarily to the top 1 percent, and in the top fifth of income, those making more than $153,000, that would be 96 percent of the people that benefit under that repeal? Does anybody disagree with the assertion that repealing the SALT cap will benefit the 1 percent?

Mr. PASCRELL. Right here. I do.

Mr. REED. I am asking the panelists, and then I will yield to my friend from New Jersey. Anyone disagree with that?

Mr. PASCRELL. I am a panelist.

Mr. REED. Mr. Oh, please. Do you disagree with that conclusion?

Mr. OH. I can't speak to the exact numbers that you are giving because I don't have them available offhand, but I do agree with you with the general sentiment that the SALT deduction generally benefits the top in income distribution.

Mr. REED. And I appreciate that. So, if we do this, to my colleagues, to my friend from New Jersey who I now yield to, if we do this together recognizing who we are going to benefit in regards to that repeal.

Mr. PASCRELL. I want to do everything together, my friend.

Mr. REED. I know we do.

Mr. PASCRELL. And, you know, just use your imagination of all of the things——

Mr. REED. You have got one minute.

Mr. PASCRELL. But the point of the matter—thank you. The point of the matter is, in New Jersey, and in my Ninth District, the majority of those folks who use that deduction, the oldest deduction on the tax books—it goes back to the Civil War, and there was a reason——

Mr. REED. I understand.

Mr. PASCRELL. My minute is not up.

Mr. REED. Well, it is my time. Hurry it up.

Mr. PASCRELL. Well, you can take your time.

The oldest deduction, and it was done for a very specific reason so that States and the Federal Government would not take resources away from local communities that they couldn't build roads and schools and hospitals. And you want to—before the Code even existed, before the Tax Code ever existed, and so I want to look at it that way.

But in my district, the majority of people who use that deduction—and it changes every year, even in small States.

Mr. REED. My time is expiring. What I would just—reclaiming my time, is I am willing to do this, but do not play politics with it. Go into this eyes wide open, and we will make sure, but nobody

on this panel stood for the repeal because they understand that it impacts the top 1 percent.

With that, I yield back.

Chairman NEAL. I thank the gentleman.

Let me recognize the gentleman from Wisconsin, Mr. Kind, to inquire.

Mr. KIND. Thank you, Mr. Chairman. Thank you for teeing up this very important hearing.

And we are going to have to do a deep dive, as my friend from Oregon said, on the aspects of this tax bill.

But to my good friend from New York, and he is my friend. I am glad he is asking for his eyes to be wide open because this fire-aim-ready legislative 51-day rush to pass the most significant reform in the Tax Code since 1986, this is predictable with the unintended consequences, the mistakes that were made, and the lack of economic punch that we are seeing right now, now that it has been in effect well over a year.

Let me just strike down a couple of the straw men that we have heard here today. You know, the last 2 years of the Obama administration had stronger job growth numbers than the first 2 years of the Trump administration, and that includes one full year of this new tax law. That is just a truism. And to my good friend from Texas, the Ranking Member, who is setting up the straw man that he is hearing all Democrats talk about completely repealing this bill, I haven't heard one Member on this dais talking about completely repealing this tax cut bill or anyone in the——

Mr. BRADY. Will the gentleman yield?

Mr. KIND. No. This is my time right now.

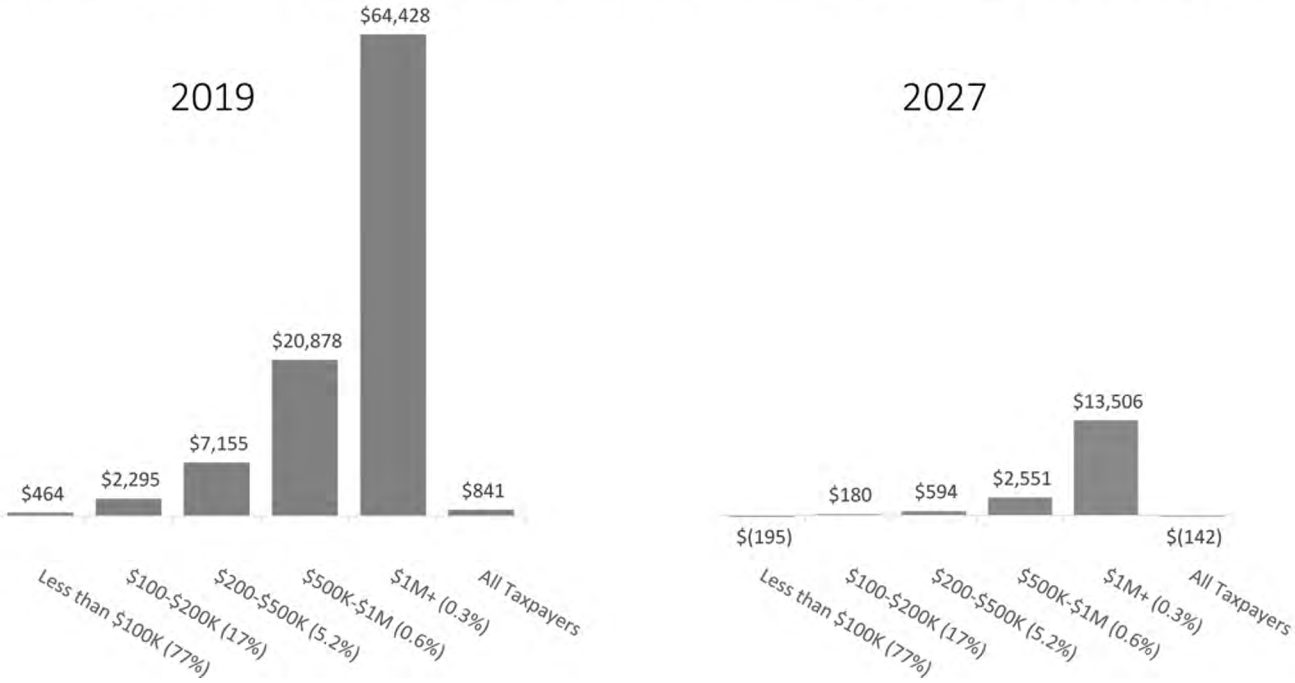
Unlike the opposite side who had 68 votes to completely repeal the Affordable Care Act and now this President that is embracing a lawsuit in Texas that will completely repeal the Affordable Care Act and all the patient protections that come from it, on preexisting conditions, gives up to 26 staying on the parents' plan, getting rid of annual and lifetime payment caps; all of that would be repealed based on your votes and what this administration is calling for. So let's get serious about what we need to change with this Tax Code.

Now, Dr. Gould, your testimony was talking about the danger of growing inequality in the wage gap in our country. In a moment, I am going to ask you to expound on that a little bit, but first, I want to pop up a chart that we asked the Joint Committee on Taxation to prepare for us for this Committee that shows the distributional effect of this tax cut. Many of us had a problem, not only the lack of incentives for the economic growth that we need as part of this tax cut but the fact that it wasn't paid for, which with interest payments now will explode our debt by $2.3 trillion over the next 10 years because of no offsets, but also because of the distributional effect. If you take a look at this chart, and, Mr. Chairman, I ask unanimous consent to have the chart included in the record at this time.

Chairman NEAL. So ordered.

[The information follows:]

Average Tax Cut (Increase) as a Result of the 2017 Tax Law



Mr. KIND. It shows that in 2019 alone, those making over a million dollars are getting a $64,000 tax cut under this bill, and those earning less than $100,000, on average, 464 bucks. And it is even worse than that. I mean, taxpayers in the bottom 20 percent of the income distribution is projected to receive on average a tax cut of $60 under this.

Now, Dr. Gould, I think one of the great threats that we face in regards to future economic growth and just the stability of our society is growing inequality and the growing wage gap that we have in our—does this tax bill help or hurt in that regard, policywise?

Ms. GOULD. It hurts. Right. Absolutely. The data you are showing here and the Tax Policy Center has also shown that individual income tax provisions in the 2017 tax law were indeed skewed toward the top of the distribution with the top 5 percent of households getting about 40 percent of the benefits, so it is exacerbating the inequality that we have seen over the last 40 years.

Mr. KIND. Professor Oh, you too have done some research and looked into the implications of this tax law and the disproportionate benefit to the most wealthy, but you also indicated in your written testimony today that this is going to get worse in the outyears. How so?

Mr. OH. Well, you take a look at the chart that you have helpfully provided here and compare 2019 to 2027, and I will just draw everyone's attention to that very small yellow bar, which indicates what the people earning less than $100,000 are going to get, and what they are getting is a tax increase relative to old law.

Mr. KIND. Now, the other problem that we had—and this is something that was foreshadowed because they told us what they were going to do with the tax windfall, corporations, and what they used the tax cut for—we have seen huge share buybacks, dividend distributions, very little going into base wage increases. You have got some token bonuses that were given out, but even that was qualifying, so not all employees received that. This was exactly what corporate America said they were going to do with the tax cut when we were asking them. They were sitting on a pile of cash to begin with.

Mr. Eakin, I agree, and there was consensus that something had to be done to make us more competitive in the international tax regime. In fact, the previous administration, Obama, recognized that too in their tax reform proposals. But what we have seen is this huge giveaway that has not gone to improve the wage disparity or the income inequality gap because of how corporations have chosen to use this huge windfall. And that is something I think this Committee is going to have to look at much deeper policywise as we move forward on it.

And then, finally, let me just say that I am always struck by the attention that these tax cuts receive when it comes to growth. We know the two key factors with GDP growth is workforce participation and worker productivity. We have an administration in power now that is talking about reducing legal immigration in this country by 50 percent. If that happens, game over. There is no way we are going to meet GDP growth targets unless there is some baby boom that I am unaware of that is happening in this country today.

Thank you, Mr. Chairman.

Chairman NEAL. I thank the gentleman.

With that, let me recognize the gentleman from Pennsylvania, Mr. Kelly, to inquire.

Mr. KELLY. Thank you, Mr. Chairman. Thanks for having the hearing.

So the title of the hearing is "The 2017 Tax Law and Who It Left Behind." So thank you all for being here today to talk about that.

One piece that hasn't been addressed yet when we talked about who it left behind, are any of you aware of opportunity zones that were included in the Tax Cuts and Jobs Act? Do you know what it is, Ms. Gould?

Dr. Oh, do you know what that is? No? You are aware of it?

Mr. OH. I am aware of it.

Mr. KELLY. Okay. Not a bad provision.

Mr. Shelton, do you know anything about it?

Ms. Abramowitz.

Ms. ABRAMOWITZ. I am aware.

Mr. KELLY. I know you are, right. You know, all politics is local. Let me just go over something real quickly here. In the district that I represent, there are 16 opportunity zones. Opportunity zones are exactly what we are talking about. It is creating an opportunity in a zone that the rest of the world has left behind and doesn't even look at anymore because there is no reason to invest there.

Part of the Tax Cuts and Jobs Act was to breathe life back into our economy, breathe life back into our communities. So, if I go to Erie, Pennsylvania, if I go to ZIP Code 16501, which is one of the poorest ZIP Codes in the world, there are eight opportunity zones. So who was left behind? I will tell you. I don't know who was left behind, but I sure as hell know who was put at the front of everything. And when I look at the numbers of this, I am completely confused. When I hear the rhetoric back and forth about, you know what? It just—you know, it was okay, but it wasn't good enough. Because the perfect is always the enemy of the good. So I am fascinated by some of these things.

You know, if I could, Mr. Chairman, I would like to submit for the record "The Distributional Effects of Public Law."

Chairman NEAL. So ordered.

[The information follows:]

DISTRIBUTIONAL ANALYSIS OF THE CONFERENCE AGREEMENT FOR THE TAX CUTS AND JOBS ACT

TPC Staff

December 18, 2017

The Tax Policy Center has released distributional estimates of the conference agreement for the Tax Cuts and Jobs Act as filed on December 15, 2017. We find the bill would reduce taxes on average for all income groups in both 2018 and 2025. In general, higher income households receive larger average tax cuts as a percentage of after-tax income, with the largest cuts as a share of income going to taxpayers in the 95th to 99th percentiles of the income distribution. On average, in 2027 taxes would change little for lower- and middle-income groups and decrease for higher-income groups. Compared to current law, 5 percent of taxpayers would pay more tax in 2018, 9 percent in 2025, and 53 percent in 2027.

The conference agreement for the Tax Cuts and Jobs Act that was filed on December 15, 2017 would make major changes to the individual and corporate income taxes, estate and gift taxes, and certain federal excise taxes.[1] The bill would also repeal the Affordable Care Act's (ACA) individual mandate, but the distributional estimates presented here do not include the effects of that provision.[2]

The Tax Policy Center has released distributional estimates of this legislation. We find the following:

- Compared to current law, taxes would fall for all income groups on average in 2018, increasing overall average after-tax income by 2.2 percent. In general, tax cuts as a percentage of after-tax income would be larger for higher-income groups, with the largest cuts as a share of income going to taxpayers in the 95th to 99th percentiles of the income distribution.

[1] This analysis is based on the conference report for the Tax Cuts and Jobs Act as filed on December 15, 2017. The text and descriptions of the bill and estimated revenue effects are available at https://rules.house.gov/conference-report/hr-1.

[2] The effects of this provision are not included because only a portion of the $314 billion change in the federal budget deficit over the 2018-2027 period is due to a change in tax receipts. A recent report from the Congressional Budget Office of the tax and non-tax effects of repealing the ACA's individual mandate is available at https://www.cbo.gov/publication/53300.

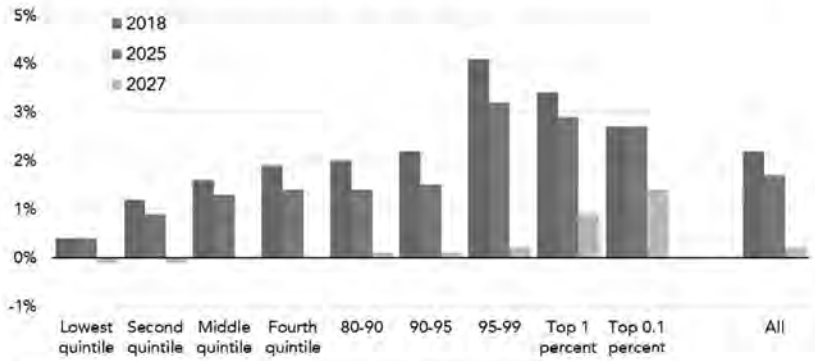
- The pattern of tax changes across income groups would be similar in 2025 (the last year before nearly all the individual provisions sunset) although the magnitude of average tax decreases would be slightly smaller for most income groups.
- In 2027, the overall tax reduction would be just 0.2 percent of after-tax income. On average, relative to current law, low- and middle-income taxpayers would see little change and taxpayers in the top 1 percent would receive an average tax cut of 0.9 percent of after-tax income.
- Some taxpayers would pay more in taxes under the proposal in 2018 and 2025 than under current law: about 5 percent of taxpayers in 2018 and 9 percent in 2025. In 2027, however, taxes would increase for 53 percent of taxpayers compared with current law.

DISTRIBUTIONAL EFFECTS

The conference agreement would have different effects on the distribution of tax burdens in different years, so we present results for 2018, 2025, and 2027 (figure 1).

FIGURE 1

Percent Change in After-tax Income of the Conference Agreement for the Tax Cuts and Jobs Act
By expanded cash income percentile, 2018, 2025, and 2027



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

2018

In 2018, taxes would be reduced by about $1,600 on average, increasing after-tax incomes 2.2 percent (table 1). Taxes would decline on average across all income groups. Taxpayers in the bottom quintile (those with income less than $25,000) would see an average tax cut of $60, or 0.4 percent of after-tax income. Taxpayers in the middle income quintile (those with income between about $49,000 and $86,000) would receive an average tax cut of about $900, or 1.6 percent of after-tax income. Taxpayers in the 95th to 99th income percentiles (those with income between about $308,000 and $733,000) would benefit the most as a share of after-tax income, with an average tax cut of about $13,500 or 4.1 percent of after-tax income. Taxpayers in the top 1 percent of the income distribution (those with income more than $733,000) would receive an average cut of $51,000, or 3.4 percent of after-tax income.

TABLE 1

Distribution of Federal Tax Change of the Conference Agreement for the Tax Cuts and Jobs Act

By expanded cash income percentile, 2018[a]

Expanded cash income percentile[b]	Percent change in after-tax income[c]	Share of total federal tax change (%)	Average federal tax change (dollars)	Average federal tax rate[d]	
				Change (% points)	Under the proposal (%)
Lowest quintile	0.4	1.0	-60	-0.4	3.7
Second quintile	1.2	5.2	-380	-1.1	7.6
Middle quintile	1.6	11.2	-930	-1.4	12.4
Fourth quintile	1.9	18.4	-1,810	-1.6	15.8
Top quintile	2.9	65.3	-7,640	-2.2	23.3
All	2.2	100.0	-1,610	-1.8	18.1
Addendum					
80-90	2.0	13.1	-2,970	-1.6	18.5
90-95	2.2	9.6	-4,550	-1.8	20.2
95-99	4.1	22.1	-13,480	-3.1	22.2
Top 1 percent	3.4	20.5	-51,140	-2.3	30.3
Top 0.1 percent	2.7	7.9	-193,380	-1.8	31.6

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1)

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.2; Proposal: 0.2. Itemizers (millions): Baseline: 46.5; Proposal: 19.3.

(a) Calendar year. Baseline is current law. Proposal includes provisions contained in the conference agreement for the Tax Cuts and Jobs Act as filed on 12/15/2017. Excludes the effects of repealing the Affordable Care Act's Individual Shared Responsibility Payment (i.e., "individual mandate").

(b) Percentiles include both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $25,000; 40% $48,600; 60% $86,100; 80% $149,400; 90% $216,800; 95% $307,900; 99% $732,800; 99.9% $3,439,900. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.htm

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

(d) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

2025

In 2025, the average tax cut would be almost $1,600, or 1.7 percent of after-tax income (table 2). The magnitude of the average tax cut as a share of after-tax income would be smaller in 2025 than in 2018 for most income groups, mainly because the tax system would be indexed to the slower-growing chain-weighted consumer price index and due to the phase-out of certain business tax cuts, and phase-in of certain business tax increases.

Taxpayers in the bottom quintile would see an average tax cut of $70, or 0.4 percent of after-tax income. Taxpayers in the middle income quintile would receive an average tax cut of about $900, or 1.3 percent of after-tax income. Taxpayers in the 95th to 99th income percentiles would benefit the most as a share of after-tax income, with an average tax cut of almost $13,000, or 3.2 percent of after-tax income. Taxpayers in the top 1 percent of the income distribution would receive an average cut of about $61,000, or 2.9 percent of after-tax income.

TABLE 2

Distribution of Federal Tax Change of the Conference Agreement for the Tax Cuts and Jobs Act

By expanded cash income percentile, 2025[a]

Expanded cash income percentile[b]	Percent change in after-tax income[c]	Share of total federal tax change (%)	Average federal tax change (dollars)	Average federal tax rate[d]	
				Change (% points)	Under the proposal (%)
Lowest quintile	0.4	1.3	-70	-0.4	3.9
Second quintile	0.9	5.6	-390	-0.8	7.8
Middle quintile	1.3	11.4	-910	-1.1	12.8
Fourth quintile	1.4	17.4	-1,680	-1.2	15.8
Top quintile	2.3	65.8	-7,460	-1.7	24.4
All	1.7	100.0	-1,570	-1.4	18.7
Addendum					
80-90	1.4	11.0	-2,410	-1.1	18.7
90-95	1.5	7.9	-3,670	-1.2	20.8
95-99	3.2	21.6	-12,860	-2.4	23.1
Top 1 percent	2.9	25.3	-61,090	-1.9	31.4
Top 0.1 percent	2.7	10.5	-252,300	-1.8	32.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1)

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.7; Proposal: 0.2. Itemizers (millions): Baseline: 54.9; Proposal: 26.4.

(a) Calendar year. Baseline is current law. Proposal includes provisions contained in the conference agreement for the Tax Cuts and Jobs Act as filed on 12/15/2017. Excludes the effects of repealing the Affordable Care Act's Individual Shared Responsibility Payment (i.e., "individual mandate").

(b) Percentiles include both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $27,300; 40% $53,400; 60% $91,700; 80% $153,800; 90% $224,400; 95% $308,900; 99% $837,800; 99.9% $4,704,600. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

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

(d) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

2027

In 2027, the overall average tax cut would be $160, or 0.2 percent of after-tax income (table 3), largely because almost all individual income tax provisions would sunset after 2025.

On average, taxes would be little changed for taxpayers in the bottom 95 percent of the income distribution. Taxpayers in the bottom two quintiles of the income distribution would face an average tax increase of 0.1 percent of after-tax income; taxpayers in the middle income quintile would see no material change on average; and taxpayers in the 95th to 99th income percentiles would receive an average tax cut of 0.2 percent of after-tax income. Taxpayers in the top 1 percent of the income distribution would receive an average tax cut of 0.9 percent of after-tax income, accounting for 83 percent of the total benefit for that year.

TABLE 3

Distribution of Federal Tax Change of the Conference Agreement for the Tax Cuts and Jobs Act

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b]	Percent change in after-tax income[c]	Share of total federal tax change (%)	Average federal tax change (dollars)	Average federal tax rate[d]	
				Change (% points)	Under the proposal (%)
Lowest quintile	-0.1	-4.6	30	0.1	4.4
Second quintile	-0.1	-5.4	40	0.1	8.9
Middle quintile	0.0	-2.1	20	0.0	13.8
Fourth quintile	0.0	2.9	-30	0.0	16.9
Top quintile	0.4	107.3	-1,260	-0.3	26.0
All	0.2	100.0	-160	-0.1	20.0
Addendum					
80-90	0.1	4.4	-100	0.0	19.7
90-95	0.1	3.9	-190	-0.1	21.8
95-99	0.2	16.4	-1,010	-0.2	25.4
Top 1 percent	0.9	82.8	-20,660	-0.6	32.9
Top 0.1 percent	1.4	59.8	-148,260	-0.9	32.9

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1)

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.6; Proposal: 6.0. Itemizers (millions): Baseline: 56.8, Proposal: 57.4.

(a) Calendar year. Baseline is current law. Proposal includes provisions contained in the conference agreement for the Tax Cuts and Jobs Act as filed on 12/15/2017. Excludes the effects of repealing the Affordable Care Act's Individual Shared Responsibility Payment (i.e., "individual mandate").

(b) Percentiles include both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars). 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

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

(d) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

WINNERS AND LOSERS

The impact of the proposal on individual taxpayers differs depending on their income sources, demographic and family statuses, and other characteristics that affect eligibility for certain tax benefits. Our estimates of the number of taxpayers who would pay more tax or less tax than under current law exclude certain minor provisions (listed in tables 4, 5, and 6), for which it is difficult to assign the tax changes to specific taxpayers.[3]

In 2018, 80 percent of taxpayers would receive a tax cut from the included provisions--averaging about $2,100--and about 5 percent would face an average tax increase of about $2,800 (table 4).[4] In the bottom income quintile, 54 percent would receive a tax cut and 1 percent would face a tax increase. In the middle income quintile, 91 percent would receive a tax cut and 7 percent would face a tax increase. In the top 1 percent of the income distribution, 91 percent would receive a tax cut and 9 percent would face a tax increase.

TABLE 4

Tax Units with a Tax Change from Major Provisions of the Conference Agreement for the Tax Cuts and Jobs Act

By expanded cash income percentile, 2018[a]

Expanded cash income percentile[b]	Tax units with tax cut or increase[c]				Average federal tax change	
	With tax cut		With tax increase			
	Percent of tax units	Average tax cut	Percent of tax units	Average tax increase	All Provisions	Major Provisions included here
Lowest quintile	53.9	-130	1.2	810	-60	-60
Second quintile	86.8	-480	4.6	740	-380	-380
Middle quintile	91.3	-1,090	7.3	910	-930	-930
Fourth quintile	92.5	-2,070	7.3	1,360	-1,810	-1,810
Top quintile	93.7	-8,510	6.2	8,800	-7,640	-7,430
All	80.4	-2,140	4.8	2,770	-1,610	-1,590
Addendum						
80-90	92.3	-3,370	7.6	1,800	-2,970	-2,970
90-95	94.4	-4,910	5.5	1,890	-4,550	-4,530
95-99	97.3	-13,890	2.7	8,260	-13,480	-13,280
Top 1 percent	90.7	-61,940	9.3	93,910	-51,140	-47,550
Top 0.1 percent	83.7	-285,490	16.2	387,610	-193,380	-176,070

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1)

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.2; Proposal: 0.2. Itemizers (millions): Baseline: 46.5, Proposal: 19.3.

(a) Calendar year. Baseline is current law. Proposal includes provisions contained in the conference agreement for the Tax Cuts and Jobs Act as filed on 12/15/2017. Excludes the effects of repealing the Affordable Care Act's Individual Shared Responsibility Payment (i.e., "individual mandate"). Due to data limitations, also excludes the following provisions: repeal of exclusion for employer-provided qualified moving expense reimbursements; repeal of deduction for moving expenses (other than members of the Armed Forces); retirement plan and casualty loss relief for certain disaster areas; repeal of deduction for alimony payments and corresponding inclusion in income; simplified accounting for small business; modify treatment of S corporation conversions into C corporations; limitation and repeal of deduction by employers of expenses for certain fringe benefits; modification of limitation on excessive employee remuneration; tax gain on the sale of a partnership interest on look-thru basis; craft beverage modernization and tax reform; and individual income tax portion of certain business provisions.

(b) Percentiles include both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $25,000; 40% $48,600; 60% $86,100; 80% $149,400; 90% $216,800; 95% $307,900; 99% $732,800; 99.9% $3,439,900. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(c) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

[3] We do include the average effect of these provisions by income group in tables 1-3, but their effects vary substantially within each group and we do not have the information necessary to assign the tax changes to specific individuals or households.

[4] The remaining 15 percent of taxpayers would see no material change in their tax burden.

In 2025, 76 percent of taxpayers would experience a tax cut from the included provisions averaging about $2,500, and 9 percent would face an average tax increase of almost $2,500 (table 5). In the bottom income quintile, 50 percent would receive a tax cut and 5 percent would face a tax increase. In the middle income quintile, 87 percent would receive a tax cut and 11 percent would face a tax increase. In the top 1 percent of the income distribution, 85 percent would receive a tax cut and 15 percent would face a tax increase.

TABLE 5

Tax Units with a Tax Change from Major Provisions of the Conference Agreement for the Tax Cuts and Jobs Act

By expanded cash income percentile, 2025[a]

Expanded cash income percentile[b]	Tax units with tax cut or increase[c]				Average federal tax change	
	With tax cut		With tax increase			
	Percent of tax units	Average tax cut	Percent of tax units	Average tax increase	All Provisions	Major Provisions included here
Lowest quintile	49.8	-200	5.1	280	-70	-80
Second quintile	80.7	-570	7.0	680	-390	-420
Middle quintile	87.4	-1,220	10.9	1,040	-910	-950
Fourth quintile	87.2	-2,240	12.4	1,590	-1,680	-1,760
Top quintile	86.8	-10,370	13.1	6,890	-7,460	-8,100
All	75.5	-2,530	8.9	2,460	-1,570	-1,690
Addendum						
80-90	84.9	-3,410	15.0	2,140	-2,410	-2,570
90-95	85.6	-4,940	14.3	2,050	-3,670	-3,940
95-99	94.2	-14,900	5.7	8,440	-12,860	-13,560
Top 1 percent	84.9	-95,290	15.1	80,680	-61,090	-68,730
Top 0.1 percent	83.6	-432,730	16.3	462,630	-252,300	-286,280

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1)

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.7; Proposal: 0.2. Itemizers (millions): Baseline: 54.9, Proposal: 26.4.

(a) Calendar year. Baseline is current law. Proposal includes provisions contained in the conference agreement for the Tax Cuts and Jobs Act as filed on 12/15/2017. Excludes the effects of repealing the Affordable Care Act's Individual Shared Responsibility Payment (i.e., "individual mandate"). Due to data limitations, also excludes the following provisions: repeal of exclusion for employer-provided qualified moving expense reimbursements; repeal of deduction for moving expenses (other than members of the Armed Forces); retirement plan and casualty loss relief for certain disaster areas; repeal of deduction for alimony payments and corresponding inclusion in income; simplified accounting for small business; modify treatment of S corporation conversions into C corporations; limitation and repeal of deduction by employers of expenses for certain fringe benefits; modification of limitation on excessive employee remuneration; tax gain on the sale of a partnership interest on look-thru basis; craft beverage modernization and tax reform; and individual income tax portion of certain business provisions.

(b) Percentiles include both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $27,300; 40% $53,400; 60% $91,700; 80% $153,800; 90% $224,400; 95% $308,900; 99% $537,800; 99.9% $4,704,500. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(c) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

In 2027, 25 percent of taxpayers would experience a tax cut from the included provisions, averaging about $1,500, and 53 percent would face an average tax increase of $180 (table 6). In the bottom income quintile, 11 percent would receive a tax cut and 33 percent would face a tax increase. In the middle income quintile, 24 percent would receive a tax cut and 70 percent would face a tax increase. In the top 1 percent of the income distribution, 76 percent would receive a tax cut and 24 percent would face a tax increase.

TABLE 6

Tax Units with a Tax Change from Major Provisions of the Conference Agreement for the Tax Cuts and Jobs Act

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b]	Tax units with tax cut or increase[c]				Average federal tax change	
	With tax cut		With tax increase			
	Percent of tax units	Average tax cut	Percent of tax units	Average tax increase	All Provisions	Major Provisions included here
Lowest quintile	11.1	-120	32.6	90	30	20
Second quintile	23.3	-280	57.7	140	40	20
Middle quintile	24.4	-520	69.7	150	20	-30
Fourth quintile	33.2	-680	64.2	190	-30	-110
Top quintile	46.7	-4,710	52.3	420	-1,260	-1,980
All	25.2	-1,540	53.4	180	-160	-290
Addendum						
80-90	38.1	-1,150	60.5	300	-100	-260
90-95	50.2	-1,320	48.7	450	-190	-450
95-99	58.0	-3,510	41.5	740	-1,010	-1,730
Top 1 percent	75.9	-39,690	23.8	1,250	-20,660	-29,820
Top 0.1 percent	91.9	-206,280	8.0	3,200	-148,260	-189,360

Source: Urban Brookings Tax Policy Center Microsimulation Model (version 0217-1)

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.6; Proposal: 6.0. Itemizers (millions): Baseline: 56.8, Proposal: 57.4.

(a) Calendar year. Baseline is current law. Proposal includes provisions contained in the conference agreement for the Tax Cuts and Jobs Act as filed on 12/15/2017. Excludes the effects of repealing the Affordable Care Act's Individual Shared Responsibility Payment (i.e., "individual mandate"). Due to data limitations, also excludes the following provisions: repeal of exclusion for employer-provided qualified moving expense reimbursements; repeal of deduction for moving expenses (other than members of the Armed Forces); retirement plan and casualty loss relief for certain disaster areas; repeal of deduction for alimony payments and corresponding inclusion in income; simplified accounting for small business; modify treatment of S corporation conversions into C corporations; limitation and repeal of deduction by employers of expenses for certain fringe benefits; modification of limitation on excessive employee remuneration; tax gain on the sale of a partnership interest on look-thru basis; craft beverage modernization and tax reform; and individual income tax portion of certain business provisions.

(b) Percentiles include both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(c) Includes tax units with a change in federal tax burden of $10 or more in absolute value.

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Mr. KELLY. Okay.

Mr. Eakin, now, if you really want to test whether people are better off or worse off, you have to kind of go to the numbers, right? So, when you look through this book—and I think you probably already looked through this report—one of the things I find interesting, the group that the taxes were really important for, and this is what we call the middle-income people, as a group, their taxes were cut by 8.7 percent, and the tax rate of this group dropped from 14.8 percent to 13.5 percent. Does that make somebody better off?

Mr. HOLTZ-EAKIN. Yes.

Mr. KELLY. Yeah. It is pretty simple, right? When you look at all the numbers that we talk about with this—and we keep saying: Well, you know what? Again, pretty good but not really good enough.

There was not one person on the other side of the dais that voted for the Tax Cuts and Jobs Act. So you want to come here today and say: You know what? It was really good, but you know what? It wasn't perfect.

And when I look at the numbers—because the numbers don't lie. And, you know, the President talks about fake news; let's talk about real data. When you have economic growth that we have been seeing, when we see wages growing by 3.4 percent over the last year, when we see job openings at 7.6 million, and for anybody looking for a job, there are more jobs open right now in the United States of America than we have ever had before. They can't be filled because we don't have enough people to fill them.

So to sit here today and say, "Somehow this damn Tax Cuts and Jobs Act just didn't help every single American in the same way," no kidding. No kidding. In my lifetime, I have been so privileged and so—just able to do some things. I was in Paris one time, and I went to the Louvre. And one of the things that everybody goes to the Louvre to see is the Mona Lisa. I was standing there looking at this magnificent portrait by da Vinci, and I thought: This is absolutely gorgeous.

A guy came up beside me. He says: What do you think of this?

I said: I think it is absolutely gorgeous.

He says: I don't think so. I think her mouth is kind of funny.

We take a classic painting. We take a classic piece of legislation. We talk about the most important thing in economic growth that this country has seen, and we say: You know what? It just wasn't good enough. That is why we couldn't vote for it.

Please. Please. Any of you that believe that somehow the passage of the Tax Cuts and Jobs Act hurt America, please raise your hand right now. I want to know. Did that hurt America, or did that help our economic growth? Not people from the other side of the aisle because I know none of you voted for it.

You don't think it was good. You don't think it was good. None of you think it was good. Really. I am in the automobile business. You know what? You know when people buy cars? When they are working. You know when people buy cars? When their income goes up. You know when people buy a house or add on to their house or improve their house? When their income goes up. There is a little something called take-home pay that has worked for every sin-

gle American, maybe not to the same level that everybody would like to see. I get that.

I want to tell you something. You look at the Tax Cuts and Jobs Act, and if anybody can sit on that panel in front of me, and I know you are all—when it comes to academics, you know that inside out. But I want to tell you. People that work on blacktop and not on a laptop, what it means to them. It means they have more take-home pay. It means they have a better future. It means the future is better for their children and their grandchildren, and the country has become stronger. To that, there is absolutely no way you can deny that this wasn't effective and it didn't help every single American and make America great again.

Thank you, and I yield back.

Chairman NEAL. I thank the gentleman.

With that, let me recognize the gentleman from New Jersey, Mr. Pascrell, to inquire.

Mr. PASCRELL. Thank you, Mr. Chairman.

Thank you to the great panel we have today. Thank you to both sides of the aisle for shedding some light sometimes on this bill.

Mr. Chairman, we were promised higher wages from the Republican tax cuts, chapter and verse. Nobody has denied that. We were promised that the massive unpaid-for tax cuts for corporations and the wealthy would trickle down to the middle class and working families. Well, we have heard that before, and today, in America, you are less likely to reach the middle class if you are born poor than any time since World War II. I don't blame the Republicans for that. We participated in government too since World War II. But as many researchers have pointed out, the American dream is more likely to be found on the other side of the Atlantic Ocean right now.

Economists have pointed out that the economic mobility in a country is strongly tied to the levels of income inequality. In the United States, income inequality has risen while economic mobility has declined. It didn't happen by accident. Too often, this Congress has given itself over to blind, free-market thinking that prioritized corporate profits over human being.

How much revenue did reducing the SALT deduction, how much revenue did that bring in, projected to bring in over the next 10 years to the government? You did this to raise $620 billion over 10 years to pay for everything else, and then here was the biggest insult of all: After you said in the very beginning that you weren't going to lower the income tax rate for those in the top, top tier, you reduced it from 39 to 37.5 percent at the end because you needed to pay for more of the fantasy that you had created. So you are here telling me that you can't touch the SALT deduction. You can't go back to it because it will, quote/unquote, primarily help those in the top 1 percent.

Well, let me give you some facts. I have, you know, some politicians who will remain nameless right now said that restoring the full deduction would benefit the wealthy. The vast majority of those losing this break of the 860,000 New Jersey households with middle incomes, those between $75,000 and close to $200,000, that is more than twice as many taxpayers than those in the higher income brackets. It is a phony excuse that you have used, but you

have to do it. You have to do it because you put yourself in a box. You didn't even have the courage to run on this in the last election. In fact, I can point to certain people that lost because they took this position and voted for it. They had every right to do that, every right to do that.

You can't say I didn't warn you on this floor. Here is what is going to happen, and I am not a good predictor. Certainly not in sports or in politics, but I nailed that one. There is a sensible fix to this terrible, terrible tax law. Every county in my State but one had an average SALT deduction in 2016 that was more than $10,000. That means average taxpayers are going to see their taxes go up, not just super wealthy but average taxpayers. We need to consider the cost of living, particularly housing, in New Jersey is much higher than it is in some of those other states. Nearly 40 percent of the taxpayers with incomes between $50,000 and $75,000 claimed the SALT deduction, and we are not only talking about 12 States. Every State in the union had those that deduct the SALT deduction, which has been in existence for long time. More than 70 percent of those making between $100,000 to $200,000 claim it as well.

So we are a high-cost State. We are more densely populated. Our needs are different. And we are only getting back 73 cents on every dollar we sent to the Federal Government. This is the highest—next to the highest amount of dollars that you take from citizens of New Jersey, we do, to pay the bills. So we are not missing out on our responsibilities. We are addressing it, and we will continue to address it.

Thank you.

Chairman NEAL. I thank the gentleman.

Mr. PASCRELL. Thank you.

Chairman NEAL. Now let me recognize the gentleman from Missouri, Mr. Smith, to inquire.

Mr. SMITH OF MISSOURI. Thank you, Mr. Chairman.

I want to thank all the witnesses for being here today.

And I want to thank the former Republican Congress and President Trump for championing the Tax Cut and Jobs Act. I was someone who had reiterated support in southeast Missouri, and let me just tell you a little bit about my congressional district. Either myself or Terri Sewell on this Committee have the most impoverished congressional district of all Members of the Ways and Means Committee. The median household income in the Eighth District of Missouri is right at $40,000 a year for a family. $40,000 a year.

And so, when we were looking at the effects of this Tax Cut and Jobs Act, in drafting the policies, we looked at various things that, from my perspective, would help lower income American workers because that is the people that I have the great opportunity to serve and to represent. And let me tell you what the Tax Cut and Jobs Act did for the people that I represent. And I am sure none of you live in a congressional district that has a median household income of $40,000 or less. You are from areas that have much higher.

A family of four in southeast Missouri who makes $55,000 or less, their debt in Federal taxes is zero. So we actually increase the amount of people that don't have to pay Federal taxes in a family

of four. We did that by doubling the child tax credit—it was very helpful—from $1,000 to $2000. We also did that by helping make the child tax credit refundable for those low income families that didn't receive it to begin with.

So my question is of every individual on the panel, do you support repeal of the language that doubled the child tax credit and made it refundable in the Tax Cuts and Jobs Act? I would like just a yes-or-no answer. Do you support repealing it, or do you think it should stay in law? Just yes or no.

Mr. OH. I do not support repealing it. In fact, I would support expanding its refundability.

Mr. SMITH OF MISSOURI. Perfect.

Ms. GOULD. Yeah, I would reiterate that as well.

Mr. SMITH OF MISSOURI. Okay.

Mr. SHELTON. No.

Ms. ABRAMOWITZ. I agree. Keep and expand.

Mr. HOLTZ-EAKIN. No.

Mr. SMITH OF MISSOURI. I am glad we have all that. I would love to get a Democrat colleague on the other side to cosponsor my legislation. I can't even find one Democrat to sponsor the legislation to make it permanent, and we know that this helps families. You all agree with me. So if anyone on this Committee——

Yes, I do yield.

Ms. MOORE. Did you hear the witnesses say that they want you to expand it because the refundable tax credit really doesn't help the poorest mothers?

Mr. SMITH OF MISSOURI. It went up to $1,400 with refundability.

Ms. MOORE. Like he said, they want it expanded, not made permanent the way it is.

Mr. SMITH OF MISSOURI. I will reclaim my time. What I will do is that, under the law prior to our expansion, it is better and it helps the poor people more now than it did prior to the expanding, because it was never refundable. Is that correct? Anyone want to answer that there, was it refundable? Did we expand it?

Ms. ABRAMOWITZ. There was, in fact, what was called an additional child tax credit that provided some refundability for people who couldn't use the——

Mr. SMITH OF MISSOURI. Did our provision provide more low income to get it under refundability?

Ms. ABRAMOWITZ. It did increase it, but you have to look at it also with the change in dependency exemptions, which were eliminated.

Mr. SMITH OF MISSOURI. Thank you. And so my point is, to my colleagues on the other side of the aisle, is that something is always better than nothing. And I hope that you all will join with me to at least preserve the benefit that everyone has by doubling the child tax credit. If you want more and you can pass more, go for it, but let's at least preserve what we have and not let it expire.

So I would welcome, welcome any Democrat brave enough to support and cosponsor my legislation to support working families. That is all I am asking. So I will be eyes and ears for anyone on this Committee that helps to support working families in doubling the child tax credit.

With that, Mr. Chairman, I yield back.

Chairman NEAL. I thank the gentleman.

With that, let me recognize the gentleman from Illinois, Mr. Davis, to inquire.

Mr. DAVIS. Thank you, Mr. Chairman. And I also want to thank all of the witnesses who have been with us all morning.

I thought of Mr. Kelly talking about the Mona Lisa. You know, beauty is often described in the eyes of the beholder, and what one might see, another does not. What I see in the Trump tax law, a law that contains a substantial provision that will likely incentivize State and local governments to shift from progressive and real estate income taxes as a source of revenue and rely more heavily on fees and fines. Part of this has to do with generation of resources.

The Tax Cuts and Jobs Act substantially takes away the ability to deduct one's State and local taxes from Federal taxable income. Shifting from progressive income and property taxes to regressive fines and fees is tantamount to shifting the tax burden from those with the most to those with the least.

We know that we have fines and fees and that especially criminal justice fines and fees fall disproportionately on people of color, and especially on those who are poor, no matter what racial, ethnic, color group they come from. These are the individuals who receive these fines the most.

Professor Abramowitz, and I am sure you know that the National Academies of Science recently released a roadmap to reducing child poverty. The academy presented four packages of policy solutions to significantly reduce child poverty. Each package contained one common proposal: making the child and dependent care tax credit fully refundable.

I lead a bill with Senator Casey to do just that. Our bill is supported by at least 19 national child advocate organizations and makes the CDC fully refundable, increases the maximum credit to $6,000, and raises the phaseout to 120,000, and indexes it to inflation.

Professor, could you help us to better understand how making childcare more affordable will affect parents' workforce participation, our economic growth, and our ability to generate tax revenue in an overall sense?

Ms. ABRAMOWITZ. There is no doubt that making childcare more affordable is going to encourage better labor force participation, better education, better health for children. As it stands now, for a single working mom who might be earning $18,000 or some such number, they are not paying income taxes, and there is no incentive to a nonrefundable credit. They might rely a little bit on EITC or child tax credit, but there is no doubt that improving the refundable credits will make life a lot better.

Mr. DAVIS. Well, let me ask you about EITC. Would expanding the earned income tax credit to include individuals who were homeless and now are working individuals who age out of being a dependent child, would that essentially do some of the same thing? It sounds like some of what Mr. Smith was talking about, and I would certainly work with him to increase those opportunities.

Ms. ABRAMOWITZ. There is no doubt that the earned income credit, if expanded to lower ages, right now you can't get it at

young adult ages, and to expand it for single taxpayers would certainly help, again, lifting people out of poverty.

Mr. DAVIS. Thank you very much. I yield back, Mr. Chairman.

Chairman NEAL. I thank the gentleman.

With that, let me recognize the gentleman from South Carolina, Mr. Rice, to inquire.

Mr. RICE. Thank you, Mr. Chairman.

I have a couple questions for the panel, and I am going to want you to raise your hand if you disagree. But we raised the standard deduction, which is the amount you can take off your taxes even if you don't have itemized deductions, from $6,350 for individuals to $12,000 for individuals. Wouldn't you all agree that helps primarily low- and moderate-income folks? Because they don't have many itemized deductions, right? Ms. Abramowitz, wouldn't you agree with that?

Ms. ABRAMOWITZ. Well, I think you can't look at any one provision in a vacuum, and we have taken away dependency exemptions, which is about $4,000 per dependent.

Mr. RICE. This is—I am talking about for a single individual and we doubled it for families too, from 12,000 to 24,000.

Ms. ABRAMOWITZ. That is correct.

Mr. RICE. So doesn't that primarily help low-income folks?

Ms. ABRAMOWITZ. Does it improve their tax picture over what it was? Not necessarily, and not by much.

Mr. RICE. And when you combine it with the child tax credit, of course, it improves their tax liability.

Ms. ABRAMOWITZ. Again it is the constellation that is involved.

Mr. RICE. We lowered the tax liability from—we eliminated taxes on anybody—an individual who makes 12,000 or less. We lowered the tax rate from 15 to 12 percent on people making less than $40,000. Would you repeal that? Would you? Yes or no?

Mr. OH. Mr. Rice, do you mind if I take 30 seconds?

Mr. RICE. I can't. I only have very limited time, and I have got a lot——

Mr. OH. Okay. I will try to do it as fast as possible. I think what Ms. Abramowitz says is correct, which is that you have to look at three things together, which is the increase in the standard deduction, the increase in the child tax credit, and the removal of the personal exemptions. And the way I explain it to my students is imagine you are a family of four, two parents, two children——

Mr. RICE. I am sorry, I can't let you go on. I am a tax lawyer and a CPA too, and what I know is the effect of all those is a lower tax bracket on the average family that makes less than—on families across the board.

So here is what I don't understand, here is what I struggle with, and that is we have partially—I won't say all, but partially as a result of this tax bill, we have below 4 percent national unemployment, record lows in African American and Hispanic unemployment, record highs in small business and consumer confidence. CNN poll last week, 71 percent of Americans think the economy is in good shape. That is a 20-year high. Gallup poll from last month, 69 percent of Americans say the economy is good and their financial condition is improving. That is almost a record high.

When people feel good about their financial situation, they go on vacation. I live in Myrtle Beach, South Carolina. Tourism was up 7 percent last year. I have three of the poorest counties in South Carolina in my district: Marion and Dillon and Marlboro counties. In January of 2017, the year—the month that Donald Trump took office, the unemployment rate in Marion County, the poorest county in South Carolina, was 9.6 percent. It hit 4.8 percent last June. It was cut in half in 18 months, and this tax bill was a part of that. I mean, this county is 57 percent African American, 30 percent of the people live in poverty.

We are out there in the churches now. We are in the schools. We are talking to guidance counselors. We are trying to hook them up with tech schools to pull people who have never been in the workforce off the sidelines and into the workforce, and every one of those that we can do it is a win. And this tax bill is a huge part of that. Every person that we can pull into the workforce who has never been in it reduces—reduces poverty, reduces entitlements, reduces crime, reduces drugs, helps families, helps the communities, helps this country.

I am so proud of the effect that this tax bill has had on my district. People are being uplifted. People who never thought, who never believed in the name of America's land of opportunity. They never believed that opportunity was for them. Well, they are seeing that opportunity right now.

So what I struggle with is how we are not all celebrating this, because I know it affects everybody's district, not just mine. I know that all of you all are seeing these same effects on the people who need it the most back home in your districts. And yet we are trying to tear this down and somehow make it negative.

I hope we can rise above this, and I hope we can look on how to improve it and make it even better and pull even more people off the sidelines because, my friends, it is working exactly the way that I had hoped it would work.

I yield back.

Chairman NEAL. I thank the gentleman.

Now let me recognize the gentlelady from California, Ms. Sánchez, to inquire.

Ms. SANCHEZ. Thank you, Mr. Chairman. And I want to thank our witnesses for joining us here today.

I feel like a lot of my Republican colleagues like to defend their overall tax scam by focusing on the very small slice of people who benefited. Particularly, we have heard stories about some small businesses that benefited. And while some businesses saw some benefit, far more people were left behind than were actually helped. Not once did this Committee hold hearings to consider the impact of this tax law and the impact that it would have on women and minority-owned businesses who happen to be the fastest growing group of entrepreneurs in this country.

So I am going to use part of my time today to ask questions that weren't given time before the 2017 bill passed. I would like to begin with Professor Oh, and although I would love to have you answer Mr. Rice's question because he didn't give you time to answer the question he posed to you, I want to talk to you specifically about

Republicans who have touted the benefits of 199A. I would like you to shed some light on who this provision left behind.

What do we know about how truly small women-and-minority-owned businesses are faring under the new tax law?

Mr. OH. It is still very early, and we are waiting on the first tax returns that really claimed the 199A passthrough deduction. What I will say is that you can imagine restructuring the passthrough deduction in a way that helps small businesses, helps businesses owned by women and minorities without this huge windfall for households that earn over a million dollars.

Ms. SANCHEZ. So this point that, oh, the tax bill is so good, and it is not perfect and so that is why Democrats are upset, I mean, it is actually that there would have been smarter ways to incentivize the right kind of behavior and to provide the right kind of relief, instead of this rushed bill that was written behind closed doors late at night that had all of these unintended consequences. Would you agree with that statement?

Mr. OH. I would. And just going back to the chair's comments. If you look at the TPC projections, you can actually create tax cuts up and down the income distribution with a much smaller effect on the deficit by making a few small adjustments.

Ms. SANCHEZ. So it is not that we are upset with tax cuts; we are just upset that the way that it pans out is that the people who need the help the most really truly aren't getting the most help. Is that correct?

Mr. OH. I think that is right.

Ms. SANCHEZ. I want to touch on another population that was left behind by the new tax law, and that is the low-wage immigrant workers. The Republicans eliminated personal exemptions saying that they were no longer necessary given the expanded standard deduction. However, nonresident aliens are not able to take the standard deduction. This means that thousands of low-wage earners who legally work here have lost their $4,000 personal exemption, making much, if not all, of their income fully taxable. Is that right, Ms. Abramowitz?

Ms. ABRAMOWITZ. Yes.

Ms. SANCHEZ. So Mr. Rice said that people who earn under $12,000 a year don't pay taxes. Is that a true statement?

Ms. ABRAMOWITZ. Well, it is not, if you are——

Ms. SANCHEZ. Mike, please.

Ms. ABRAMOWITZ. Not necessarily if you are not getting the standard deduction. In addition, one area of concern that I have that actually intersects with 199A is if you take an immigrant worker who is paying into our Social Security system either through payroll tax or self-employment tax, the lower the income, the self-employment tax is essentially a much harsher hit because the self-employment tax you are entitled to a deduction against your income for a portion of it. The poorest of the poor pay a full 15.3 percent.

Ms. SANCHEZ. The poorest of the poor pay a full 15.3 percent.

Ms. ABRAMOWITZ. And the immigrants get no benefits.

Ms. SANCHEZ. And they get no benefits. Thank you.

I would like to ask President Shelton, I want to talk some more about the broken promises to some of America's best trained work-

ers that you discussed early in your testimony. Have the people that you have been elected to represent seen real wage growth from this TCJA?

Mr. SHELTON. No, they haven't. The wage growth has—there just hasn't been much wage growth.

Ms. SANCHEZ. But the Republicans will say, well, but they got bonuses, right?

Mr. SHELTON. Yes. Actually, we tried—while the tax cut was being debated, we tried to get our major employers to sign something that said that they would give our members $4,000 in raises, because that is what everybody was touting and saying that that would happen. Well, we didn't get one employer to sign that pledge.

Ms. SANCHEZ. So the employees got a one-time bonus, but they didn't get permanent wage increases. Is that correct?

Mr. SHELTON. Right. Some of our members got a $1,000 bonus. It actually started with AT&T in a conversation that I had with the chairman of AT&T, but a one-time bonus is not a $4,000 raise.

Ms. SANCHEZ. Correct. And my last question, have you seen a great influx of new workers and increased membership, as the Republicans promised that there would be, because they promised that there would be massive domestic investment if this permanent tax cut passed for corporations? Have you seen that come to fruition?

Mr. SHELTON. No, just the opposite. We have seen losing jobs everywhere. And in AT&T, someone said before that they said they have hired 20,000 people. Well, they conflate the hiring with the employment levels, and if you look at their own records, their employment levels, they have laid off 14,000 people since the tax cut was passed.

Ms. SANCHEZ. Thank you. You have indulged me with my time, Mr. Chairman, and I yield back.

Chairman NEAL. I thank the gentlelady.

And let me, with that, recognize the gentleman from Arizona, Mr. Schweikert, to inquire.

Mr. SCHWEIKERT. Thank you, Mr. Chairman.

Dr. Holtz-Eakin, look, as we all know from the nature of this conversation, we are going to do our best to politicize something that we almost have no real data back yet, but could you and I—because this is a continuation of a previous conversation. I have a personal fixation on velocity of mobility, and the fact that we went, what, would you say the previous decade, 15 years, where mobility in income and the stride ahead had basically become very flat?

Mr. HOLTZ-EAKIN. We saw very little real wage growth, very poor productivity growth, and those are the routes to a better standard of living.

Mr. SCHWEIKERT. Now, I know it may be somewhat anecdotal, but we do have some early data from 2018. Are you seeing finally some movement that is breaking the last decade's trend?

Mr. HOLTZ-EAKIN. So, again, I don't understand overstate the scientific firmness of this because it is very preliminary, but we have seen in the last couple productivity reports increases in productivity economywide. So it is now 1.8 percent annual growth in the fourth quarter of 2018 over 2017. That would be an enormous

improvement, almost a full percentage point over the previous decade, if it is sustained.

We have seen our best measures of wages, those in the employment cost index rising at over 3 percent up over 50 percent in the past 2 years. That has been matched even more so, in some cases, by benefits, so total compensations also rising at about that rate. And if you look at the data we get monthly from the Current Population Survey, you can look at low-wage workers, those in the bottom, and that grew faster than anyone else in 2018.

Mr. SCHWEIKERT. And that is actually where I want to go. And, look, I haven't read everyone's academic papers in the history, but we have a whole file back in our office talking about the permanent underclass, the populations from—who did not graduate high school, who had been in basic types of manufacturing. And we do see in some of the U6 data when you start to really drop down into the cross tabs the very populations that this Committee talked about for years that were going to be part of the permanent underclass, what did you see in some of the data over just this last year?

Mr. HOLTZ-EAKIN. As I said before, the most important movement has been in categories like marginally attached to the labor force, discouraged worker, where we have seen those totals drop quite sharply, and that is tremendously good news, I think, from the point of view of people's attachment to work, right? Work is sticky. If people work, they will continue to work, and that benefits them both materially and otherwise. I think that is the most important thing that happened in 2018 is to see that improvement.

It is mirrored in this decline in the unemployment rate because the college-age unemployment rate has been low for a long time. I mean, every month you get a 2 percent unemployment rate for college educated. It is the less educated, less skilled who have seen their work opportunities and actual employment improve in the past year.

Mr. SCHWEIKERT. I guess for—you know, many of us talk, you know, we have a passion for the poor. I despise using the term "underclass," but we are brothers and sisters who are having a really tough time in society, if you actually look particularly at some of those cross tabs. In the last 18 months, 12 months, it is the first time you are starting to see the spiking of both income, labor force participation. Right now, we are, what, over—we finally broke through 63 on labor force participation.

Mr. HOLTZ-EAKIN. We are about at 63. The most important thing about that is the aggregate labor force participation rate should be declining because of the aging of the generation——

Mr. SCHWEIKERT. Demographic.

Mr. HOLTZ-EAKIN [continuing]. And the normal exit from work. It is staying flat. That is actually a remarkable accomplishment.

Mr. SCHWEIKERT. So if I keep turning and saying there is actually some really interesting conversation I wish we could have in almost the negative income tax models and those things of how you actually help make work very valuable for those who—and maybe it is time to take a sweep of all the different benefits packages and put them into something of that nature, but there is a fixation we need to have as a society of participation in the labor force.

In the last couple seconds, just because we have all been talking one side of the book, I want to start with Mr. Holtz-Eakin and come back down. For the top 20 percent of income earners in our society, for just the income tax, how much of the Federal income tax take should the top 20 percent be paying?

Mr. HOLTZ-EAKIN. Should they be paying?

Mr. SCHWEIKERT. I mean, what would you say? Should they pay 50 percent, 60 percent, 70 percent?

Mr. HOLTZ-EAKIN. I will get back to you after I think about it.

Mr. SCHWEIKERT. Doctor, the top 20 percent, what should they pay of the Federal income tax? My friend from——

Ms. ABRAMOWITZ. It sounds like a political question.

Mr. SCHWEIKERT. It is. It is. But because we have been talking on the other side.

For my friend from AT&T, which I am panicked over your multi-employer pension system that you run while the union's pension system is incredibly well funded, would you work with us maybe to blend the two of those to protect those workers?

Look, last thing, Mr. Chairman—thank you for your tolerance—I would like to actually submit this article that basically says the top 20 percent of income earners pay over 87 percent of all Federal income taxes.

Chairman NEAL. So ordered, and I thank the gentleman.

[The information follows:]

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TAX REPORT

Top 20% of Americans Will Pay 87% of Income Tax

Households with $150,000 or more in income make up 52% of total income nationally but pay large portion of total taxes

The individual income tax matters a lot because it is the largest single source of U.S. revenue. PHOTO: ROGELIO V. SOLIS/ASSOCIATED PRESS

By Laura Saunders
April 6, 2018 5:30 a.m. ET

One of the least discussed parts of America's income tax is how progressive it is, and the tax overhaul didn't change that fact. In 2018, top earners will pay a higher share of income taxes.

The individual income tax matters—a lot—because it is the largest single source of U.S. revenue. And its share has risen in recent years. For 2018, it could raise 50% of total federal revenue, according to estimates from Congress's Joint Committee on Taxation, up from about 48% last year.

So who pays what share of this tax?

IRS data aren't available until long after people file, so estimates for 2017 and 2018 come from the Tax Policy Center, a nonpartisan research group.

They divided about 175 million American households into five income tiers of roughly 65 million people each. The income includes earnings from wages and investments plus untaxed amounts, such as from health coverage. These additions nearly double the income of people in the lowest tier and add about 20% for those in the highest tier.

Chairman NEAL. And, with that, let me recognize the gentleman from New York to inquire, Mr. Higgins.

Mr. HIGGINS. Thank you, Mr. Chairman.

Dr. Eakin, you have said here today and previously and also in written testimony that tax cuts do not, in fact, pay for themselves. I just want to press you on that a little bit. I would like you to distill that down to, if you can, what is it that you think a tax cut

does relative to economic input? In other words, for every dollar of tax cut that you would give away, what is a reasonable expectation in terms of return on that investment or loss of on the investment?

Mr. HOLTZ-EAKIN. That is an enormous opening for a former professor in tax policy.

Mr. HIGGINS. I see that.

Mr. HOLTZ-EAKIN. So I will try to restrain myself. Let me just say, first and foremost, that not all taxes are created equal, and so you shouldn't expect to get the same response.

Mr. HIGGINS. Corporate tax cut.

Mr. HOLTZ-EAKIN. Most of the formal efforts at this yield something between 33 and 50 percent.

Mr. HIGGINS. Thirty-three——

Mr. HOLTZ-EAKIN. On the dollar.

Mr. HIGGINS. Okay.

Mr. HOLTZ-EAKIN. And that is in very pristine settings. Real tax laws, not as pristine. I will just say that.

Mr. HIGGINS. So for every dollar that you give away in a tax cut, you could expect 30 to 50 cents back. So it is a 50 percent loss on investment.

Mr. HOLTZ-EAKIN. A 50 percent loss, that is for sure.

Mr. HIGGINS. They don't pay for it. They don't pay for it, right?

Mr. HOLTZ-EAKIN. Right.

Mr. HIGGINS. Okay. All right. Is that established conservative economic orthodoxy? I mean, is that pretty much the view relative to tax cuts? There is a recognition that there may be some other benefits, but in terms—it doesn't pay for itself.

Mr. HOLTZ-EAKIN. I learned a long time ago that I don't speak for conservative orthodoxies, so what I can say is that if you look at the Congressional Budget Office analysis of the Tax Cuts and Jobs Act, it shows about 30 to 35 percent feedback for every dollar lost. And if you look at what they essentially say it does is that the revenue baseline before and the revenue baseline after, they come back together within the 10-year window, but you have lost revenue for a while and you have more debt.

Mr. HIGGINS. Well, let me just say this.

Mr. HOLTZ-EAKIN. That is the definition of not paying for yourself.

Mr. HIGGINS. Reclaiming back my time. Let me just say this. Unlike, for example, infrastructure that for every dollar you spend, you return anywhere between $1.75 and $2 in economic growth. So infrastructure would more than pay for itself.

Mr. HOLTZ-EAKIN. I disagree.

Mr. HIGGINS. Okay.

Mr. HOLTZ-EAKIN. And I can get back to you the studies I have done on infrastructure that suggest that is too high.

Mr. HIGGINS. Okay. So the tax cut of 2017 was sold as a tax cut that would be deficit financed because of the magic of supply side trickle down rebranded as dynamic scoring. You were—as you mentioned, you taught at Syracuse University in the economics department. You ran the Congressional Budget Office under George W. Bush. You were an economic adviser to John McCain. You are president of the American Action Forum, a conservative think tank, and you are the Republican witness today. You also, I read,

were the chief economist for the White House Council of Economic Advisers under George W. Bush.

Mr. HOLTZ-EAKIN. Correct.

Mr. HIGGINS. Okay. In 2017, the Trump White House Council of Economic Advisers issued a statement about the economic impact on American household income in relation to the Trump—President Trump's tax cut, saying that each American household would see a $4- to $9,000 annual increase. If you were on the Council of Economic Advisers, would you have signed that letter?

Mr. HOLTZ-EAKIN. That was based off of research that was done by the chairman of the Council of Economic Advisers.

Mr. HIGGINS. What do you think of the research? You are a numbers guy.

Mr. HOLTZ-EAKIN. I am not—I have not genuinely sufficiently scrubbed that for technical expertise to have an opinion one way or the other.

Mr. HIGGINS. Well, here is what I would say. I mean, given the fact the one thing that we do agree on is that these tax cuts did not pay for themselves.

Mr. HOLTZ-EAKIN. Correct.

Mr. HIGGINS. And they never will, because there was never a tax cut in human history that paid for itself, at least in the short term, particularly when it is deficit financed. So, you know, this theory of dynamic scoring that my colleagues use to justify this, that the tax cuts would produce future growth that would offset the deficit that you incurred to fund the activity in the first place, so dynamic scoring isn't all that dynamic. And I think that when you look at, you know, trillion dollar deficits for each of the next 4 years, it is indicative of a very clear and indisputable fact, and that is, tax cuts do not and never have paid for themselves.

With that, I will yield back.

Mr. HOLTZ-EAKIN. If I could just in the interest of clarity, Mr. Chairman?

Chairman NEAL. Yes, for sure.

Mr. HOLTZ-EAKIN. Dynamic scoring does not mean things pay for themselves. It means there are beneficial growth consequences. I believe that the bill had the potential for that and is showing early signs of those beneficial, but that doesn't mean it is free.

Chairman NEAL. I thank the gentleman.

With that, let's recognize the gentlelady from Indiana, Mrs. Walorski.

Mrs. WALORSKI. Thank you, Mr. Chairman. Thank you to the guests that are here today.

I find it kind of interesting; ironic, actually. I feel like I kind of don't even belong in this hearing, because when I paint the picture to you all about what my district looks like in the State of Indiana in northern Indiana and what is really happening on the ground there, I feel like the gloom and doom that has been in conversation here, and my friends across the aisle are looking to spend all this time worrying about the 1 percent earners and the cap and SALT and that whole thing, let me just take you quickly to what my district looks like.

And I can tell you that the Tax Cuts and Jobs Act has been nothing but positive, and so I feel bad for my friends that haven't had

that experience, but this is reality of what actually happens in the Indiana Second District.

I would take to you a place where there is hardworking Hoosiers, middle-class families in Indiana, and this is what I see with them. Working families that really benefit from the double tax credit that we talked about earlier; a remarkable 3½ percent unemployment rate, which is lower than the national average. A great American manufacturer in my district named Smoker Craft has raising wages. They have been awarding bonuses and reinvesting capital. I have got a community bank, not only raising wages, but increasing tuition reimbursement, awarding stock to its employees, and almost by far lower electricity prices across my whole district in the State of Indiana. All of this and more is what Tax Cuts and Jobs Act is about.

And so I can proudly and boldly stand here today and talk about the fact that my constituents in my district have more money in their pocket. These are hardworking people, hardworking Hoosiers. They are not the 1 percent that you all have been arguing about. One employee at a company I was touring told me just recently that these aren't—the benefits that he has right now are not the crumbs as Speaker Pelosi told them and told the country. It is real money for him and it is real money for his family.

And so, Dr. Eakin, I just wanted to ask you, given the dynamics of what you just heard about one place in this country, what do you believe could have been the primary drivers of what I am seeing as economic growth in the last 2 years? Because surely what I am seeing can't be a nuance, and it can't just be coincidence, and it cannot have happened by accident.

Mr. HOLTZ-EAKIN. I think there are a couple of things to point to. One that hasn't been talked about much today but is enormous has been the deregulatory efforts of the Trump administration. During the 8 years of the Obama administration, it enacted a costly regulation at an average rate of 1.1 per day. The total self-reported cumulative cost of those regulations was $890 billion, over $100 billion each year. And in the first 2 full years of the Trump administration, that regulatory burden has declined by $1 billion. So it essentially just stopped it in its tracks. In all of the business surveys, this is a key component of what they perceive is a better business climate, probably reflected in your district.

The second, which I outline in much more detail in my testimony, was the sort of increase in business investment, more rapid economic growth, feedbacks to tentatively productivity, and certainly we have seen wages rising. The timing of that coincides with the Tax Cuts and Jobs Act. Some of that may diminish over time. It could be just short run. But the incentives on the business investment side are quite strong and I am hopeful will persist, but, you know, time will tell.

Mrs. WALORSKI. And I am glad you brought that up, because I am very thankful to this President, to President Trump for coming in, and with the Republican majority at the time, one of our first priorities was repeal regs and set people free to do what they want to do, to hire. We are a very large manufacturing district, one of the largest in the country. We export, we are the fifth largest exporter. And I saw that in the State of Indiana as well when

Mitch Daniels was our governor and we had an opportunity to come into our State, roll back those regs, investment boomed and skyrocketed. There was an uptick in employees as well, and I very much appreciate that. I appreciate this administration's effort on that as well. Thank you for your comments.

And I yield back my time, Mr. Chairman. Thank you.

Chairman NEAL. I thank the gentlelady.

The rule 14 will be invoked now. We are going to move in the direction of two witnesses on the Democratic side, given who is still here, to one Republican. And, with that, I want to recognize the gentlelady from Alabama, Ms. Sewell, to inquire.

Ms. SEWELL. Thank you, Mr. Chairman. I want to thank our witnesses for being here today. And I also just want to thank the chairman for having this hearing.

You know, I joined the Ways and Means Committee last term and was excited as a bond lawyer/public finance lawyer to actually have an opportunity once in a lifetime generation to do something really positive on the Tax Code since the last time it was revised was in 1986. But I have to tell you, I was very disappointed that we didn't actually get witnesses to tell us what the impact would be, so that we could have all of this knowledge that we have heard today on the front end, and instead, we are having to sort of figure out whether or not this kind of, you know, tax cut really benefited folks.

And I can tell you for a fact that our global competitiveness has been—we have leveled the playing field in a way because of the decrease in the corporate tax structure, but I also can tell you that I represent a very low-income district. I grew up in this district. My heart and soul know what is positive and what can happen when you have opportunities and resources from my district. I get to live it every day. The challenge is to try to find ways to help working families all across my district have those opportunities and those resources.

And the Tax Code gives us a perfect opportunity to incentivize the world we want to see. And while we have lowered the corporate tax rate, I don't think that we have done enough to help working families. And so I would like to actually pose my questions to you, Professor Oh, with respect to earned income tax credits and new market tax credits that can help distressed communities. There are lots of ways that we could actually improve upon this bill or—I am sorry, the new GOP tax bill.

And so will you talk to us a little bit about what those ways that we could have actually incentivized working families?

Mr. OH. Of course. So I think one of the things that has come out through the testimony of everyone on the panel is just how much revenue is out there to be spent. The bill was a very expensive bill, yet——

Ms. SEWELL. Not paid for.

Mr. OH. And not paid for. And there was not a single change made to the EITC, the earned income tax credit. It is surprising, right? When you see the bill, it is hundreds of pages, costs lots and lots of money, no changes to the EITC.

Ms. SEWELL. Right.

Mr. OH. Which is probably one of the most important Federal tax provisions that lifts so many families out of poverty.

Ms. SEWELL. Absolutely. What about the child tax credit?

Mr. OH. So the child tax credit—and I am going to harken back to Chairman Neal's point. If you take a look at the Tax Policy Center simulations, the way to help the bottom quintile, the way to help the bottom 20 percent is to increase the child tax credit, make it fully refundable, and get rid of the income threshold. That does unbelievable amounts to help them increase their after-tax income.

Ms. SEWELL. And then when you think about distressed communities that—what would incentivize investments in those communities. Because I am hearing my colleagues on the Republican side talk about their districts doing so well with this tax reform, and, you know, my thought is, I mean, couldn't we have done just as well if the corporate tax rate went down from 35 to 28 to 26, as far as this trickling down effect, which doesn't actually get to workers and doesn't get to those who are struggling in the—in my district?

And so would love to hear your thoughts about other ways that we can incentivize the behavior we want to see, which is everybody benefiting, not just the 1 percent, but everybody benefiting.

Mr. OH. So I agree with what has been said on this testimony. It seems like the labor market is very robust at the moment.

Ms. SEWELL. But only in certain districts. I can tell you in my district, it has not been.

Mr. OH. It is uneven, right, it is very uneven. And one of the things that I hope has been conveyed by this testimony is how geographically lumpy the Tax Cuts and Jobs Act is, right? There are some districts doing really well. I don't discount that testimony. There are also districts that are doing poorly.

Ms. SEWELL. Right.

Mr. OH. To speak to the special—the economic opportunity zones, we still haven't see how that is going to play out.

Ms. SEWELL. Right. Well, we still need some regs, don't we? We need some rules of the road——

Mr. OH. We need some rules.

Ms. SEWELL [continuing]. To figure out how the people——

Mr. OH. People are very—there are some people who are very excited about these rules because they create very generous tax incentives for investment in these areas, but it is just too early. I think that is one of the things that we need to keep in mind when it comes to allow the macroeconomic. It is early. We are going to be collecting data. We should be holding hearings to check in on these issues, and I am so glad that this Committee is proactively doing that.

Ms. SEWELL. Same here. I just want to say, Mr. Chairman, that I think it is really important that we continue to check in with the American people as to this tax reform and how we could do a better job of incentivizing the behavior of everyone and uplifting all of us and not just the 1 percent. So thank you so much for having this hearing, and I look forward to more hearings like it.

Chairman NEAL. I thank the gentlelady.

And, with that, let me recognize the gentlelady from Washington State, Ms. DelBene, to inquire.

Ms. DELBENE. Thank you, Mr. Chairman, and thank you to all our witnesses for being here. This is a very important issue as we work to make sure that everyone in our country has economic opportunity and that we are thoughtful about policy to do that. And we are having a hearing, which is a first step, because we didn't get to have any in the last Congress to have these discussions.

I want to go back to the child tax credit. The Republicans failed to comprehensively address the child tax credit in their legislation and, instead, only amended one aspect of a complex policy, the nonrefundable side, leaving low-income Americans behind in the process. Republicans failed to address several aspects of the child tax credit that would have benefited the poorest Americans, including increasing the refundable credit, lowering the earned income threshold to zero, increasing the credit percentage, or eliminating the tide to earn income altogether.

The Tax Cuts and Jobs Act ensured that the poorest Americans whose children arguably would benefit from the increase the most did not benefit. So this is yet another example of how the Republican tax bill benefited higher income Americans with a significant tax benefit for their children while leaving the poorest Americans behind.

I recently introduced legislation with Congresswoman DeLauro that would meaningfully expand the child tax credit, making it fully refundable, to benefit lower income families and ensure that they have the ability to provide their children opportunities to succeed.

Dr. Gould, can you give me your sense of would making the child tax credit fully refundable impact children whose parents are in the lowest income brackets, and other ideas you have about what we can do with the child tax credit to help the lowest income families?

Ms. GOULD. Yes, absolutely, making it fully refundable would help, and expanding it. I think that those families that are hurting the most to pay for childcare, to pay for their child's needs, need to be helped. I mean, and you are a great body here to be able to help them.

I think that there is another thing I just, if you don't mind, I just want to comment on. There has been a lot of talk about how, you know, all the jobs that have been added and all the wages that have grown for people over the last year, and attributing that to the tax cut, and I just want to say, just point out for the record, that we have seen job growth over the last several years before this President took office, before the tax cuts were enacted, and the job growth that we have seen over the last couple of years has been a continuation of those trends. The wage growth that we have seen for the lowest wage workers—I am sorry, the lowest grade we have seen can be attributed to those tight labor markets and to the State-level minimum wage increases.

So I just wanted to get that on the record that we can't attribute this growth, we cannot say, research has not said that we can attribute those gains to the tax cuts.

Ms. DELBENE. Thank you.

Ms. Abramowitz, do you agree that the changes to the child tax credit in the Republican's tax bill didn't address the lowest income families and that we can do more by making it fully refundable?

Ms. ABRAMOWITZ. Absolutely.

Ms. DELBENE. Thank you very much.

Mr. Shelton, during the Tax Cuts and Jobs Act markup, I introduced an amendment that would repeal the Cadillac tax, which would harm working families with employer-sponsored health benefits that exceed a specific threshold. Repealing the Cadillac tax has bipartisan support, and yet it was not included in the Republican's bill.

Mr. Shelton, I wondered what workers would the Cadillac tax hurt the most?

Mr. SHELTON. I would say teachers, public officials, and a lot of my members in telecom.

Ms. DELBENE. Are these high income earners, middle class, lower income earners?

Mr. SHELTON. I would say they are middle-class earners.

Ms. DELBENE. Right. So these are middle-class families that would be hurt if this tax isn't repealed?

Mr. SHELTON. Absolutely. And if there was bipartisan support, I hope somebody will do something about repealing it.

Ms. DELBENE. And so it has bipartisan support, and yet Republicans weren't willing to consider it when we were talking about the Tax Cuts and Jobs Act last year, an important piece of legislation to help middle-class families; another place where we absolutely could have done better. So thank you for your testimony.

And I yield back, Mr. Chairman.

Chairman NEAL. I thank the gentlelady.

And, with that, let me recognize the gentleman from Kansas, Mr. Estes, to inquire.

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

You know, as we meet today, our economy is going at historic levels, and, you know, this is directly attributable to the Tax Cuts and Jobs Act and some of the regulatory reform over the last couple of years.

You know, the last four quarters, we have experienced the highest GDP growth in 14 years. Wages are growing at the fastest rate in a decade. Our unemployment rate is at a 50-year low, and for the first time in history, we have more job openings than we do job seekers.

This growth is great for all Americans, and it didn't happen by accident. You know, when I go out in my district and I talk with businesses about finding employees to go to work, it is because of the growth that they are experiencing, and they are having a difficult time finding employees to come work for them.

You know, the progress that we have made over the last 2 years by the President and the Congress making sure that that deregulation and the tax cuts happened, I mean, it is just hard to deny that that is working. I know there has been some debate back and forth about where it helps and who it helps the most, but it is making a difference for millions of American workers and families. Thanks to those lower tax rates, to doubling of the child tax credit, to a

nearly doubling of the standard deduction, you know, average, middle-class families in Kansas are seeing over $2,200 of their hard earned money that they are keeping in their pockets instead of paying in taxes. An additional hundreds of companies with thousands of employees have expanded and added to the savings for their employees.

So it is really tough to say that we are not seeing a lot of positive growth out of this tax reform.

Recently, I met with an accountant in my district and talking about some of the CPA work that he did for some of his constituents—some of his clients, and according to him, 94 percent of the middle-class clients that he has benefited from the new tax law, including the lower rates, the doubling of the child tax credit, and the nearly doubling of the standard deduction.

He also discussed about how people have seen in their paychecks be larger because of withholdings throughout the year. And depending on whether they had more withheld and the amount they had withheld, some saw larger refunds, some saw smaller refunds, depending on the amount that was withheld out of their check. And these people, these working class families aren't part of the 1 percent; they are average middle class Kansans. And thankfully, that observation is true across the country.

You know, I want to talk a little bit about one of the benefits—one of the major benefits that I see out of this is just the nearly doubling of the standard deduction. And, you know, prior to the changes from the Tax Cuts and Jobs Act, roughly 30 percent of Americans, taxpayers, had to itemize, going through all their paperwork, filling out those extra forms, going through that process. I know it is a burden for me, a burden for others as well. Now, expectations are that roughly 10 percent of the people will only have to itemize because the other 20 percent will get more benefit out of that standard deduction.

And I know there was some discussion earlier and some mixed communication back and forth about the value of the standard deduction versus the value of the child tax credit, but if we were to just hold everything else equal, if we weren't able to make the child credit more refundable, whether we weren't able to change the rates any, but just looking focused solely on that standard deduction, would any of you think we ought to lower that standard deduction back to the way it was? Maybe just a show of hands of anybody that thought we ought to lower that deduction back.

Mr. OH. It is hard to hold everything else equal. I mean, I really do think that you need to think about the standard deduction, the personal exemptions, and the child tax credit together as a package.

Mr. ESTES. And I think we do need to look—we probably—when we make changes, we need to look at all of them, but if everything else were being held equal and that is the only thing we could change, I would like to think that we would all be supportive of keeping it at the higher level and not reducing it.

So in general, obviously we just talk about that as being a benefit and how do we help average taxpayers through this process.

I have very little time left, but I want to get in one quick question for Dr. Holtz-Eakin. You know, one of the things that came up

in another hearing, we talked a little bit about this digital tax that is being added by countries like France, and I wonder if you have any thoughts about that just as a direct issue and how that might affect companies and whether that is a good idea.

Mr. HOLTZ-EAKIN. I have a low opinion of that as tax policy. Most of those taxes are designed to hit only U.S. firms, and they are revenue taxes. They are not income taxes anyways, they are just sales taxes. So it is just an attempt to take the U.S. tax base and grab it in other countries.

Mr. ESTES. Thank you. I yield back.

Chairman NEAL. I thank the gentleman.

Let me recognize the gentlelady from California to inquire, Ms. Chu.

Ms. CHU. Well, first, let me say the thing that keeps me up at night is thinking about what would happen to the American family if a terrible emergency happened to them, like a serious illness, a disaster that would destroy their home, or the loss of a job. And the reason it keeps me up at night is, last year, I read about how much money the majority of Americans had to withstand an emergency. Fifty-seven percent of Americans have only $1,000 in savings to withstand an emergency.

So how could we have gotten into this situation? How could the top 1 percent in this country have more wealth than the bottom 90 percent? And how could we be in a situation where the bottom 57 percent of Americans are only one emergency away from homelessness and utilizing food banks?

Well, rather than solving this problem, the tax scam bill passed by Republicans last year made the situation drastically worse. And let me just use one example of a contrast between the benefits to corporations versus to workers, one of the biggest bank beneficiaries and that was Wells Fargo bank. In my research, I found that the size of Wells Fargo's tax cut in 2018 was in the billions, $3.7 billion, but the benefit of a tax bill to Wells Fargo workers, due to an increase in the minimum wage from the Trump tax cut, was $78 million. Therefore, the benefit to the Wells Fargo corporation was 47 times bigger than the wage increases to its workers.

And then let me talk about the contrast in stock buybacks versus benefits to low-wage workers. If given the opportunity, so many corporations would use their extra capital to buy back its own stock because it pleases its wealthy corporate executives and shareholders. Wells Fargo is no exception. In 2018, because of the tax bill, how much did Wells Fargo spend on stock buybacks? An astounding $22.6 billion. In contrast, how much did Wells Fargo spend on minimum wage increases last year due to the tax cut? $78 million. The stock buybacks were 290 times bigger than the wage increases to its workers.

And so, Mr. Shelton, you are the president of one of the largest unions in this country. Last year, the White House claimed that American workers would see a $4,000 increase in annual income as a result of this tax bill. Did they get it?

Mr. SHELTON. Absolutely not. Not my members, anyway.

Ms. CHU. Okay. Mr. Shelton, did the one-time thousand dollar bonuses given to workers have a long-term benefit for workers and their families?

Mr. SHELTON. A $1,000 bonus doesn't even come close to a $4,000 annual wage increase. A $1,000 bonus, you know, after taxes, is not a whole lot of money.

Ms. CHU. Mr. Shelton, can you tell us how this tax bill increased income inequality for workers in this country and how it did that?

Mr. SHELTON. Well, you know, my members are—they are not seeing wage increases that everybody is talking about. They are not seeing—what they are seeing is jobs going overseas. And you talked about Wells Fargo, and Wells Fargo, besides everything else that they did with the tax cut, they decided to cut their workforce by 26,000 people and send the jobs to the Philippines.

So, you know, if you don't have a job, you don't worry about tax cuts, you don't worry about taxes at all because you don't pay taxes if you don't have a job, and that is what we see. Everybody here has been talking about job creation, and, well, in the big companies that we represent, we see just the opposite. There is no job creation. There is continual layoffs every single day.

Ms. CHU. And have they seen wage increases?

Mr. SHELTON. Small, very small.

Ms. CHU. So their quality of life has not improved?

Mr. SHELTON. Absolutely not, no.

Ms. CHU. Thank you. I yield back.

Chairman NEAL. I thank the gentlelady.

And, with that, let me recognize the gentlelady from Wisconsin, Ms. Moore, to inquire.

Ms. MOORE. Thank you so much, Mr. Chairman. And just, good afternoon to all of our—my colleagues, and our witnesses, thank you so much for your patience here.

I wanted to start with you, Dr. Oh, since you haven't been able to answer certain questions that I have been curious about as well. And so let me frame the question a little bit here. There is an assertion, apparently, that this Tax Cuts and Jobs Act is really helping lower income people, and so I am going to ask you to tell me, when you said that we needed to consider sort of the consortium of things—they talk about doubling the standard deduction—you said you needed to put that in context with the child tax credit and other things.

So I am looking at my mother, single mom—because we have got to do some welfare reform around here—single mom, we finally found her a job, she is making $7.35 an hour. She is making $14,500 a year. Can you tell me how—and doubling, I guess, the standard deduction might get her $60 more, not the $4,000, and the child tax credit, she is going to get $75. So I am trying to figure out, unless you have some different numbers, how we have helped the most vulnerable and the poorest people with this bill.

Mr. OH. So thank you so much for giving me a space to address this really important question. So one of the things we have been hearing today is how there are pieces of the bill that do help low-income families, yet we see the numbers and you look at the tax cuts for low-income people and they are very, very small. And the way I explain it is let's picture, you know, a family of four, two parents, two children. You used to get four personal exemptions. So in 2017, that was $4,050 per person in your family. Well, what we have more or less done is taken two of those personal exemptions,

the one for the kids, rolled them into expanding the child tax credit, and we have taken the two that were for the parents and rolled them into the standard deduction, right. And it is not a perfect offset. There are obviously some winners and losers, but I think it is indicative.

If you take a look at the JCT projections on these three provisions, the amount of revenue raised by repealing the personal exemption is between $1.2- and $1.3 trillion.

Ms. MOORE. That is right.

Mr. OH. If you take the expansion of the child tax credit and the expanded standard deduction, also costs between $1.2- and $1.3 trillion. And so we moved around a lot of deck chairs. I am not sure we made a huge difference.

Ms. MOORE. Okay. And so with the child tax credit, if you are a married couple with two children earning $400,000, you get a $4,000 tax credit versus the $75 for the single parent.

Let me go on and ask some more questions here. We have heard a lot today about how this job cuts act has really improved employment, created jobs. We do know for a fact that we only added $20,000—20,000 jobs, and that trend is going down. So I guess my question is—I guess I have another nexus to that question. Can you give us the distinction between wage growth, which isn't happening, and the creation of jobs?

Ms. GOULD. So you are right, we saw a little bit of a slowdown in job growth. I am not exactly sure what you are asking.

Ms. MOORE. Okay. I am sorry. Let me be a little bit clear. I saw the clock winding down on me. Okay. We are—you know, Republicans promised a $4,000 wage increase, and I guess we got the tax cut bills, and we have not seen that employers have given them those wage increases. And I want you to give the distinction, because this hearing is about who is left behind. So people are left behind because we haven't seen any wage growth, and we are—and GDP is going down. That promise is not being met. And in addition to that, we are seeing jobs that are not necessarily good jobs. We are increasing jobs, but they don't necessarily have the wage structure to support a family. Am I correct?

Ms. GOULD. That is right. That is right. We have been adding jobs for many years now, as I have said. Living standards have not been increasing because wage growth has really been lagging behind. We are finally seeing the tightness of the labor market translate into stronger wage growth, but families are still really digging themselves out of the Great Recession.

Ms. MOORE. So we helped rich people, but we did not help the most vulnerable and the more poor. Wages are dropping. Our GDP is dropping. And the only thing we have done is benefited the wealthy corporations.

Thank you. I yield back.

Chairman NEAL. I thank the gentlelady.

With that, let me recognize the gentleman from Ohio, Dr. Wenstrup.

Mr. WENSTRUP. Thank you, Mr. Chairman. I thank you for having this hearing today.

You know, we heard people talk about the Gallup poll and the optimism throughout America, what their future looks like. Sixty-

nine percent are optimistic. And as I sit here today, I find that this is not a representation of America, as I feel that 80 percent of this panel is pessimistic about the future of America. And I hear people say things which I don't appreciate, because in the line of civility to call something a scam, I don't know what some people consider a scam, but we just endured 2 years in this country of being told that the President colluded with Russia. That was a scam, folks. This is not a scam. This is serious business, and we are trying to improve the lives of American people.

That being said, the Affordable Care Act requires individuals to purchase a specific product, specifically, a government-blessed health plan, or they face a tax penalty. Now, disproportionately, those making less than $50,000 a year are the ones paying that in a large proportion. So the tax reform repealed this.

This is helping those that couldn't afford the insurance to begin with, because those who couldn't afford the insurance that they were being told they had to buy, were also being penalized for that, the plan that the government supports. So raise your hand if you think the individual mandate helps lower income Americans?

Okay. Well, that is very interesting, because what you are also telling me, those that raised their hands, and two people did, that our government is able then to penalize people simply for being alive. That is how the bill was written. It was a penalty simply for being alive. And if you don't purchase what we tell you to purchase, we are going to penalize you. Folks, that doesn't speak of freedom to me, because what you are telling me is you are okay with the government saying you have to buy and eat spinach, and if you don't, we are going to penalize you. You have to buy this government-made car or we are going to penalize you. Is that where we are headed?

But you cannot convince me that that mandate was helping lower income Americans, because those same lower income Americans talked about, to me at home, how they couldn't afford the plan and they couldn't afford the penalty. That is where they are.

You know, in medicine, I am a doctor, you know, I am always leery of studies and things that people put forward, because you have got to look at all things. If I have someone that tells me they have pain in their leg and I amputate it, did I do them good? I got rid of their pain, or could I have used a cortisone shot.

Dr. Gould, you talked about wage increases in States that increased the minimum wages. Well, first, wages are going up anyway with the tax reform. In Ohio, if we increase the minimum wage to $50 an hour, I guarantee you the wages would go up. But what you didn't address is the effects of that, and that is the complete picture. Where did unemployment go? Maybe it got less, but did it drop like the other States are? And, you know, a complete study—we talk about those that lost jobs so, yes, wages may have gone up, but more people may have lost jobs.

You know, there are tax—this tax reform has a lot of positives, and today, it is an employee's market out there. Employees can call the shots.

Mr. Shelton, you should take note of that, because AT&T can't make money without those employees, and they need employees. Maybe you need to negotiate a little bit better. I had a man in my

district who got out of prison and is now working, and we have programs to help with recidivism that we have put in locally. He said, I am a taxpayer for the first time in my life. You talk today about, well, it is going to come at the cost of social programs. Well, it depends on what you consider success. I love our social programs. I love that we are a country that cares enough about its people that we put safety nets in place, but the goal should be that fewer people need them. And when more people go to work, fewer people need them, and you have more resources for the most vulnerable Americans that truly do need them. More for the most vulnerable, because we are getting fewer people need these safety nets that we treasure in this country that cares about its people.

So it takes every component you have to think about and what are the results of things that take place, and a better economy makes for a better America.

I yield back.

Chairman NEAL. I thank the gentleman.

With that, let me recognize the gentleman from Michigan, Mr. Kildee, to inquire.

Mr. KILDEE. Thank you, Chairman Neal, for holding this really important hearing. And I thank all the witnesses for their participation.

Look, this tax bill picked a clear set of winners and losers, and I think today's testimony is helping to shine a bright light on just which groups and which industries in particular were deemed worthy of relief by this Republican tax bill. Here is a hint. It wasn't the middle class.

So in all the lead-up to the so-called Tax Cuts and Jobs Act, we heard promises made by lots of companies about how this tax cut would allow them to create thousands of jobs for American workers. Republicans in the White House all pushed the idea with the promise that households would see their incomes rise, average Americans, rise by $4,000. But the reality has been different.

I recently got a huge stack of letters from constituents whose company promised them that they would create jobs in the wake of the Republican tax bill, but instead have eliminated thousands of positions while reaping billions in savings. So to me, we can talk about anecdotes here and there. Thousands of people losing their jobs after promises that thousands of people would be hired by the same company.

And, Mr. Shelton, you were referred to by the—by my friend on the other side of the aisle as indicating that maybe you should negotiate a little tougher. I find that a little ironic. AT&T laid off 12,000 people since this tax cut. Is that close to accurate?

Mr. SHELTON. Yes.

Mr. KILDEE. So I assume AT&T is a struggling company, working hard to make ends meet. They can't even keep these 12,000 people employed. They have to open up call centers to serve the very same customers in Mexico paying subminimum wages. So I am assuming that they are hurting. Is that correct? Is AT&T in trouble?

Mr. SHELTON. Absolutely not. As far from it as you can get.

Mr. KILDEE. So all these promises that your employees got, I assume that they have not been able to initiate any stock repur-

chases or anything of that nature. They haven't been able to benefit their stockholders, I assume, by all this because they obviously are in big trouble. I mean, this is what we would have to conclude. Quite the contrary. AT&T was a big winner with this tax cut. Is that correct, Mr. Shelton?

Mr. SHELTON. To the tune of about $3 billion.

Mr. KILDEE. And so how is that being taken by the 12,000 members that have lost their jobs? Are they feeling like they really benefited from the tax cut?

Mr. SHELTON. That is an easy question to answer. When you have worked for a company for quite a while, as most of these folks have, and you suddenly lose your job, I don't think you think that that is a good deal for anybody.

Mr. KILDEE. It has not been a good deal, and, of course, we have seen it not just with AT&T. You know, I am frustrated. You know, I come from Michigan, an auto community. In fact, General Motors was founded in my home town of Flint in 1908. And we have seen over 10,000 jobs being eliminated just in the last few months.

So the point is this: Unless the focus is on how we strengthen the American worker and not how we reward those people at the top who are already doing quite well, we are going to see more of this. And this Tax Cuts and Jobs Act was a jobs cut and tax act. So I don't know if we want to call it a scam or whatever it is, but I am telling you, it wasn't what was promised, at least for the people I work for, your members, Mr. Shelton, that I met with in my hometown of Flint, who are trying to figure out what life is going to be like for them when they have lost everything that they worked for. And the idea that you should somehow negotiate harder I think is a bit of an insult to the collective bargaining process and to the work that the people you represent have done.

Mr. SHELTON. Well, Congressman, I can't negotiate for jobs that are in Mexico or the Philippines or India. I can only negotiate for jobs that stay in the United States, and from what was told to us and everybody else, that is what this Tax Cuts and Jobs Act would do, and it did just the opposite.

Mr. KILDEE. Thank you for your testimony.

I yield back.

Chairman NEAL. I thank the gentleman.

As you know, there are two votes scheduled on the House floor. It is the chair's intention to proceed and move as far along as we can.

And, with that, I recognize the gentleman from Virginia, Mr. Beyer, to inquire.

Mr. BEYER. Mr. Chairman, thank you very much, and thank all of you for being with us.

You know, I am still dismayed by the fiscal recklessness of the Tax Cuts and Jobs Act. Speaker Ryan promised early on that it would be revenue neutral, and, of course, it ended up being, you know, $1.5 trillion to $2.3 trillion upside down. And, you know, as a long-time business person, I was interested in the sugar high, because I don't think economies are largely driven just by tax cuts or by quantity of using.

You just look, in the last 24 hours, we have heard the housing starts hit a 2-year low yesterday. Car sales are down 2½ percent this year under last year. Consumer confidence fell another 7.3 points in March. Jay Powell, the head of the Fed, last week said that 2019 growth is going to be 2.1 percent, 1.9 percent in 2020, 1.8 percent in 2021, and expect no more than 2 percent in the next decade. And this is with $1 trillion deficits every single year.

I mean, I think it is wonderful that my friends on the Republican side defend things like the doubling of the childcare tax credit. I think that is great. Maybe even doubling the standard deduction to the extent that is real is great, but there are large parts of this bill that need to be repealed. And clearly, we saw the American public say that in the voting booth this last November. None of my friends on the other side ran on this bill, and yet many of my Democratic friends who won ran specifically against this bill.

You know, as a business owner of 45 years, I am really tired of hearing small business used as a shield for policies where the lion's share of the benefits accrue to those who need them the least. We know why this is done because the phrase "small business" implies that we are talking about the little guy. But to the extent that small business is used as a shorthand for passthroughs, which some say, like the Trump organization, fit nobody's definition of small. And protecting small businesses used to justify tax cuts on a tiny number of extraordinarily wealthy States, further cementing inequality in this country.

Luckily, the American people weren't conned. I had a townhall meeting at Edison High School in Franconia, Virginia last night, and halfway through someone stood up to talk about how his tax bill had gone up $7,500, and all of a sudden every head in the room was nodding about how much their tax bill had gone up in this last year because of the SALT deduction.

Dr. Gould, if you were asked to spend $1.5 trillion dollars over the next 10 years, or let's just say $2.3 trillion over the next 10 years, with the goal of raising wages on the middle class and working Americans, how would you do that? And would cutting taxes on high earners be first on your list or the beneficiaries of large estates or tax cuts for stockholders?

Ms. GOULD. Yes. Certainly, I would think about the income distribution in a very different way than the tax cuts did. We talked earlier about what can help working families the most. Let's expand, make affordable childcare and high quality childcare for families. Start right there. Make those kind of investments that would really have a good return and help out families.

Mr. BEYER. Dr. Oh, in your testimony, you touched on the opportunities for tax planning avoidance under the new 199A cap—or 199A deduction. And certainly, we saw in the failed Kansas experiment, which is sort of the intellectual front runner of the TCJA, which led to massive gaming the downfall of the Brownback Administration. What are the opportunities for business tax avoidance under the new tax law?

Mr. OH. It is one of those provisions that is so complicated that people are salivating to try to take advantage of it. So you hear about businesses thinking about splitting up. There are some regs now out there that have been designed to combat this, but the

amount of game playing, I think we are just seeing the beginning of it, right. You know, as clever tax planners get their hands on this provision, we are going to see maybe even larger revenue losses than were predicted by the JCT.

Mr. BEYER. Thank you very much.

Dr. Gould, you know, one of the things that we did is we doubled the exemption under the estate tax, you know, $22 million for a couple. But one of the arguments there was that people would just figure out a ways around the estate tax, people have gamed it for years. Is this actually an argument for reducing the ability of aggressive tax planning to limit the estate tax liabilities?

Ms. GOULD. I can't say I am an expert on estate taxes, but as I have said before, you know, wealth inequality has risen along with those income and wage trends I showed you earlier, and the estate tax is one vehicle that you have to have a mild pushback against that rise in wealth inequality. So weakening it would really exacerbate that increase in inequality, so I wouldn't recommend that.

Mr. BEYER. Great. Mr. Chairman, I yield back.

Chairman NEAL. I thank the gentleman.

Let me recognize the gentleman Mr. Ferguson, to, inquire, from Georgia.

Mr. FERGUSON. Thank you, Mr. Chairman. And thank you to all the witnesses that are here.

You know, as I have listened to you, I just find—I find some of the information that you are putting out to be very fascinating. One of the things that I hear is when I hear about this deal that jobs are being lost and the economy is not doing well and that the income gap is growing, it just doesn't jive with what I see back home.

So I want to bring your attention to this graph that I found. These are Department of Labor statistics. If you look at—the blue line is the lower half of income earners, and the—I think that is—I am color blind, so bear with me, either the green or red line are the higher income earners. So if you look at—if you look at what happens in about late 2011, the two groups of wages are growing at about the same—roughly at about 2 percent. And then look what happens when we see a slowing of the economy and an expansion of government programs in the 2012 to roughly 2014 timeline, you see a tremendous spread in the wage gap. The higher earners are growing at about 2.75 percent, but the lower earners are only growing at about 1 percent.

And fast forward. Look at what happens in 2018 with the Tax Cuts and Jobs Act. You see that they both are growing at about 3.2 percent, and then all of a sudden, wages jump at about 4 percent for the lower half of earners, and they are growing at a slower rate of just about 2.1 percent for the highest earners.

Now, that is pretty fascinating to me. That tells me that folks at the bottom end of the spectrum, wages are going up at a faster rate than those at the higher end of the spectrum. Dr. Holtz, am I reading that graph right?

Mr. HOLTZ-EAKIN. That is how I read it, yes.

Mr. FERGUSON. No, hang on a second.

Ms. GOULD. Sorry. I thought——

Mr. FERGUSON. So I want to go back to the gentleman's slide, from Wisconsin, that he put up and showed the percentage of tax—yes, that one right there. I didn't know you had that one, but I am glad you do. So at less than $100,000, the average tax cut was—what was that—400 and some odd dollars?

Mr. OH. $464.

Mr. FERGUSON. $464. Not only am I color blind, I am blind in one eye, and I can't see out of the other, so I apologize for not being able to read that. But in that group, wouldn't you say that the average for folks, say, under $50,000, their Federal income tax bill is in the hundreds of dollars? Mr. Holtz, I mean, typically it is a fairly low number?

Mr. HOLTZ-EAKIN. Under $50,000?

Mr. FERGUSON. Yes.

Mr. HOLTZ-EAKIN. They are probably not paying taxes.

Mr. FERGUSON. Oh, okay. All right. And then you go to the highest earners, the ones that are paying—that got a cut of $64,000, but yet they are still paying hundreds of thousands of dollars in income tax.

So the way that I read this is that what is happening is that wages are growing fastest for the lowest half of earners, they are growing slower for the higher earners. The Federal Government is not taking a whole lot out of the pockets of the lower earners, and yet they are into the higher earners for hundreds of thousands of dollars. Now, to me, that looks like that is closing that wage gap that everybody is so worried about. Dr. Holtz, does that appear to be the case?

Mr. HOLTZ-EAKIN. That is a—and other things being the same, closing the after-tax incomes.

Mr. FERGUSON. So I mean, it is shrinking. So here is the thing that I also look at when we kind of go through this. I lived in a town that lost its manufacturing base, and one of the things that I saw, no matter how many government programs our folks went on and no matter how much government money was thrown at their poverty, it really didn't change until they got a job. And what we had to do at the State and local level is what the Federal Government was unwilling to do, which is to get the right tax rate, the right regulatory environment, and the right education environment. And when we did that, we revitalized an entire region of the State in west Georgia. Brought in tens of thousands of new jobs, and lo and behold, look what is happening at the Federal level. We are seeing job growth. At least in my great State of Georgia, unemployment is at its lowest rate ever. It is unbelievable.

And so all I can say on this is, is that what you are saying is in the statistics that seem to get thrown out here really don't gee haw with what I see at home, nor what the numbers show.

And, with that, Mr. Chairman, I yield back.

Chairman NEAL. I thank the gentleman.

With that, certainly to acknowledge the patience of our witnesses, we will try to get this back in about 10 minutes or so. We are temporarily recessed.

[Recess.]

Chairman NEAL. Let me reconvene the Committee, and the witnesses please take their seats, and with that, let me recognize the gentleman from Pennsylvania to inquire, Mr. Evans.

Mr. EVANS. Thank you, Mr. Chairman.

Mr. Chairman, I, too, like other Members on the Committee like to thank you for having this open dialogue and discussion. I didn't have the pleasure of being on the Committee in the last 2 years, but I am certainly learning a lot. So much I want to ask the question. I am from the City of Philadelphia. We have 26 percent poverty, so it is a huge, you know, for the major city—and I joke with the chairman sometimes about that is where America started. We have a little running rivalry. He talks about Boston. But I had the pleasure of meeting with the Sunday Breakfast Rescue Mission, and the mission is a not-for-profit organization that helps hunger, homeless, and hurting by providing three meals a day to anyone in need and providing shelter and transitional programs for the homeless. The mission does not receive government funding but relies on charitable donations. So I want to go to something Mr. Oh talked a little bit about the Titanic and moving around deck chairs. Can you please explain the potential consequences of there being a reduction in the charitable donations to organizations like Sunday Breakfast Rescue Mission and the guests they serve? Can you speak a little bit to?

Mr. OH. Sure. So one of the consequences of expanding the standard deduction is that fewer households are going to be itemizing, which means that they are not going to see any sort of Federal tax deduction, any benefit from the donations that they are making. What we know from some of the economic research out there is that the charitable deduction is a deduction that really does work. It encourages giving, and so I know that there were a lot of charities that were very concerned about the potential effects to their revenues and donations as a result of this change in law.

Mr. EVANS. I would like to follow up with that. Can you please explain how the 2017 tax bill has added to the scrutiny of low-income individuals seeking to claim credit as well as what your thoughts on improving the earned income tax credit? I want to go to Dr. Gould on that issue also.

Mr. OH. So I will just reiterate something I said earlier, which is it is surprising that no changes were made to make the earned income tax credit more generous in this current law. It is the most important social program arguably that we administer through our Tax Code. It does more to lift people out of poverty, like people in your district, than almost anything I can point to.

Mr. EVANS. Dr. Gould, do you want speak on how you think the earned income tax credit in terms of how it could have been improved?

Ms. GOULD. Absolutely. If we expand it, it would help more people. As Mr. Oh said, it is a very important poverty reducer, very important program for our low-income Americans.

Mr. EVANS. I want to go to Ms. Abramowitz on that issue, too.

Ms. ABRAMOWITZ. Same thing. It is staying the same. The earned income credit stayed the same. The amount did not change, and we still have large groups of individuals who are not entirely excluded but only claim a very little credit, and there has been

some mention earlier today about not only expanding the credit for existing families but thinking about individuals who are not married, individuals who enter the workforce at age 18 or 19. So there is a lot more work to be thought about there. If I can——

Mr. EVANS. Sure.

Ms. ABRAMOWITZ. Can I just add one thing on the charitable piece?

Mr. EVANS. Yes.

Ms. ABRAMOWITZ. There is some speculation that there is a difference in the nature of giving and that large givers who may not be impacted by the standard deduction who will continue to give may tend to give more to certain kinds of charities, maybe museums, maybe universities and that the kinds of services you reference in the church are often the kinds of services that were funded by charity from lower income individuals or individuals who may no longer benefit by virtue of the increased standard deduction. So I think time will tell, and it certainly bears further investigation as to whether or not there is a change in the charitable sector as to where the dollars are being directed.

Mr. EVANS. So the organization I described, the Sunday Breakfast Rescue, at this point could have a rather challenging time.

Ms. ABRAMOWITZ. Possibly. It is something I think we ought to be paying attention to.

Mr. EVANS. I thank you, Mr. Chairman, and I yield back the balance of my time.

Chairman NEAL. I thank the gentleman.

And, with that, let me recognize the gentleman from Pennsylvania, as well, Mr. Boyle to inquire.

Mr. BOYLE. Yes, that is right, as the founding city of the country we have two Members on Ways and Means, the city of brotherly love. So thank you. I am so appreciative to the chairman of our Committee having this hearing that we should have had last Congress on what was the biggest change in our Tax Code since 1986. The process that was taken in the last Congress under different leadership was dramatically different than that bipartisan effort that happened in 1986 and was really the culmination of about 5 years' worth of work.

Back then, in 1986, there was a reduction on the nominal rates and a broadening of the base, and the effort was bipartisan. What we saw last Congress with the GOP tax cut was none of that. It wasn't paid for. There was no broadening of the base. So it really wasn't tax reform, it was just a dramatic tax cut, oh, by the way, coming in about the eighth or ninth year of an economic expansion.

Besides the fact it was an awful process and rushed for political reasons mostly because Republicans had just spent the previous year attempting and failing to repeal and replace ObamaCare and needed a political win, but in addition to that, let's consider the consequences. And I ask; I am not sure which of these is the worst aspect of it. The fact that you had a 40-percent reduction in the corporate tax rate from 35 percent, a rate that I believe and other economists on both sides of economic spectrum that was a high rate that hurt our international competitiveness, however, the drop from 35 to 21 percent was completely unwarranted, a 40-percent reduction in our corporate taxes. That is bad enough when you con-

sider point number two, that it wasn't paid for. Then when you consider point number three, that the reduction in corporate taxes combined with other dramatic reductions means that, according to the CBO, within 10 years 83 percent of the benefit of this will go to the wealthiest 1 percent. And even within that wealthy 1 percent, there is quite a big difference between the just regular rich and the super rich with, most of the benefits being tilted towards those not just in the 1 percent but the top 10th of 1 percent.

So, when we consider all of this already happening at a time of record income inequality, it is quite outrageous, and I will ask one of the economists, but I was thinking specifically Mr. Oh could talk about many aspects of this, but let me just talk about one. We are now, for the first time in an economic expansion, seeing a dramatic increase in the budget deficit approaching $1 trillion this year. What do you expect to happen if and when the next recession occurs, recognizing that, given historic precedent, we are probably at the tail end of this economic expansion, about 9 years into it by my estimates? Dr. Gould or Mr. Oh.

Mr. OH. Yes, I will cede to Dr. Gould as I haven't received that promotion yet to becoming an economist.

Mr. BOYLE. You speak to authoritatively on these issues.

Mr. OH. I appreciate it.

Ms. GOULD. I think that, you know, we definitely want to be prepared for the next recession. I am not a budget expert. So I don't want to speak too much on that. One thing, if you don't mind, I just want to point out that another thing that happened: We have been giving a lot of credit to the tax cuts for the economic growth we have seen such as it is over the last year, and I think one thing that has been forgotten is there was also a spending bill $300 billion spending bill that also came out last year that could have actually been the cause. So we are looking at this one tax cut. You have to look at it in the context of all the other legislation——

Mr. BOYLE. And reclaiming my time, I should also point out that, of course, when President Obama came in and over 700,000 jobs a month were being lost, turning that around to then having 7 straight years of job growth and economic growth, it is not as if this growth that has happened in the last 2 years suddenly came out of nowhere, that it is, in fact, the continuation of what had been happening already for the previous 7 years. Isn't that right?

Ms. GOULD. Absolutely. If we had had an economy, let's say, on auto pilot, this is very much what we would have seen.

Mr. BOYLE. Yes, and I believe the charts actually show that. Well, thank you very much.

I yield back.

Chairman NEAL. I thank the gentleman.

With that, let me recognize the gentleman from North Carolina, Mr. Holding, to inquire.

Mr. HOLDING. Thank you.

And I thank the witnesses for enduring here for almost 4 hours, and I certainly want to thank the chairman for giving me another opportunity to publicly discuss the economic growth, job creation, and the rising incomes that American families are seeing because of the Tax Cuts and Jobs Act. By taking money out of Washington and putting it back in the pockets of hardworking Americans, our

historic tax cuts have sparked an economic surge. After years of stagnation, the Tax Cuts and Jobs Act finally provided American families and workers with some much needed relief.

Our bill lowered tax rates, doubled both the child tax credit and standard deduction. Because of this, the average family of four living in my district in North Carolina saw their taxes cut by around $2,791 last year. So the Tax Cuts and Jobs Act also put in place into the Code an element that encourages business investment and growth here in the United States, and a key component of that was enactment of immediate expensing, which generally allows a company to write off business investments during the next 5 years. And that is the cost of equipment can be deducted immediately rather than deducted slowly over a long term of years, and this has not only increased investment, certainly in my district—as I have ridden around, I see what is going on and talked to the folks in those businesses, and they say this expensing provision, you know, has led to growth and is leading to increased employment.

So a simple question on expensing to the panel, a simple yes or no. So, yes or no, would you like to eliminate the expensing provisions from the Tax Code? Dr. Gould.

Ms. GOULD. I am sorry, I can't speak to that.

Chairman NEAL. Would you please use the microphone?

Ms. GOULD. Yes.

Mr. HOLDING. Yes, you would like to see them leave. Dr. Oh.

Mr. OH. It is such a complicated issue. I can't address it with a yes or no.

Mr. HOLDING. All right. Mr. Shelton.

Mr. SHELTON. There is no way I am going to——

Mr. HOLDING. Expensing——

Mr. SHELTON [continuing]. When an economist is not going to——

Mr. HOLDING. Right, right, right. And Ms. Abramowitz.

Ms. ABRAMOWITZ. My specialty is the working poor.

Mr. HOLDING. Okay. And Dr. Holtz-Eakin.

Mr. HOLTZ-EAKIN. Do not repeal it. Make it permanent.

Mr. HOLDING. So I can take it from at least four members of the panel that you really have no business experience and have no comprehension of what expensing is actually doing for this economy because if you did have some business experience, if you did have some people in your orbit who had some business expense, you would have a different answer from what you had today. But thank you for answering the question.

In fact, in 2018, the first year under the new Code, U.S. companies were the buyers of $1.26 trillion in domestic and international deals, which is an increase of 16 percent over 2017. And, further, last year was the first time since 2011 that U.S. acquisitions of foreign companies exceeded foreign acquisitions of U.S. companies. And why is that? Because we moved from a worldwide system of corporate taxation to a territorial system of corporate taxation, which, you know, from the numbers, you know the real data we can see, you know we have more work to do on that, and I will just lay this out there for the consideration of our panel and maybe for the witnesses to think about. Its citizens are still taxed based upon their citizenship rather than their residency. The United States is

one of only two countries or three countries including North Korea and Eritrea that tax their citizens on their worldwide income rather than based on their residency. And we have done such a good job of addressing our corporate taxation, our corporate rate, and making a territorial system, so it is fair, I think we ought to address it for our citizens as well on a future tax package. Right now, it costs upwards of 40 percent more to hire a U.S. citizen abroad. So you travel, you go to Singapore, and you go to the American Chamber of Commerce in Singapore, you meet no Americans there because it costs so much more to hire an American overseas. So I am really glad that we are seeing the impact of the territorial system on a corporate rate, and I look forward to working with my colleagues on addressing that for individuals so they can have a fair deal, as well.

With that, Mr. Chairman, I yield back.

Chairman NEAL. I thank the gentleman.

And, with that, let me recognize the gentleman from Illinois, Mr. Schneider, to inquire.

Mr. SCHNEIDER. Thank you, Mr. Chairman, and I want to thank you and the Ranking Member for holding this important hearing. This is exactly the type of hearing that did not take place in the last Congress, and as others have said, I will join in that it is better late than never, but if we had had these hearings, if we had these hearings last year, we would be in a much better place with this Tax Code.

Earlier my colleague from New Jersey shared some thoughts on the impact of the State and local tax—cap on State and local tax deduction. I want to associate myself with Mr. Pascrell on this issue. I raised the issue when Secretary Mnuchin was here earlier, and it has an impact. Eleven of the counties in Illinois, my State, have an average SALT deduction that is higher than the $10,000. In my two counties, it is both much higher. In Lake County, which is three-quarters of my district, the average is $18,000. More than 42 percent of tax filers use that—claim that deduction. It is having a significant impact in our communities, and I do hope the Secretary was sincere when he said it is something that they were going to address, and I hope we address it in the Committee.

My focus today is I would like to talk about the cost of childcare. As the SALT deduction is hurting families in my district, the cost of childcare is having a significant impact. It is something that we as policymakers, Republican and Democrats, should be able to agree on. How do we help families cover the costs so they can be involved in the economy? A survey conducted last year by Morning Consult for The New York Times explored why young Americans are having fewer children. And one of the primary reasons indicated is the cost of healthcare, that they just felt they could not provide for their kids in a way that will allow them to do it in the fashion they hoped to.

According to the Economic Policy Institute, the average cost of daycare is nearly—in Illinois is nearly $13,000. That is more than $1,000 a month. Illinois is the eighth most expensive State, and to put this in perspective, we typically talk about the $1.5 trillion student loan debt that young people and people of all ages are facing. According to EPI, the yearly cost of infant care in Illinois is slightly

more than the in-State tuition for a 4-year public college. Let me repeat that: The cost of infant care is more than tuition for a 4-year college. So, as young adults enter the workforce, carrying their student loan debt, worrying about maybe someday having a house, starting a family, they have to have to make difficult choices. But it doesn't need to be the case, and it doesn't need to be the reality that we live in. The Republican tax bill could have tackled this issue, but, unfortunately, it did nothing to help Americans gain access to higher quality and more affordable childcare.

Professor Oh, I will start with you, but are you aware of any provisions in the tax bill, the Republican bill, that addresses the challenge of affordable childcare?

Mr. OH. I mean, not head on. I mean, I think some might try to argue this the expansion of the child tax credit helps. I don't think that is the case because what I was explaining before in terms of just that replacing personal exemptions, so my answer to you is no.

Mr. SCHNEIDER. Are there things we could be doing to help families with this?

Mr. OH. Yes. So, right now, we kind of have a patchwork approach in the Federal tax system towards childcare. I am a new father. My son is turning one on Saturday.

Mr. SCHNEIDER. Congratulations.

Mr. OH. And I know how expensive childcare can be. So, right now, what we offer is a flexible savings account approach, which really only helps people that pay taxes at high marginal rates of tax. And then we have a very small dependent care credit, and one can imagine expanding both of these programs depending on which families we are trying to help more.

Mr. SCHNEIDER. I know we talked about who is and who isn't an economist on the panel, but what impact would taking steps to make it more affordable for young families to afford childcare, what impact do you think that would have on the economy?

Mr. OH. I can—I think it is one of those—childcare has gotten so expensive, and what generally happens is if there aren't—if there isn't access to informal care so extended family, grandparents and the like, it brings people out of the workforce. You know, it leads to one spouse, usually the woman, dropping out of the workforce to take care of their kids, and, you know, we can imagine doing better on this front.

Dr. Gould.

Ms. GOULD. Yes, absolutely I agree with everything he said, and it is absolutely the case that if we make childcare more affordable, provide high-quality options for parents, you are going to see an increase in labor force participation. You are going to see an increase in people's ability to work and, you know, provide more for their families.

Mr. SCHNEIDER. And if I can add just in my last couple of seconds, when we do see people drop out of the workforce, even temporarily for a couple years, it is hard for those folks to get back on track. They never catch up in many respects. So there is an impact. My time has expired, and I yield back. I thank the Committee.

Chairman NEAL. I thank the gentleman.

I recognize the gentleman from New York, Mr. Suozzi, to inquire.

Mr. SUOZZI. Thank you, Mr. Chairman, for holding this hearing.

Thank you to the witnesses. You had a marathon session here, and thank you so much for being here for this long time and for preparing for today.

Dr. Holtz-Eakin, earlier today you testified that tax cuts don't pay for themselves. Is that correct?

Mr. HOLTZ-EAKIN. Yes.

Mr. SUOZZI. And so there is going to be a projection of $2.3 billion increase, $2.3 trillion increase in the deficit because of these tax cuts and the way this tax bill was passed, $2.3 billion increase. And where does that money go? Last year, we saw a half a billion dollar increase in stock buybacks in the United States of America. Are you aware of that, Mr. Oh?

Mr. OH. I have seen a lot of numbers, and they tend to range between $500 billion and a trillion dollars in buybacks.

Mr. SUOZZI. Okay. A trillion dollars. Dividends are up. The wealthiest 10 percent of Americans got the largest percentage of the tax cut. This money—it is like spending $2.3 billion additional over the next 10 years—is going to these places. That is where it ends up going in the long run. So this hearing today is the 2017 tax law and who was left behind, and I am going to argue that the working people of America have been left behind for a long time, quite frankly. It is not new. It has been going on for a long time because, since 1982, the stock market has gone up 1,200 percent. Since 1982, the GDP has gone up 600 percent. And workers' real wages have gone up 20 percent. So corporations and shareholders have been doing great, but working people have been left behind, and despite spending $2.3 billion in additional deficit spending, we are not doing anything to help the workers' wages real wages go up in any kind of significant way. So I would argue that the working people of America have been left behind.

Ms. Abramowitz, you talked about the postcard form that is going to be used—is being used right now as part of this. And we saw pictures of it used by the GOP and the President even throughout the whole process last year, and it was this little nice little postcard. I thought it looked very attractive. But as you pointed out, there are six more forms.

Ms. ABRAMOWITZ. Just the outer label.

Mr. SUOZZI. And have you heard that errors have been going up at the IRS?

Ms. ABRAMOWITZ. Errors in terms of processing returns? I think we are still early in the filing season.

Mr. SUOZZI. Let me tell you the taxpayers advocate testified at another hearing we had in Oversight, and she said the errors by filers have gone up 200 percent so far with the new tax filings, 200 percent increase in errors. So there was no simplification. So that is just wrong. There has been a 200 percent increase in errors. And just so everybody knows, so you are armed with these facts, is that when you call the IRS, only 17 percent of the calls get answered. And people wait on the phone for 18 minutes before their phone call is answered.

Ms. ABRAMOWITZ. I would suggest that the 18 minutes is a very optimistic number.

Mr. SUOZZI. Well, most people drop off. They only answer 17 percent of the calls. Most people drop off because they are waiting for so long to get their calls answered. So we hear all this railing about the IRS and the previous administration, but the new administration is making it worse. They didn't simplify things. They made things worse with this postcard and all the backup forms and the change in the process.

People have been left behind are people in my district, which has one of the highest percentages of people using the State and local tax deduction. I am not going to go into the whole thing again here today, but I want you to know that 176 counties in the United States of America have a State and local tax deduction higher than $10,000 per year. 176. And 49 of the 50 highest State and local tax deduction utilizers are in New York, New Jersey, and California. Now do you think that is a coincidence, or do you think that was done on purpose? No answer. Okay. That is all right. You don't have to answer that particular question.

One other group that has been left behind are charities and not-for-profits because as hard as it is to imagine, as part of this tax bill, there is a new tax on charities and not-for-profits. If you are a religious institution, you are a church, you are a synagogue, you are a mosque, and you give parking permits to your employees or if you give them transportation allowances, they have to pay taxes on it now, and not just the cost of the taxes, but now you have to hire an accountant who will help you fill out tax forms. That seems like they have been left behind, that they were really not considered during this process. Would you agree with that?

Mr. Shelton, what do you think? You look like a church-going guy. Had you heard that before that not-for-profits are going to have to pay this additional tax?

Mr. SHELTON. Yes, I have, and I come from New York, too, so I know what you are talking about when it comes to State and local tax deductions.

Mr. SUOZZI. Well, Mr. Shelton, my time has expired, but I hope, in New York, we can get together some time and discuss this further. Thank you very much.

Chairman NEAL. I thank the gentleman.

Let me recognize the gentleman from California, Mr. Panetta, to inquire.

Mr. PANETTA. Thank you, Mr. Chairman. I appreciate this opportunity.

And, Ranking Member Brady, ladies and gentlemen witnesses, thank you very much for being here. I appreciate your time. I appreciate your preparation for being here as well.

I want to talk just a little bit right now with Mr. Oh in regards to your knowledge or process—in regards to the process of the tax bills that were done in 1986 and 2017. As you know, this recent tax bill in 2017 had zero hearings, correct?

Mr. OH. That is my understanding.

Mr. PANETTA. All right. And back in 1986, what was done is you had 30 hearings over 26 days just in the House of Representatives, correct?

Mr. OH. Sounds correct.

Mr. PANETTA. And then, in the United States Senate, there were 36 hearings in 45 days, correct?

Mr. OH. I trust your numbers.

Mr. PANETTA. Okay. All right. But those sound correct, though, right?

Mr. OH. There were a lot of hearings around the 1986 act, that I can confirm.

Mr. PANETTA. Yet, even then, they still had fixes to that bill, as you said in 1987, 1990 and 1993.

Mr. OH. That is right.

Mr. PANETTA. Do you foresee fixes being done to this bill?

Mr. OH. I hope so, and it is part of the reason I agreed to come here is because I am hoping that this is the first step towards making some fixes to this bill.

Mr. PANETTA. Thank you. Now, you testified that households, those earning less than $50,000 will save about $200, and those earning over a million will save about $64,000, correct?

Mr. OH. That is right.

Mr. PANETTA. And how many times more did you say that those millionaire households will have saved——

Mr. OH. I round it to 300, but it is more like 320.

Mr. PANETTA. 320 more.

Mr. OH. Times more.

Mr. PANETTA. Can you explain how that distribution will become even more unequal over time?

Mr. OH. Sure. So there are a number of provisions in the tax bill that are scheduled to sunset in 2025, and I think your colleague, Mr. Boyle, mentioned the fact that, by 2027, which is the last year for which we have projections, something like 83 percent of the tax benefits are going to the top 1 percent, yes.

Mr. PANETTA. Moving on. Thank you, Mr. Oh.

Ms. Abramowitz, you mentioned early on about how this is going to affect vulnerable immigrant populations. Can you elaborate on that?

Ms. ABRAMOWITZ. Yes. I want to reiterate that many people believe immigrants are not taxpayers, and the truth is statistically they are. These are people who come to this country, they want to be a part of this country, and they eventually want to have the benefits of citizenship so they are paying tax, but they pay tax at much higher rates than the rest of us do.

Mr. PANETTA. Why is that?

Ms. ABRAMOWITZ. Because a lot of the benefits that are available to U.S. taxpayers are not available to them.

Mr. PANETTA. And is that because—has that been a traditional thing, or is that just because of the 2017 tax bill?

Ms. ABRAMOWITZ. 2017 just added another wrinkle. The EITC has not been available for—since the inception, but the child tax credit has now been changed and you now need a Social Security number for children. And you might say, well, that is just the child tax credit, but, of course, the child tax credit has been increased, and as we mentioned, you know, supplants to some extent the dependency exemption. So it has the effect of perhaps increasing the cost to the immigrant taxpayer. And I do want to reiterate here, also, that immigrants very often for a lot of reasons having to do

with immigration law, are classified as contractors rather than as employees, and they are also paying this very steep Social Security tax as self-employed people.

Mr. PANETTA. Look, I come from the central coast of California where there is lot of agriculture, a lot of specialty crop agriculture where we rely on immigrants not just for that industry, but in our community and in our culture, to be frank, and so I appreciate you bringing this up as a topic because I see it every day, how important it is to have immigrants continuing to be a part of our country, and, therefore, you know, these types of changes, especially with the child tax credit, only hurts our future and only hurts our communities, and so thank you very much. I yield back my time.

Chairman NEAL. I thank the gentleman.

Let me recognize the gentlelady from Florida, Mrs. Murphy, to inquire.

Mrs. MURPHY. Thank you, Mr. Chairman, and thank you to all the witnesses for your testimony. By way of introduction I represent a district in central Florida where I don't think people think in partisan absolutes, especially on matters of tax. As you know, tax policy affects everyone regardless of political affiliation. I am also co-chair of the Blue Dog Coalition, where we prioritize fiscal discipline by both parties because of the threat that excessive debts and debt pose to our economy, our security, and our children's future.

The CBO projected the 2017 Republican tax law will increase our national debt by $1.5 trillion over the next decade. And it was clear from the start that Republicans didn't want Democratic input and didn't really attempt a fiscally responsible approach to tax reform. I think that is a really missed opportunity. Instead, the Republicans hastily crafted and jammed through a partisan bill that primarily benefits the wealthiest in this country without doing enough to help working families and small businesses. And the result of this process and approach is a law that is filled with technical errors and an uncertain future because purely partisan laws tend to engender changes when there is a shift in political power.

But here we are and we need to focus on the future and we need to understand what is in the bill and where improvements need to be made both large and small. And as Dr. Holtz-Eakin has testified, this bill sent a message to the American corporations. But I wonder what message it sent to working families? Instead of providing the full extent of these tax cuts to large corporations and the highest income earners, could Congress have done things differently to help working families? For example, could Congress have made the childcare more affordable by enhancing the child and dependent care tax credit and increasing the income exclusion? In full disclosure, I have a bill introduced both in the last Congress and this Congress to do just this.

Professor Abramowitz, do you agree that this was a missed opportunity, and what are some other examples of ways Congress can do more to help working families through the Tax Code?

Ms. ABRAMOWITZ. Again, absolutely. Currently, the childcare or dependent care tax credit is not refundable so it has no use to anybody who is in a—would only benefit from a refundable credit. Secondly, I think that anything we can do to enhance childcare to

improve, again, the health, the education, and the safety of children, because we know a lot of children of the working poor are in questionable childcare circumstances, is something we ought to be doing as a society.

I think, also, that we ought to think about income supplements generally. We are looking at the earned income tax credit, the child tax credit, the dependent care expense credit, and I think it sort of—individually, they all have merit, but I think we also ought to think about the whole package and how best we can, you know, use our resources to make life the way it can be—as best it could be for those who are struggling each day.

Mrs. MURPHY. Thank you.

And, Professor Oh, at first blush, the increase in the standard deduction does appear to benefit working families who don't itemize, but can you explain why these benefits are diminished by other provisions in the law, namely the repeal of personal exemptions?

Mr. OH. I am happy to. So just to revisit my favorite example, we have, let's say, a family of four, and what we have basically done is taken the personal exemptions for the children and rolled them into something like the child tax credit and expansion of the child tax credit, and what we have done with the personal exemptions for the two parents is to roll them into the standard deduction. And this is the reason why, you know, even though we have expanded the child tax credit, even though we have expanded the standard deduction, when you look at the distributional charts, you see very little tax cuts going to low-income families.

Mrs. MURPHY. Thank you.

And, Dr. Gould, the tax law is one of the major reasons why annual deficits will soon top a trillion dollars. As the gap between revenues and spending continues to grow, there is going to be immense pressure on Congress to reduce critical investments in defense and domestic priorities like health and transportation and housing. Can you explain how those cuts would hurt working families?

Ms. GOULD. Sure. If there is that building political pressure, as you say, to cut spending, it would indeed do harm to working families. Without programs—you know, if you have cuts to Social Security, Medicare, Medicaid, food stamps, and the ITC, those programs are vital to working families. And without them, American families would not be able to get the healthcare, food, or housing they require to take care of their health needs or feed and shelter themselves and their families, so it is critically important.

Mrs. MURPHY. Thank you. And I yield back the remainder of my time.

Chairman NEAL. I thank the gentlelady.

Let me recognize the gentleman from Texas, Mr. Arrington, to inquire.

Mr. ARRINGTON. Thank you, Mr. Chairman.

I have heard, and thank you witnesses for hanging in there with us. I know it has been a long hearing. But real quick, I have been hearing about this sort of cuts to safety net programs like Medicare. Did you know that the ACA, ObamaCare, cut something like $800 billion from Medicare? Is that a problem for you as well, or

is it—does that hurt poor people when you cut hundreds of billions of dollars, no? ACA?

Ms. GOULD. I am not aware.

Mr. ARRINGTON. Mr. Oh, did you know that Medicare was cut to fund ObamaCare?

Mr. OH. I did not know that. I am not an expert——

Mr. ARRINGTON. Did anybody on the panel know that? Nobody wants to answer that, and I can appreciate why. Do you all believe that this is the greatest, strongest, most prosperous, most dynamic economy in the world, maybe the history of the world? I am talking about the U.S. economy. Yes, no, go down the line. Dr. Gould, yes or no, the American economy.

Ms. GOULD. We have certainly seen improvements in the economy in the last few years.

Mr. ARRINGTON. In the history of the world, is this one of the greatest economies, Mr. Oh, yes or no?

Mr. OH. I think I can agree with that statement.

Mr. ARRINGTON. Okay. Mr. Shelton.

Mr. SHELTON. It depends if you are sitting on Wall Street or Main Street.

Mr. ARRINGTON. Well, tell me what it is like to be a worker as part of your union where you have a multiemployer pension program that is 45 percent funded. So when I think about the outlook on the worker, I think about the multiemployer pension programs. I know there are a couple that your organization has negotiated on behalf of your workers, and their unfunded liability—and I have got the data here—they are underfunded by 50 percent. Now you all aren't the only ones, but is that a problem to you when you think about the outlook and the future for the worker for the working person, the working family? Are you concerned about that?

Mr. SHELTON. It is obviously a problem, but I have very few, if any, multiemployer pension plans.

Mr. ARRINGTON. I have got two right here that CWA pension plan negotiated by your union, and they are underwater by over 50 percent. That is they have an unfunded liability of greater than 50 percent, and it is thousands of employees who are counting on this for their retirement. That is a problem. Do you agree with that?

Mr. SHELTON. Absolutely.

Mr. ARRINGTON. Okay. So I am more concerned about that than I am about people keeping their own money that they worked hard for because fundamentally I don't see that as government's money; I see it as the American people's money. Now government cost something. We have to have revenue to run this government. It is not cheap. But I am concerned about that. Do you believe, Mr. Shelton, that the free enterprise system is the best economic system that at least we have seen thus far in our world's history?

Mr. SHELTON. Yes.

Mr. ARRINGTON. Do you believe that Ms.—and I am sorry if I can't pronounce your name.

Ms. ABRAMOWITZ. Abramowitz. Yes, I do, but not completely——

Chairman NEAL. Turn your microphone on, please.

Mr. ARRINGTON. Do you believe that in this free enterprise system and this wonderful economy, Mr. Oh, that you agreed is one

of the most powerful, most dynamic, most prosperous economies in the world, what do you attribute that success to, do you attribute it to government, or do you attribute it to the American people? If you had two choices, A and B, multiple choice.

Mr. OH. I would attribute them to both. You know, the American people are powerful force, but there is an important role for government in governing free markets.

Mr. ARRINGTON. What about you, Mr. Shelton, do you think that the greatest economy in the world is attributed to government or to free people exchanging in an open market, their ideas, their products, their services? Here is what is what I am——

Mr. SHELTON. Both.

Mr. ARRINGTON [continuing]. Getting at. I am not trying to get cute or play games with you. We gave greater freedom into the marketplace. We limited the role of government, and we unleashed the unlimited potential of the American people. We unleashed the American spirit, and the response has been phenomenal. And it is inarguable. The economy is growing, millions of jobs, unemployment breaking every record, performing at the highest levels, and wages, wages are up. Mr. Holtz-Eakin, wages are up, and in 2018, and they are up the most on the sort of lowest spectrum of the income earners. Is that true?

Mr. HOLTZ-EAKIN. That is the CPS data in my testimony.

Mr. ARRINGTON. Is that a fact?

Mr. HOLTZ-EAKIN. Yes.

Mr. ARRINGTON. Ms. Abramowitz, do you think that is a good thing? Do you agree that that fact, that trajectory is good for this country, it is good for America, and we ought to cheer for our country and our families that are doing better because the boats are rising on this tide? Do you agree?

Ms. ABRAMOWITZ. I can't disagree that rising wages are a good thing.

Mr. ARRINGTON. Would you agree, Mr. Shelton?

Mr. SHELTON. Rising wages are always a good thing.

Mr. ARRINGTON. God bless America. Man, I am feeling better already.

Mr. Oh, do you agree?

Mr. OH. I do. I do.

Mr. ARRINGTON. Dr. Gould, I am running out of time. Hey, thank you for your time.

Mr. Chairman, thank you for this hearing. I think the future looks better and brighter in my mind after this hearing.

Chairman NEAL. We thank the gentleman.

With that, let me recognize the gentleman from California, Mr. Gomez, to inquire.

Mr. GOMEZ. Thank you, Mr. Chairman.

I have been sitting here—I get to listen to everything. That is one of the benefits of almost going last. I got to hear just a lot of the comments, and one of the things that I think is pretty obvious is that the benefits primarily of this tax bill went to the wealthiest individuals in the country and the largest corporations.

Somebody—we are not saying that, you know, working class folks didn't benefit at all, but it is more of the attitude of the mi-

nority than the majority Republicans. Somebody—one of my colleagues said: Something is better than nothing.

That is the point, that they just got something. They weren't the main beneficiaries of this tax plan, and I see it as the modern day version of "Let them eat cake." You know, we will live wealthy and on the hog, and everybody else will get the crumbs whatever is left.

So let me continue. The day the Republicans passed their tax plan, there was a televised celebration in the White House Rose Garden. Do you all remember that? I think we all remember that. And before the GOP took their victory lap around 1600 Pennsylvania Avenue, they made the following promises about their tax bill, that it would reduce deficits, help the middle and working class, and pay for itself.

Professor Oh, do you remember those promises?

Mr. OH. I do remember them.

Mr. GOMEZ. And in your professional opinion, were those promises kept?

Mr. OH. Not yet.

Mr. GOMEZ. Not yet. When I think back to those who celebrated the passage of the GOP's tax plan, I noticed that those who saw it as a victory were part of an elite class of Americans who represented the wealthiest in the country. And why wouldn't they celebrate? The benefits of the massive corporate tax cut passthrough deductions, reduction in estate and gift taxes, and cutting of the top marginal rate, they all flow primarily to the wealthy.

Professor Oh, would you agree with that assertion?

Mr. OH. I would.

Mr. GOMEZ. In your professional opinion, are corporations using their tax benefits to help the middle and working class?

Mr. OH. That is a complicated issue. We have seen a lot of stock buybacks, which is somewhat unsurprising given what most economists thought in terms of access to capital in the U.S. How those benefits actually inure to the American people I think depends on time. You know, going back to some of the testimony we heard earlier, we just need more time and more data to figure out exactly how those will play out.

Mr. GOMEZ. Mr. Shelton, do you think those benefit the working and middle class?

Mr. SHELTON. I haven't seen it. You know, all the employers that we deal with——

Mr. GOMEZ. No, thank you, and I appreciate it.

Mr. SHELTON [continuing]. Have a lot of stock buybacks, but that is about it.

Mr. GOMEZ. You are seeing some go mainly to buy back stocks, some even leading to laying off workers, and then rewards wealthy shareholders. When I think about this tax plaque, the winners are clearly the haves, and the losers are the clearly the have-nots, and I think of people who can actually like afford to buy a yacht versus the people that clean the yachts. In your professional opinion, professor, who would be considered the primary beneficiary of the GOP tax bill, a constituent of mine who makes roughly $40,000 a year or let's say one of my Committee colleagues Rep. Vern Buchanan, whose net worth is roughly $73.9 million, and on the same day his party passed this bill and he voted for it, he bought

a yacht similar to the one that is on the screen, similar to this one. Who would benefit?

And before I move on, before I actually let you answer that question, Mr. Chairman, I ask for unanimous consent to enter into the record "GOP lawmaker bought multimillion dollar yacht on the same day he voted for GOP tax bill."

Chairman NEAL. Yes.

[The information follows:]

THE HILL

GOP lawmaker bought multim dollar yacht on the same day h voted for GOP tax bill

BY AVERY ANAPOL - 07/11/19 09:16 PM EDT

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VIEW ALL

GOP Rep. Vern Buchanan (Fla.) bought a luxury yacht on the same day the House passed the GOP tax bill, according to newly released financial disclosure forms.

Florida Politics, a state-focused political news outlet, first reported that Buchanan purchased an Ocean Alexander yacht on Nov. 16 of last year.

According to financial disclosure forms, the price was between $1 million and $5 million. The Ocean Alexander website says the least expensive yacht from the company starts at $3.25 million.

The House passed their first version of the Tax Cuts and Jobs Act on Nov. 16 with no Democratic votes, but did not approve the final version of the bill until the following month.

President Trump signed the bill into law on Dec. 22.

Buchanan, a senior member of the House Ways and Means Committee, is the eight-wealthiest member of Congress, and worth nearly $74 million, according to Roll Call.

Democrats seized on the report, with the Florida Democratic Party sending out a release arguing it suggested that Buchanan voted for the

bill for personal interest, Buchanan is a member of the House Ways and Means Committee which produced the legislation.

Progressive think tank Center for American Progress estimated earlier this year that Buchanan would save more than $2.1 million because of the new tax law. The group looked at Republicans on the tax-writing panel.

Buchanan's office and re-election campaign did not immediately respond to a request for comment.

The new law, which made sweeping changes to the tax code, has drawn criticism from those who say it primarily benefits the wealthy.

Republicans touted the overhaul as a boon to middle class families, and President Trump has said the tax cuts have accelerated economic growth.

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Mr. GOMEZ. Thank you.

Mr. Oh.

Mr. OH. So I don't want to call out individual people, but I can say that the general beneficiaries of this tax bill on average were households that earn more than a million dollars per year. Actually, in general, wealthier households. So I mean I guess the cutoff you can use maybe is even $500,000, but those are the households that benefited most.

Mr. GOMEZ. And I know that we have wealthy Democrats, as well, but I like to point for the record that 189 Democrats, every single Democrat, voted no on this Republican tax bill because they understood that the benefits would go mainly to the wealthiest individuals. Somebody—Gene Sperling actually said 60-plus percent would go to the top one-tenth of 1 percent in America, the wealthiest individuals and not the people that are struggling to make ends meet to pay their mortgage or put their kids through school. Thank you and I yield back.

Chairman NEAL. I thank the gentleman.

And Mr. Horsford is recognized to inquire.

Mr. HORSFORD. Thank you, Mr. Chairman, and thank you for your patience here after more than 4 hours, actually about 4 and a half hours. I really appreciate your time today.

The GOP Congress passed corporate tax cuts and tax cuts for the wealthiest and the most well connected adding $1.8 trillion to the deficit over time. Now to pay for their tax cuts for the rich, they want to balance the budget on the backs of seniors, children, and the poor by proposing devastating cuts to Medicare, Social Security, the Affordable Care Act, and Medicaid.

On top of that, the tax cuts for small businesses and the one-time bonuses for working people were temporary while the tax cuts for big corporations and the wealthy were permanent. Why?

I want to use my time to share the story of one of my constituents who were directly impacted by the so-called Tax Cuts and Jobs Act and who are now having to navigate new tax forms and new tax law challenges.

Mr. Chairman, I would like to ask unanimous consent to enter into the record an article titled "I owe how much? Americans shocked by impact of new tax law."

Chairman NEAL. So ordered.

[The information follows:]

I owe how much? Americans shocked by impact of new tax law

By SARAH SKIDMORE SELL February 19, 2019

Wait, I owe the IRS?

The first tax filing season under the new federal tax law
confusing — and occasionally frightening — for some A

Ad

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I owe how much? Americans shocked by im...

comfortable getting a small refund each year, a few hundred dollars or more. Then they found out they owe $10,160 this year.

"I will never forget the moment, I thought 'We look good' and then we added in the next W-2 and my jaw hit the floor," Kraft said. "There was no way I wanted to believe that what I was looking at was accurate."

President Trump promised a reduction in taxes with the new law. And by most measures, the majority of Americans will see one. The nonpartisan Tax Policy Center projected the tax law would reduce individual income taxes by about $1,260 on average, although it benefits higher earners more.

So not everyone will see a massive tax bill or a drop in their refund. Some people already saw the benefit in the form of bigger paychecks. That's because the law forced employers to change what they withheld. But the system is far from perfect, and many workers didn't have enough in taxes set aside. Now, the IRS wants that money.

In addition, the law also eliminated personal exemptions, increased child credits, limited popular deductions and generally upended many familiar practices that determine what happens at tax time. That has taxpayers feeling a bit unmoored.

"We were very comfortable with our tax law, it had basically been there since 1986, suddenly all these things that were very important to people changed ... it's all different," said Howard Gleckman, a senior fellow at the Tax Policy Center.

Kraft and Elias are able to pay their tax bill but he's still stunned. He even tried to reverse-engineer things to figure out where they went wrong, diving into page after page of IRS rules. He painstakingly put together all the numbers. The couuple ultimately asked a CPA to verify the figures they were seeing on TurboTax. Crushingly, they were correct.

Their total tax was up slightly — by about $300 because of changes to their financial picture. Their effective tax rate was lower, but they still owed the government.

"I feel like I have reached a stage of grief of acceptance," he said. "In a twisted way I should have been paying this all year and now I just have to pay it in one lump sum."

A number of experts such as Gleckman are urging taxpa
their refund or what they owe when measuring the effec
are just a sliver of your tax picture.

But the truth is, many Americans have come to rely on r
of U.S. taxpayers typically get one and they had average
low-income households it is the biggest cash infusion o

refunds is down 16 percent.

Experts caution it is too early to draw conclusions about a tax season that ends in April. Plus, the number of returns — 27 million as of Feb. 8 — is down 10 percent from a year ago, due in part to the partial government shutdown. The picture will become much clearer as more filings are processed, refunds are issued and the IRS gets back up to full speed.

All the same, the initial results have surprised early filers and worried those who haven't yet tackled their taxes.

Part of the problem centers around how employees and employers adjusted (or didn't adjust) withholdings from paychecks to account for the law's changes. The government issued updated withholding guidelines to help employers determine how much to set aside from an employee's paycheck to cover taxes. Withhold too much and you get a refund at tax time; too little and you owe.

It is at best, an estimate. But it's an estimate that grew drastically more difficult to make under the new law.

The Government Accountability Office estimated in a report last summer that about 30 million workers had too little withheld from their paychecks, which made their take home pay bigger but increased their tax liability. That's about 3 million more workers than normal.

Few taxpayers appear to have heeded the IRS' advice to do a "paycheck checkup" to make sure they had the proper amount withheld. Payroll processor ADP, which is responsible for paying one out of every six Americans, said the vast majority of people in its system didn't update their withholdings last year.

Some taxpayers who did make adjustments found they couldn't get it quite right.

Kevin McCreanor of Milton, Georgia and his wife normally get a sizeable refund each year — it was more than $12,000 last year. While they know waiting for a large refund isn't the best strategy financially, they like a refund and they put anything they get back toward their daughters' education. Their income, earned primarily from his wife's job in telecom, can vary greatly, so there was comfort in never facing a big bill.

The couple increased her paycheck withholdings to ensure the same but found they are only getting back $519 this year. Their income and tax rate did increase, and McCreanor acknowledges there is probably more he could have done to prepare but he is very disappointed all the same.

Some surprises were welcome, however. Brian Goodell and his wife typically face a tax bill of anywhere from $10,000 to $15,000 each year. But this year the Tigard, Oregon, couple is getting a $15,000 refund. They believe they got some benefit from the increased child tax credit. They also made more charitable donations and increased their withholdings. While Goodell isn't entire
well, he'll gladly take the refund.

Taxpayers can get a better sense of how they fared by lo
effective tax rate. This information is often available on
an accountant or tax preparation software. They can als
those summaries or form 1040. These are not perfect m
some perspective.

And remember that getting a refund is not necessarily a
really the best outcome from an economic point of view

5/2/2019 I owe how much? Americans shocked by impact of new tax law

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Additionally, consider that taxes are rarely an equal comparison from year-to-year, said Eric Bronnenkant, the head of tax at Betterment and a CPA and certified financial planner. People's lives change in ways that can dramatically influence their taxes, such as marriages, divorces, kids, moving or job changes. The average taxpayer may not realize the full impact some of these changes might have.

"I am not surprised by the reaction people are having," Bronnekant said. "I think for some people the reaction is more justified than others."

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Mr. HORSFORD. Thank you.

Jodie from Las Vegas, who is a retired military personnel and a former VA Federal worker wrote to me sharing his experience this filing season, and he told me I could share his story here today. Jodie went from receiving a small refund, generally about $350 on average in past years, to owing more than $3,600 this year. You see, in late 2017, Jodie was diagnosed with vascular disease, which forced him into a medical retirement from the VA. He has relied

on Social Security disability insurance payments of $671 a month since. Because of this unforeseen circumstance, Jodie took two loans out on his thrift savings plan, a defined contribution plan for the United States Civil Service employees, which covered his family's expenses for a while.

Unfortunately, Jodie's SSDI benefit is taxable because he has another source of income, retired military benefits. Those benefits coupled with his two TSP withdrawals resulted in a $3,600 tax bill. This is half of Jodie's family's monthly budget. Further, Jodie and his wife found out that the increased standard deduction in the Republican tax law eliminated the benefits they once received for their family's charitable donations to organizations like Goodwill or the Catholic Church. Is this who the GOP looked out for? I think not.

The GOP tax scam helped the wealthy and well connected and stuck middle-class workers and families with the bill.

Dr. Abramowitz, can you discuss how the tax bill could have been drafted to help a family like Jodie's instead of hurting it?

Ms. ABRAMOWITZ. Yes.

Chairman NEAL. Put your microphone on, please, Ms. Abramowitz.

Ms. ABRAMOWITZ. Listening to the description of the family, it struck me, before we even think about what the tax bill did in 2017, if we were thinking about what we could do aspirationally, I am listening to this poor family; as a result of unemployment, they had to take first loans from their pension accounts, and I presume they were unable to pay them back, and, therefore, their loans became income for them in the year last year, this current year. And I also presume that they might have paid a penalty because they hadn't reached the age of 59 and a half. And I want to raise something that is not in the 2017 bill at all but something we see all the time that I think Congress should be aware of.

We incentivize retirement savings, and we don't want people to take it out too early. So we impose this penalty tax. The exceptions to the penalty tax are for education, for buying a first home, for actual out-of-pocket medical expenses. But this family is so reminiscent of those that I see in my clinic all the time: people who are out of work and unable to buy the groceries, unable to pay the rent. If they take out loans for that purpose, I don't have a problem paying the basic income tax, but the notion of a penalty tax on top of that is something I think Congress ought to rethink. Is that a better place to provide relief, perhaps, than buying a new home?

Mr. HORSFORD. Thank you.

Thank you, Mr. Chairman. I yield back.

Chairman NEAL. I thank the gentleman.

Today's hearing has been the hearing that never took place. These are all issues that we should have thoroughly considered and heard expert witness on before Congress passed a $2.3 trillion tax giveaway, not after. The Committee will continue to scrutinize the 2017 tax law and seek to better understand what these hastily made changes to our tax system meant for the American taxpayer.

Please be advised that members have 2 weeks to submit written testimony to the Committee and to raise questions as well. Those

questions and your answers will be part of the formal hearing accord.

And, with that, the Committee stands adjourned.

[Whereupon, at 2:32 p.m., the Committee was adjourned.]

Member Questions for the Record

Question for the Record
Ways and Means Committee Hearing on "The 2017 Tax Law and Who It Left Behind"
March 27, 2019

Republican Leader Kevin Brady (R-TX)

Question for Dr. Holtz-Eakin: *Professor Oh indicated that it is important to examine individual reforms such as the near doubling of the standard deduction, changes to itemized deductions, the elimination of personal exemptions, and changes to the child tax credit holistically in order to evaluate the impact of TCJA on families. The Joint Committee on Taxation (JCT) did so in its publication "Distributional Effects of Public Law 115-97." Specifically, on page 20 of JCX-10-19, Table 6 shows that these provisions combine to be a net tax cut for taxpayers with incomes below $100,000 but tend to increase taxes for more affluent taxpayers. Concerning a return to prior law in these areas, JCT also noted that for families with economic income below $100,000,* "On net, this could lead to a tax increase for such a family if these provisions were changed back to their prior-law versions." *What does this analysis tell us about the economic profile of families that benefit from these reforms, and what type of taxpayers were "left behind" by these reforms?*

As you note in your question, the Joint Committee on Taxation details the interaction of the TCJA's higher standard deduction, expanded child credit and reduced or eliminated exemptions and deductions across the income distribution. The JCT's analysis makes plain that this set of changes on net provides a net tax benefit to taxpayers below $100,000, but in general reduced tax preferences for taxpayers making over $100,000. Based on this analysis, one could reasonably conclude that this set of changes increased the relative progressivity of the tax code, and reduced complexity for lower- and middle-income taxpayers.

QFR From Congresswoman Stephanie Murphy

Ways and Means Hearing: The 2017 Tax Law and Who it Left Behind
March 27, 2019

Question for Professor Jason Oh: *Professor Oh, I'd like to ask you a bit more about the 199A deduction. My understanding is that the point of this deduction was to provide a comparable level of taxation between C corporations and pass-throughs, to provide small businesses with a tax cut and to encourage job creation. It's that last goal that really interests me.*

In your testimony, you state that this deduction "draws arbitrary distinctions between different types of business activities. For example, the deduction is much more generous to architecture and engineering than to medicine, law, and accounting. Horizontal equity is a basic concept in tax policy that similar activities should be taxed the same."

In my district, there are about 2,000 franchise businesses that employ 18,000 workers and most of them are organized as pass-throughs. Is there any reason for the tax code to treat a job created by say, a franchisee of a home health care company less favorably than one created by franchised restaurant? How about the local franchisee of a tax preparation service? Is it good tax policy to treat these businesses differently?

My understanding is that these fields are discriminated against out of concern that highly paid professionals could use the deduction to get a tax cut on what are essentially their wages, is that correct? Does that concern apply at all to an entrepreneur who owns one of the businesses I just described, and is hiring workers in what just happens to be a service field?

Section 199A provides a 20% deduction for "qualified business income"[1] earned in a "qualified trade or business." This deduction is subject to many limitations, one of which is particularly relevant to your question. "Qualified trade or business" does not include income from specified types of businesses if the taxpayer has more than a threshold amount of income.[2] These industries (called "specified service trades or businesses" or SSTBs) are defined as "a trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, investing and investment management, trading, dealing in certain assets or any trade or business where the principal asset is the reputation or skill of one or more of its employees or owners."[3]

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[1] The passthrough deduction also applies to dividends received from a real estate investment trust and income from publicly traded partnerships.

[2] This limitation is phased in starting at an income of $315,000 for married couples filing jointly ($157,500 for all other taxpayers). The benefit is completely phased out at an income of $415,000 for a married couple filing jointly ($207,500 for all other taxpayers).

[3] The IRS has issued proposed guidance narrowly interpreting "any trade or business where the principal asset is the reputation or skill of one or more of its employees or owners." The IRS explains "The principal asset of a trade or business is the reputation or skill of its employees or owners if the trade or business consists of the receipt of income from endorsing products or services, the use of an individual's image,

By treating SSTBs differently than other businesses, Section 199A creates arbitrary distinctions between businesses in different industries. This distinction means that a successful franchisee of a home health care company will pay more taxes than a similarly successful franchisee of a restaurant. It is not good tax policy to treat these businesses differently. This violates the basic tax principle that (absent justification) income should be taxed the same regardless of how it is earned.

This principle is grounded in fairness, efficiency, and administrability. It seems unfair and arbitrary for taxpayers in different industries to pay disparate amounts of tax when they earn the same amount of money. From an efficiency perspective, the difference in taxation can distort decisions about the type of work that U.S. citizens engage in and the types of businesses in which U.S. citizens invest. From an administrability perspective, the IRS is now forced to police this artificial boundary between different types of business activity. Section 199A has already forced the IRS to propose complicated regulations addressing a variety of tax avoidance techniques made possible by this hastily drafted law.

In response to your second question, it is hard to articulate a justification for why these particular industries were singled out. I do not think that the unequal treatment can be completely explained by a concern that these fields include highly paid professionals who could otherwise use Section 199A to reduce taxes on their wage income. The current rule is grossly over- and under-inclusive if that is the goal. It is under-inclusive because many highly paid professionals exist in industries outside the definition of SSTBs (e.g., architecture and engineering). It is over-inclusive because many businesses like the home health care services franchisee are not just earning wage income.

Unfortunately, there were no public hearings held during the drafting of this bill. We have little legislative history to draw on to understand why these distinctions were drawn.

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likeness, voice, or other symbols associated with the individual's identity, or appearances at events or on radio, television, or other media formats."

Public Submissions for the Record

Testimony for the Record on Behalf of the Minnesota Council on Foundations
Submitted to the United States House of Representatives Ways and Means Committee Hearing on the "2017 Tax Law and Who It Left Behind"
April 4, 2019

We appreciate the opportunity to provide written testimony to the Ways and Means Committee on the impact of the 2017 tax law. Our written testimony will be focused on the impact of the tax law on philanthropy and charitable giving.

Diminished Tax Incentive for Charitable Giving
With the large increase in the standard deduction, fewer taxpayers are itemizing. Since the charitable giving tax deduction is only available to itemizers, a consequence of this change is that far fewer households are receiving a tax incentive to give to charity. While we know people give for a variety of reasons besides taxes, we're already seeing some concerning changes in 2018 giving patterns, and we encourage Congress to revisit how charitable giving is incentivized.

Even before the 2017 tax change, fewer Americans were making charitable donations. Indiana University's Lilly Family School of Philanthropy has found that the percentage of Americans who give has fallen by 11 percent over the past 14 years—from 67 percent in 2002 to just 56 percent in 2014. The doubling of the standard deduction in the Tax Cuts and Jobs Act will likely accelerate this trend.

The Fundraising Effectiveness Project found that the total number of donors dropped by 4.5% between 2017 and 2018. The FEP study also found that while total giving from gifts of $1,000 or more increased by 2.6% in 2018, gifts in the $250 - $999 range dropped by 4.0%, while gifts of under $250 dropped by 4.4%. Additionally, Blackbaud's 2018 Report on Charitable Giving found while GDP in 2018 grew by 3 percent—charitable giving grew by just 1.5 percent. And an American Enterprise Institute report projects that the TCJA will reduce charitable giving by individuals by $17.2 billion (6 percent) in 2018, primarily due to the doubling of the standard deduction.

As a sector, we would like to see a universal charitable deduction or universal tax credit that incentivizes all taxpayers – regardless of income – to give. We encourage the House Ways and Means Committee to explore how best to encourage charitable giving and to expand the charitable giving incentive to everyone.

New and Burdensome UBIT Taxes & Requirements on Nonprofits, Foundations, and Places of Worship
Tax reform included a new 21% federal tax on nonprofit employee transportation and parking fringe benefits. Not only do nonprofits, foundations, and places of worship now have to pay a hefty tax on these benefits, but they must put a value on the benefit offerings as well, which can be difficult when there is no clearly defined valuation method. Administratively, the new tax is excessively burdensome. This new requirement forces many tax-exempt employers, including churches and other places of worship, to file federal Form 990-T for the first time, irrespective of their engagement in unrelated business activity. A study commissioned by Independent Sector reveals that nonprofits estimate that they will see an average of nearly $12,000 diverted from their mission in order to meet this increased tax and administrative burden.

The 2017 tax law also requires nonprofits with more than one unrelated business or trade to compute unrelated business taxable income separately for each trade or business. The requirement to calculate unrelated income streams separately is estimated to cost affected nonprofits an average of $15,000 per year, per the same Independent Sector study. This provision diverts money from the nonprofits intended charitable purpose. As a sector, we ask Congress to quickly repeal both of these UBIT provisions and to consider including these items in the tax extenders bill.

The Minnesota Council on Foundations looks forward to working with you to achieve a strong and vibrant independent sector through tax policy that promotes philanthropy and charitable giving.

2017 TAX LAW AND WHO IT LEFT BEHIND

I am employed as an outside salesperson of moderate income and am payed on straight commission. i can no longer deduct unreimbursed business expenses which average around $ 13,000 per year and of which is mostly vehicle expenses. The standard deduction was raised to $12,000 so therefore not only can I not deduct business expenses but also mortgage interest and property taxes. If I can't deduct the business expenses why can the company still deduct expenses? Basically, my income just dropped $13,000 per year. There are tons of people this particular deduction has affected.

Tana Register

Deer Park, TX

m·n·a·
Michigan Nonprofit Association

CMF Council of Michigan Foundations
Growing the impact of Michigan philanthropy

April 8, 2019

Chairman Richard E. Neal
Ways and Means Committee
U.S. House of Representatives
1102 Longworth House Office Building
Washington D.C. 20515

Dear Chairman Neal and Members of the House Ways and Means Committee:

Thank you for the opportunity to provide written testimony for the March 27th hearing on the "2017 Tax Law and Who It Left Behind," the 2017 Tax Cuts and Jobs Act (2017 Tax Act).

We recognize that testimony in the hearing covered a broad array of issues impacted by 2017 Tax Act and appreciate that several Members of the Committee raised questions about the impact of the Act on the charitable sector. We support your interest in and look forward to a hearing focusing on how the 2017 Tax Act is impacting the Charitable Sector.

As the two primary organizations representing the more than 39,000 charitable nonprofits and foundations in Michigan, the Council of Michigan Foundations (CMF) and Michigan Nonprofit Association (MNA) are hearing from our members that there are two primary negative impacts caused by the 2017 Tax Act that merit your immediate attention and for which our sector needs your help to rectify.

First, the 2017 Tax Act has created new financial and administrative burdens to the charitable sector due to changes to the exempt organization Unrelated Business Income Tax (UBIT) rules. Specifically, new taxes imposed on expenses paid by our foundations and nonprofits for employee parking and transportation benefits are taking valuable funds away from programming activities that would normally go toward helping those in need and causing nonprofits to focus time to address new reporting requirements that are impacting the ability to attract and retain talented staff. One study indicates that the average nonprofit will pay about $10,000 in taxes and incur up to an additional $2,000 in accounting fees to calculate the tax.

In addition, the requirement that each organization must compute unrelated business income and related losses for each unrelated trade or business separately has also created new administrative and financial burdens. Last year in response to Notice 2018-67, we and many other nonprofit organizations submitted comments to the U.S. Treasury Department and the IRS on the "siloing" of unrelated businesses. We are appreciative of the bi-partisan support in Congress to modify, or more ideally, repeal some or all of these UBIT provisions.

Second, the 2017 Tax Act has dramatically reduced the number of taxpayers able to itemize their charitable gifts, thus exacerbating a disturbing decline in the number of taxpayers who are incentivized to engage in charitable giving. Research has confirmed that tax policy does impact how much taxpayers will give, and whether the giving incentive is a charitable credit or charitable deduction, we strongly support the creation of a tax incentives that ensure all taxpayers can utilize important incentives to giving. The year 2017 was the 100th anniversary of the charitable deduction and research confirms the valuable role it played in promoting the habit of giving, considered by many to be a vital part of our American culture.

Most importantly for lawmakers, the 2017 Tax Law did not provide time for the IRS and experts in tax policy at the national and state levels to develop the needed forms and reporting mechanisms to document the immediate impact of the 2017 Tax Act on our charitable sector. CMF and MNA join with the Council on Foundations and other partners in the charitable sector to encourage Congress to support an independent study on the current state of giving. With anticipated reductions in government programs and financial support in the coming years, we know that philanthropy cannot replace government funding. While ad hoc data is now becoming available on the impact of the 2017 Tax Act to our sector in 2018, a study on 2019 giving will provide a clearer picture and give highly valuable and much needed guidance on possible giving incentives that can engage more taxpayers.

Finally, we wish to acknowledge that the 2017 Tax Act did provide new potential for creative solutions to community problem solving including the introduction of provisions for Opportunity Zones. While our members are exploring how philanthropy might partner in communities to amplify the work of Opportunity Zones in which investors and developers are provided the ability to forgo and defer paying some capital gains taxes if they invest in designated zones. We look forward to working with the Administration and the Congress to clarify regulations for Opportunity Zones so that they might be an even more helpful resources to some struggling communities.

On behalf of the Michigan's charitable sector, thank you for your leadership and recognition that the 2017 Tax Act has not fully benefited all sectors of the economy nor all taxpayers. Please let us know how we can help you advance solutions that will restore the long-standing partnership between government and our sector and to ensure all Americans have equal opportunities to succeed.

Respectfully submitted,

Donna Murray Brown, President
Michigan Nonprofit Association

Kyle Caldwell, President and CEO
Council of Michigan Foundations

April 10, 2019

The Honorable Richard Neal
Chairman
Committee on Ways and Means
US House of Representatives
Washington, DC 20515

The Honorable Kevin Brady
Ranking Member
Committee on Ways and Means
US House of Representatives
Washington, DC 20515

RE: The 2017 Tax Law and who It Left Behind

Dear Chairman Neal and Ranking Member Brady:

The Coalition for a Prosperous America (CPA) appreciates this opportunity to evaluate the Tax Cut and Jobs Act and consider what additional steps should be taken to improve the US tax system.

CPA is the only national organization that represents exclusively domestic producers. We represent manufacturing, agriculture, and labor. We support a simpler tax code that improves US trade performance, solidifies the tax base and eliminates multinational and foreign corporations' tax advantages.

Therefore, we ask that you consider both (1) a Destination-Based Sales Factor Apportionment tax and (2) a strategically implemented US Goods and Services Tax for future tax reform.

The Tax Cut and Jobs Act (TCJA) was a meaningful tax reform effort. However, we are concerned that critical problems remain, including tax code complexity, profit shifting, and favoritism towards foreign producers.

CPA urges you to strongly consider a destination-based system of taxing both profits and consumption. The US has the world's largest consumer market. Companies achieve profits by accessing our market. Domestic, multinational and foreign businesses should all be taxed based upon that access.

The current system of taxing multinational firms should shift to Destination-Based Sales Factor Apportionment. The US tax base for corporations should be calculated based on a fraction of their worldwide income. That fraction would simply be the share of their worldwide sales that are destined for customers in the United States.

The US should also institute a consumption tax, such as a Goods and Services Tax (GST), to improve our trade competitiveness. A GST should be implemented in a revenue and distribution neutral manner by reducing other domestic taxes or costs. American exports face foreign countries' value-added taxes, averaging 17% globally. Foreign imports to the US receive a value-added tax rebate from their home country. Therefore, our exports are double taxed while foreign imports are not. A GST would neutralize their advantage.

Destination-Based Sales Factor Apportionment

CPA requests that Congress reform the tax code based upon a territorial corporate income tax called Destination-Based Sales Factor Apportionment (DBSFA). The corporate tax base would be solidified because DBSFA provides near immunity from base erosion. Multinationals would no longer gain a tax advantage by profit shifting to subsidiaries in low tax countries. Many US states have, for many years, used a sales-based formulary apportionment system to allocate national income for tax purposes. These states adopted SFA to solve the difficulty of assigning corporate profits across state borders. A sales-based taxation method recognizes that customers are the true source of profits and are far less mobile than the firm's assets or employees.

The previous and current tax system incentivizes offshoring, corporate inversions out of the US, profit shifting to foreign tax havens and other tax avoidance schemes. Multinational corporations (MNCs) can strategically allocate earnings to subsidiaries outside of the US while allocating costs to locations within the US. The TCJA did implement some complex, but limited, defensive rules against these strategies. However, the early evidence is showing these rules to be insufficient. The TCJA rules of GILTI, BEAT, and FDII can be avoided by moving assets and labor out of the US to avoid falling prey to arbitrary calculations.

The location of corporate headquarters should not matter, but it still does under the TCJA. MNCs have replaced their old deferral strategies with new strategies distinguishing their internal profit categories to avoid triggering GILTI and BEAT. By recategorizing what type of profit was made by the corporation, tax lawyers allocate profits into beneficial TCJA defined categories. MNCs continue to reduce how much profit is attributed to the US under TCJA. Domestic US companies, in contrast, can't afford the lawyers or the subsidiaries and thus pay more taxes on equivalent profits. Foreign domiciled corporations doing business in the US pay taxes on a fully territorial basis, and still have an advantage. In other words, they only pay taxes on profits they allocate here not on the profits earned by their sales here. The tax system rewards corporate firms for being "less of an American company."

DBSFA solves these problems. Corporations earn income from sales. Therefore, income should be allocated based upon the destination of those sales. MNC income should no longer be allocated based upon the location of a subsidiary that allegedly earned it. The location of sales is much more difficult to manipulate than the "origin of income" under the current system. The US tax base for corporations would be calculated on the basis of a fraction of companies' worldwide

income. This fraction would be the share of each company's combined (including subsidiaries within the company's legal and economic control) worldwide sales that are destined for customers in the United States.

Access to our consumer market from which all business, foreign or domestic, generate their revenue should determine the taxes owed to our country. A DBSFA system ignores the artificial legal distinctions among types of firms. Subsidiaries, branches and hybrid entities are all considered a unitary business for tax purposes - which, after all, is what they are. Whether a parent or a subsidiary is incorporated in the US or elsewhere makes no practical difference to production, sales or distribution. Hence it should make no difference to taxation.

A DBSFA system would improve America's trade competitiveness because it provides domestic producers with a further incentive to export. Profits from overseas sales would not be subject to taxation. Foreign producers who sell goods and services here would pay taxes on profits arising from the privilege of accessing our market. No corporate tax benefit would result from moving a US plant overseas.

DBSFA should have bipartisan support because it would solidify the corporate tax base and raise more revenue under current lower rates. It would end favoritism towards foreign and multinational companies and de facto discrimination against domestic companies. Tax competition from low tax countries will have little effect on US tax revenue or corporate behavior because a location of sales-based system makes profit shifting irrelevant. The tax code should not incentivize production to move from the US. It is for these reasons that we ask you to establish destination-based sales factor apportionment as the basis for corporate income tax reform.

A Strategic US Goods and Services Tax

CPA requests that you consider strategically adopting a consumption tax known as a Goods and Services to improve the global trade competitiveness of US-based companies and workers, reduce the trade deficit and foster sustained job and economic growth. A GST can be and should be revenue and distribution neutral.

The US unilaterally disarmed, in the last 45 years, by reducing tariffs while over 150 countries replaced their tariffs with value-added taxes averaging 17%. American exporters, therefore, face nearly the same border taxes (tariffs plus consumption taxes) as they did in the 1970s.

When the US exports a $600 dishwasher to China, the price becomes $696 when the Chinese 16% VAT is added. When a Chinese company exports a $600 dishwasher to the US, the VAT rebate reduces the price by about $96 to $504.

Congress can neutralize this foreign trade advantage by adopting a GST and using the proceeds to reduce other domestic taxes and costs in a revenue and distribution neutral manner. For example, a 13% GST could raise $1.4 trillion in revenue which could fund a full offset of domestic payroll taxes, reduce personal income taxes and provide a credit for health care costs.

US companies would receive a 13% GST rebate when exporting, largely eliminating the double taxation penalty when paying the average 17% foreign VAT. Foreign companies would pay our 13% GST when shipping to the US. Imports are 15% of US GDP. By applying a GST on those imports, we can reduce the tax burden on US producers and taxpayers.

The result would foster greatly improved US trade performance, reduce offshoring and create good-paying American jobs. A strategically designed US GST is necessary to level the playing field between US companies and foreign competition.

American domestic companies need an equitable corporate tax code. We ask the Ways and Means Committee consider these proposals to achieve that end.

Thank you for your consideration.

Sincerely,

Daniel DiMicco
Chairman

Michael Stumo
CEO

Written Testimony of American Citizens Abroad, Inc.
Before the US House of Representatives Ways and Means Committee
Hearing on
THE 2017 TAX LAW AND WHO IT LEFT BEHIND
April 8, 2019

This testimony is submitted in connection with the hearing held on March 27, 2019.

My name is Marylouise Serrato. I am the Executive Director of American Citizens Abroad, Inc. ("ACA"), a qualified section 501(c)(4) social welfare organization. Alongside of ACA is American Citizens Abroad Global Foundation ("ACAGF"), a section 501(c)(3) publicly-supported charity.

ACA is a non-partisan volunteer organization. It is widely recognized as a premier thought-leader on issues affecting US citizens living and working abroad. It has over 40 years of experience.

ACA's mission is to educate, advocate and inform both the US Government and US citizens living and working abroad on legislative and regulatory issues of concern to the overseas American community. The US State Department estimates this community to be nearly 9 million strong.

ACA appreciates the opportunity to submit testimony to the committee to outline how US citizens living and working overseas were overlooked in the passage of the 2017 Tax Cuts and Jobs Act ("TCJA") signed into law on December 22, 2017.

While this testimony is directed at the problems created by Congress overlooking important subjects affecting Americans abroad, we want to emphasize, at the outset, that the best solution is not going back and cutting into the changes made by TCJA but rather by adopting residency-based taxation for Americans abroad. This is the simplest and most straightforward step. It can be made revenue neutral and "tight against abuse". It can be done without doing injury to taxpayers benefitting somehow from the current rules. It would also bring the US into line with all other countries with the exception of hard-pressed Eritrea. It is the obvious thing to do. It is the right thing to do. ACA urges Congress to enact residency-based taxation.

Congress should immediately hold hearings on the subject of taxation of Americans abroad. All the relevant information should be put on the table. Affected taxpayers can tell their stories. Joint Committee on Taxation can lay out all the relevant information, including history of the rules, details of how they operate, revenue impacts and important issues, such as, various ways to make changes revenue neutral safeguard against abuse. Then Congress, with this committee leading the way, can craft reasonable, straight-forward legislation. In truth, it is simply not that difficult and not that momentous an undertaking.

TCJA moves international taxation to residence-based/territorial, but not for US citizens living and working overseas.

The TCJA moves the US international tax regime to a residency-based or territorial tax regime. That is to say that income not derived or earned in the United States will no longer be subject to US taxation. This territorial approach to taxation applies to US international corporations; however, individual US citizens will continue to be taxed based on their US citizenship or on a citizenship-based taxation regime ("CBT"), continuing to pay taxes to the US on income earned outside of the United States.

US citizens overseas face serious compliance and double taxation issues related to CBT, some of these now exacerbated by TCJA. Under CBT Americans overseas must file two tax returns, one in the country in which they are resident and a second return for the IRS. Some mitigating tools exist to help avoid double taxation. However, given that foreign tax policies often do now align perfectly the US tax regime, certain foreign taxes are not creditable against US taxes. Examples include certain foreign social taxes, VAT taxes and wealth taxes. Many countries use alternate taxation models to raise revenue and do not rely as heavily on income as a source. Additionally, the Foreign Earned Income Exclusion ("FEIE"), which annually excludes the first $105,900 (2019 exclusion threshold) of income from US taxation, does not cover unearned income; income such as, employer contributions to foreign retirement plans, government pensions, disability payments and social security/pension payments.

The requirement of using the US dollar as function currency for tax filings often results in phantom gains on the sale of property leaving some individuals with no ability to pay this gain. US citizens who are earning in a foreign currency and not sourcing income generated in the United States, may take out a mortgage in another currency, pay back the exact same amount, and then just because the exchange rate moves against them, have to pay taxes on this phantom gain.

Foreign Companies owned by US Citizens now treated like large International Multinationals.

TCJA moves the US from a worldwide tax system to a participation exemption system by giving US (that is, domestic) corporations a 100% dividend received deduction for dividends distributed by a controlled foreign corporation (CFC). To transition to that new system, the measure imposes a one-time deemed repatriation tax, payable over 8 years, on unremitted earnings and profits at a rate of 8 percent for illiquid assets and 15.5 percent for cash and cash equivalents. The dividends received deduction, which obviously is a major benefit, is available only to US corporations that are shareholders in the CFC. The deduction is not available to individuals, nor is it available to foreign corporations, which, for example, are owned by US individuals, including individuals living abroad. On the other hand, the repatriation tax applies to everyone, not merely US corporations. Accordingly, a US citizen residing abroad, who is a shareholder in a CFC, might be subject to the repatriation tax.

There can be no justification for requiring an American owning and operating a restaurant in Bergen, Norway or a Yoga studio in France, with very little in the way of undistributed, non-previously-taxed post-1986 foreign earnings of the business, to calculate and pay the transition tax. If she doesn't comply, not only will she owe the tax but also penalties and interest. In the true sense of the word, this result is absurd. Note, these individuals might not have in hand the actual monies needed to pay this tax. ACA has heard of cases where individuals do not have the funds to pay the tax or have been forced into closing their businesses because they cannot afford to comply.

Treasury has been intransigent in its belief that the filing requirements for small businesses such as the ones noted above, does not present a significant economic impact on these small businesses and, therefore, the Regulatory Flexibility Act (RFA), which assesses the economic impact on small entities, does not apply. ACA testified to the IRS on these issues, recommending that a *de minimis* rule be applied to remove small taxpayers from the filing and, requesting that an RFA assessment be undertaken to understand the economic impact on small taxpayers. https://www.americansabroad.org/media/files/files/c850be73/aca-comm-testimony-irs-965-regs-22-oct-2018.pdf.

Americans overseas do not qualify for special reduced "passthrough" rates.

TCJA allows a deduction of up to 20% of passthrough income for specified service business owners with income under $157,500 (twice that for married filing jointly). The passthrough tax break, however, will not help Americans abroad because it only applies with respect to domestic business income, that is, items of income, gain, etc. that are effectively connected with the conduct of the trade or business within the US.

$10,000 itemized deduction disallowed for foreign property taxes.

Foreign real property taxes can no longer be deducted under TCJA. This change came up in the context of proposals to eliminate all State and local property taxes, except when paid or accrued in carrying on a trade or business or an activity relating to the production of income. An exception allows a taxpayer to claim an itemized deduction of up to $10,000 ($5,000 for married taxpayers filing a separate return) for the aggregate of State and local property taxes not paid or accrued in carrying on a trade or business or an activity relating to the production of income and State and local income, war profits, and excess profits taxes. However, expressly cut out from this exception are foreign property taxes.

US citizens continue paying tax to fund Medicare without access to Medicare benefits.

The 3.8% net investment income tax to fund Medicare and The Affordable Care Act, remains in place under TCJA and continues to apply in a way that, for Americans abroad, exposes them to double taxation because they are not allowed to credit foreign taxes against it. At the same time, Americans overseas who pay into Medicare cannot

access Medicare benefits while resident overseas unless they return to the United States for treatment.

The Foreign Account Tax Compliance Act (FATCA) unchanged by TCJA.

The Foreign Account Tax Compliance Act, known as FATCA, was passed in 2010 as part of the HIRE act. FATCA requires foreign financial institutions (FFIs) such as, local banks, stock brokers, hedge funds, insurance companies, trusts, etc. to report the accounts of all US citizens (living in the US and abroad), US "persons," green card holders and individuals holding certain US investments, to the IRS or to the government of the bank's country for further transmission to the US through Intergovernmental Agreements (IGAs) or be subject to a 30% withholding on their US investments.

The legislation was targeted at "bad actors" namely, Americans resident in the United States but holding undeclared offshore accounts for tax evasion purposes. For Americans living overseas the financial accounts held in the country of their residency for purposes of running a business or their everyday lives, are not offshore accounts being used to evade US taxation. As a result of the legislation, foreign banks and financial institutions, due to the increase compliancy cost and fear of penalty application, are simply closing the accounts of Americans living overseas or limiting/ refusing them services.

A recommendation from the National Taxpayer Advocate and ACA to adopt "Same Country Exemption"[1] which would exclude from FATCA reporting for Americans overseas accounts held in the country of residence, was not considered for inclusion in TCJA, even though the problems of FATCA are well known to Congressional offices. Hearings on the problems related to FATCA were held on April 26, 2017 and legislation to provide safe harbor or Same Country Exemption for Americans overseas was introduced by Representative Maloney.[2]

Added to the problems of FATCA is the increased compliance, and confusion, resulting from identifying accounts that are reportable on a FATCA Form 8938 and those reportable on a similar bank account reporting form, the FBAR (Foreign Bank Account Report) or FinCEN form 114. A recent GAO report highlights the problems inherent in these overlapping filings and the increased compliance burden on Americans overseas. The GAO report also acknowledges the issue of bank account "lock-out" affecting US citizens overseas as a result of FATCA. https://www.gao.gov/products/GAO-19-180?utm_source=onepager&utm_medium=email&utm_campaign=email_%20si

[1] https://www.americansabroad.org/media/files/files/feffd7bf/same-country-exemption-2015-04-06.pdf
[2] The Overseas Americans Financial Access Act (H.R. 2136); https://www.congress.gov/115/bills/hr2136/BILLS-115hr2136ih.pdf.

Complex, costly and time-consuming tax filing unchanged for Americans overseas.

One of the promises of TCJA was the simplification of tax filing for all US citizens. For Americans overseas there was no improvement in, or simplification of, their tax filings requirements.

This is evidenced above with FATCA and FBAR reporting. Duplicate reporting requirements and complex and costly filing requirements remain the norm for most Americans overseas. For those Americans with overseas businesses the compliancy has increased given the already complex and time-consuming filing requirements and now the new requirements imposed by the transition tax. Forms such as the 5471 (Information Return of US persons with respect to certain foreign corporations) with 29 pages of instructions, averages 40 hours to complete with an average of 100 additional hours needed for learning the relevant law and record- keeping. Form 8421 (Information Return by a shareholder of a Passive Foreign Investment Company) –most foreign mutual funds and pension funds are classified as such - requires approximately 21 hours to complete with an additional 28 hours for learning the relevant law and record keeping.

Most Americans overseas, in order to correctly file their taxes, must hire a professional tax preparer. The cost of hiring a competent US tax preparer for international issues is multiples of the cost of a domestic preparer and, off the shelf software is not sufficient for most cases. Turbo Tax is woefully inadequate for all but the most basic tax reporting for overseas Americans. Even the most professional software programs get many things wrong for overseas Americans.

Congress must address the legislative and regulatory issues affecting Americans overseas.

In the development and passage of TCJA there was minimal focus on the concerns of the community Americans living overseas. Little consideration was given to how the changes in tax law would affect overseas Americans, as is evidenced by this testimony. Particularly egregious is the treatment of Americans overseas under the new international corporate tax regime where a *de minimis* ruling was not applied in order to take out from reporting small tax payers and, Treasury's arbitrary determination that the Regulatory Flexibility Act ("RFA") does not apply because shareholders of foreign corporations are not *small entities*.

The logical way forward is for the United States tax code to come into the global norm and tax its citizens based on residency and not citizenship. Legislation introduced in the last Congress by Representative Holding, "The Tax Fairness for Americans Abroad Act of 2018" (HR 7358) would resolve many of the issues outlined in this testimony. It is our fervent hope that the 116th Congress will consider holding hearings on the legislative and regulatory tax issues affecting Americans living and working overseas. There is no reason US citizens who live overseas because they work in US multinationals and foreign companies, have started their own businesses, work for NGOs and non-profits,

serve as missionaries, were born overseas, hold dual citizenship, or simply have decided to build a life outside of the United States, should be left out in the cold when it comes to tax reform.

Again, we thank you for this opportunity to testify.

asae
The Center for Association Leadership

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asaecenter.org

April 10, 2019

The Honorable Richard Neal, Chairman
U.S. House Committee on Ways & Means
1102 Longworth House Office Building
Washington, D.C. 20515

RE: March 27, 2019 tax hearing and unrelated business income tax (UBIT) on tax-exempt organizations

Dear Chairman Neal:

On behalf of the American Society of Association Executives (ASAE), whose membership includes over 44,000 association professionals across 7,500 organizations, thank you for convening the March 27 hearing to examine the "The 2017 Tax Law and Who It Left Behind". While this hearing did not focus on unrelated business income tax (UBIT) or its harmful impact on the tax-exempt sector, these issues were raised by multiple members of your committee. As such, I wish to further express how detrimental UBIT on transportation and fringe benefits is for tax-exempt organizations, including nonprofits, associations and places of worship.

26 USC Section 512(a)(7), established by the Tax Cuts and Jobs Act (TCJA), requires tax-exempt organizations to pay a 21-percent excise tax on certain fringe benefits (i.e., parking and transit) offered to employees. Until passage of the tax law, UBIT was applied only to income sources. For the first time, however, TCJA applied UBIT to an expense. The new UBIT diverts mission-oriented funds that would otherwise support communities in need.

The administrative burden is also significant for tax-exempts, many of which must file 990-T forms for the first time. According to a study commissioned by Independent Sector, the average UBIT for nonprofits will divert $12,000 from programs and services. [1] And, for the hundreds of thousands of organizations reporting UBIT for the first time, estimated administrative expenses to file UBIT will be in the millions. These liabilities are especially painful for nonprofits, which employ 12.5 million Americans – 10.2 percent of the private workforce. [2] According to the Internal Revenue Service, "most charitable nonprofits are relatively small: 97 percent have budgets of less than $5 million annually, 92 percent operate with less than $1 million per year and 88 percent spend less than $500,000 annually for their work." [3]

I urge you to immediately repeal 26 USC Section 512(a)(7). Repeal will not only safeguard tax-exempts from undue financial harm and administrative burden, it will also help ensure nonprofits, associations and religious organizations can continue to deliver valuable programs and services to their communities.

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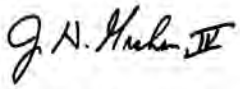
[1] How the TCJA's New UBIT Provisions Will Affect Nonprofits: A Tax on Transportation Fringe Benefits and Separate Reporting of Unrelated Business Income Streams, Urban Institute, January 2019. Available at https://independentsector.org/resource/research-on-ubit-provisions-in-2017-tax-cuts-and-jobs-act/.
[2] U.S. BUREAU OF LABOR STATISTICS, Research Data on the Nonprofit Sector, 2017 Annual Averages (March 2019). Available at https://www.bls.gov/bdm/nonprofits/nonprofits.htm.
[3] INTERNAL REVENUE SERVICE, Business Master Files, Revenue Transaction Files and Electronic (e-File) Form 990 returns for fiscal year 2016 (June 2018). Available at https://www.irs.gov/e-file-providers/e-file-for-charities-and-non-profits.

As an aside, I want to inform you that on April 2, ASAE also responded to the U.S. Department of the Treasury's request for comments on *Notice 2019-09 Interim Guidance Under Section 4960 — Tax on Excess Tax-Exempt Organization Executive Compensation (Pub. L. No. 115-97, title I, § 13602(a))*. Our members are concerned this excise tax is ambiguous and treats nonprofit organizations unfairly relative to their for-profit peers. ASAE specifically calls for a grandfather rule to mitigate inequitable tax treatment of executive compensation paid by nonprofit and for-profit entities, and an allocation formula to be instituted to properly reflect when the benefit is earned rather than vested. Additionally, since an aggressive interpretation of the statute could cause significant harm to nonprofit organizations, ASAE requests an allocation formula to mitigate the inequity for Section 457(f) plans.

Thank you for your consideration of these critical issues. ASAE is grateful for your stewardship in Congress and looks forward to working with you to support mission-driven organizations across the country.

Sincerely,



The Honorable Kevin Brady
The Honorable Mike Thompson
The Honorable Adrian Smith

STATEMENT FOR THE RECORD

United States House of Representatives
Committee on Ways and Means

Hearing on the 2017 Tax Law and Who it Left Behind

March 27, 2019

Bond Dealers of America
1909 K St NW #510
Washington, DC 20006

Introduction:

The Bond Dealers of America (BDA) appreciates the opportunity to offer its views regarding the 2017 Tax Cuts and Jobs Act (TCJA) and discuss the corresponding importance of ensuring the critical source of tax-exempt financing remains intact for state and local governments. Tax-exempt financing empowers state and local governments to efficiently build needed public infrastructure projects while helping promote robust economic growth.

Simply put, Municipal bonds build America's infrastructure and have been doing so for more than 100 years. State, local governments and their constituents need Congressional help to ensure this positive economic activity across the country continues.

BDA members provide essential assistance to state and local governments and private entities to help them raise capital, which they use to pay small business, their employees and suppliers for their goods and services. BDA is the only Washington, DC based trade association representing U.S. based, fixed income "main street" investment firms and banks and by extension their investor clients. Our specialized focus gives us a unique perspective how to best ensure the municipal bond capital market remains robust in its ability to efficiently raise the infrastructure funds state and local governments require.

In our comments, BDA focuses on three tax policy goals that Congress should pursue if it is to ensure capital is readily available for priority projects that engage, make purchases from, or facilitate operation of small businesses and further ease the burden for state and local governments:

- Continue the tax-exemption for interest paid on bonds issued by state and local governmental entities, without dilution

- Restore the ability of state and local governments to save taxpayer dollars and generate additional funds for infrastructure and other key initiatives by restoring Advanced Refundings (ARs) that were eliminated in the TCJA

- Expand the use of Private Activity Bonds (PABs)

Retain tax exemption for interest paid on state and local government bonds

Since the enactment of the federal income tax in 1913, interest paid on bonds issued by state and local governments has been excluded from federal taxation. Over the century since, the wisdom of that approach has been repeatedly affirmed.

Over the past decade, state and local governments have financed over $3.1 trillion in infrastructure. The municipal bond market is the main source of funding for this work. As an example over the past decade new-money municipal bond sales have totaled $2.1 trillion accounting for over 72% of these investments.

In principle, the federal government has no business taxing the legitimate governmental functions of state and local government, including the servicing of debt incurred for vital government projects and services.

In practice, the tax exemption for interest paid by state and local governments has reduced their borrowing costs by hundreds of billions of dollars. Further, the proceeds of the tax-exempt bonds, together with concomitant interest savings, have been used to create much of the existing stock of roads, bridges, schools, hospitals, and other key physical and institutional assets that are essential to the operation of our economy and society—assets that largely were built, supplied, or served by small businesses. Had the interest on state and local government bonds been taxable, the cost of capital for those assets would have been vastly higher. In turn, those higher capital costs necessarily would have resulted in higher state and local tax burdens and dramatically fewer infrastructure projects.

Indeed, even consideration of proposals to limit the tax exclusion for interest paid on state and local government bonds has proven extremely disruptive to capital markets, the projects they finance, and the jobs they create. Past proposals released or discussed in the last two Congresses have increased interest rates on tax-exempt bonds in the past and therefore issuers borrowing costs. The perceived risk to the tax exemption led some investors to seek higher yields on municipal bonds and to pull much-needed capital and liquidity out of the municipal markets. In turn, if government issuers must pay higher borrowing costs, governments must reduce or abandon infrastructure projects they can no longer afford.

BDA commends the Committee and Congress for recognizing that tax reform did *not* require changes to the tax treatment of interest paid on state and local bonds. However, BDA also is mindful that such exemption is a regular target of proposals to raise federal tax revenue. BDA urges the Committee and Congress to be

wary of such proposals, and reject any initiatives to ignore the lessons of the past century and tax interest paid on state and local debt.

Restore Advance Refundings

BDA disagrees with the *Tax Cuts and Jobs Act* provision that repealed tax-exempt advance refunding bonds (ARs). In our view, prohibiting advance refundings is contrary to the stated goal of this hearing; simply put, its puts state and local governments at a disadvantage as they try to address our nation's crumbling infrastructure and find immediate actions to help alleviate this growing problem.

This major change deprives state and local governments of an essential tool that is widely used to help finance America's infrastructure and generate capital that is spent with small businesses.

State and local governments routinely refinance their outstanding debt obligations, just as corporations and homeowners do. The advance refunding technique allows state and local government issuers to refinance, and thus benefit from lower interest rates. It is important to note that, under previous law, tax-exempt bonds could be issued to advance refund an outstanding issuance only once, a significant restriction on these transactions. **The BDA seeks a return to this policy.**

According to recent Government Finance Officers Association data, between 2012 and 2017, there were over 9,000 advance refunding issuances nationwide, saving taxpayers over $14 billion in the five-year period. We note that this represents the "present value" measurement of the savings—actual savings were substantially greater.

Advance refundings are of particular benefit to smaller issuers. For example, in Montgomery County, TX, six advance refundings for bonds used to finance Conroe primary and secondary education needs resulted in savings of over $20 million dollars. In Barrington, IL, the city saved $300,000 by advance refunding an issuance in advance refunding bonds for parks, and in Eden Prairie, MN an issuance of general purpose bonds was advance refunded resulting in $250,000 savings for the city.

Critical public policy considerations strongly support restoration of advanced refundings. Moreover, BDA believes that ARs may be reinstated without an unacceptable tax revenue impact—in particular, the BDA believes that data unavailable at the time tax reform was enacted will demonstrate that the projected federal savings from the repeal of advance refundings in the tax bill will be lower than the Joint Committee on Taxation estimate of $17 billion, largely due to the rush of issuers into the market in the latter part of 2017 and slowly rising interest rates.

Last year the House Municipal Finance Caucus drafted H.R. 5003, a bipartisan bill that to reinstate tax-exempt advance refunding bonds. As explained by the bill's sponsors, "the legislation would restore advance refundings so that states and local governments can

take advantage of favorable interest rates and more efficiently manage their financial obligations."

The Caucus, led by Congressman Dutch Ruppersberger (D-MD) and Congressman Steve Stivers (R-OH), are currently in the process of drafting similar legislation for the 116th Congress. With current support of nearly 100 Members of the House, the BDA strongly urges the Committee to report the bill favorably at the earliest opportunity, and for Congress to pass the legislation so that it may be signed into law.

The loss of advance refundings will severely impact the financing of core public services and infrastructure in states and localities that must deal with rapid growth and inadequate or aging infrastructure.

For example, in Texas, more than 50 issuers including cities, schools, hospitals, and water and public transportation boards in the five largest counties in Texas (Bexar, Dallas, Harris, Tarrant, and Travis) will lose the ability to advance refund an estimated $6.6 billion dollars in bonds over the next two years. The repeal of this vital financing tool translates into a loss of millions of dollars that could have been reinvested back into these communities or used to reduce the burden on local taxpayers. Similarly, the Port of Galveston, which was planning to advance refund an $11.3 million issuance in bonds that would produce a cost savings of $450,000, will not be able to do so.

Though the negative consequences of the repeal of advance refundings already are clear, the extent of that impact will not be fully evident for some time. Due to the low interest rates at the end of 2017 and the pending repeal of the ability to advance refund bonds, many state and local governments refinanced their bonds prior to year-end. As a result, there will be a relatively short period during 2018 before state and local governments feel the real impact of this change in law. However, as time passes and interest rates continue to rise, repeal of advance refundings is certain to have significant, long-lasting impacts on state and local governments.

In the long term, state and local governments will be greatly disadvantaged by the loss of the ability to issue tax-exempt AR bonds. Most importantly, they will have lost the most efficient mechanism to take advantage of low interest rates to refinance higher rate debt in advance of when such debt can be called. The inability to lock in lower interest rates when they are available will, simply stated, result in increased costs to these governmental entities and increased tax burdens on their residents. Moreover, at a time of relatively low, but steadily increasing, interest, state and local governments have lost an important means of restructuring their outstanding debt to respond to fiscal issues (which can include both paying off their debt more quickly or restructuring debt to deal with short term financial difficulties).

There are no alternatives to advance refundings that are as simple to effectively employ in terms of cost or risk. State and local governments are, wisely, hesitant to use interest rate swaps. Similarly, other alternatives are more costly than ARs and will not be able to provide an effective replacement for advance refunding bonds.

Expand the use of Private Activity Bonds

Bonds issued by state and local governments may be classified as either governmental bonds or Private Activity Bonds. Governmental bonds are bonds that are primarily used to finance governmental functions or which are repaid with governmental funds. PABs are bonds in which the state or local government serves as a conduit providing financing to nongovernmental persons (e.g., private businesses or individuals. The exclusion from income for state and local bonds does not apply to private activity bonds, unless the bonds are issued for certain permitted purposes and other Internal Revenue Code requirements are met. This includes usage for the financing of projects such as airports, hospitals, and affordable housing.

Present law provides three main tests for determining whether a state or local bond is in substance a private activity bond—the two-part private business test, the five-percent unrelated or disproportionate use test, and the private loan test.

If, during a given year, an issuing authority issues more qualified private activity bonds than its allocable volume cap, the tax-exempt status of those excess bonds is jeopardized. For calendar year 2018, the amounts used under Internal Revenue Code section 146(d) to calculate the state ceiling for the volume cap for private activity bonds is the greater of (1) $105 multiplied by the State population, or (2) $311,375,000. However, not all private activity bonds are subject to the volume cap limitation. For example, bonds used to finance airports, public education facilities, docks, wharves, and certain government-owned facilities are not subject to the cap.

Private activity bonds are used for a qualified purpose if 95 percent or more of the net bond proceeds are to be used for one or more defined qualified purposes. The qualified purposes are described in Sections 142 through 145 and 1394 of the Internal Revenue Code. For purposes of the 95 percent requirement, issuance costs financed with bond proceeds are generally treated as not being used for a qualified purpose.

The U.S. has compelling, unmet infrastructure needs, but state and local governments do not have the fiscal means to address those needs without substantial private sector engagement. Tax-exempt PABs facilitate greater private sector involvement in infrastructure projects and programs that, in turn, provide important public benefits that should be preserved and enhanced. Expanding the use of current infrastructure financing tools like PABs, rather than creating new financing methods (and resulting bureaucracies) such as a federal infrastructure bank, would help state and local governments partner with private entities in general—and small businesses in particular—to meet pressing infrastructure and other needs.

The *Tax Cuts and Jobs Act* recognized the benefit of PABs and, thus, did not adopt proposals to further limit, or even ban, their use. BDA urges the Committee and Congress to act on those acknowledged benefits of PABs and provide state and local governments additional flexibility to utilize PABs efficiently and effectively, and at low cost for the taxpayer.

Towards that end, BDA strongly supports expanding of the types of infrastructure facilities that are eligible to use tax-exempt PABs, lifting the PAB volume caps, and eliminating other restrictions on the use of PABs, such as the governmental ownership requirement for certain eligible facilities that apply under current law.

Conclusion

While the 2017 Tax Cuts and Jobs Act served many well, the legislation left state and local governments behind, and in turn, left America's infrastructure at a disadvantage. For over 100 years, municipal bonds have served as the primary financing mechanism for public infrastructure. Nearly three-quarters of the nation's core infrastructure is built for state and local governments, which engage small businesses to do much of the work. Imposing an unprecedented federal tax on state and local bonds, including advance refundings, will make these critical investments more expensive, and thus more infrequent or modest in scale.

We ask the Committee to continue to protect the tax-exemption while working to expand the usage of private-activity bonds, and reinstate tax-exempt advance refunding bonds. The Bond Dealers of America stands ready to work with the Committee as the TCJA is reexamined and as the Committee continues to debate infrastructure policy. We look forward to continually providing a main-street prospective on how best to ensure that the capital required investing in the facilitation of new project development and financing the maintenance of existing infrastructure is readily available.

KOGOD SCHOOL *of* BUSINESS
AMERICAN UNIVERSITY • WASHINGTON, DC

Hearing of the United States House of Representatives Committee on Ways and Means

April 9, 2019

Statement for the Record
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Chair Neal, Ranking Member Brady, Committee Members and Staff, thank you for holding the full committee hearing on March 27, 2019, titled, "The 2017 Tax Law and Who It Left Behind." My name is Caroline Bruckner and I am a tax professor on the faculty at American University's Kogod School of Business. I also serve as the Managing Director of the Kogod Tax Policy Center (KTPC), which conducts non-partisan policy research on tax and compliance issues specific to small businesses and entrepreneurs. Our mission is to develop and analyze solutions to tax-related problems faced by small businesses, and to promote public dialogue concerning tax issues critical to small businesses and entrepreneurs.

Prior to joining AU's faculty, I served on the staff of the U.S. Senate Committee on Small Business and Entrepreneurship (the "Senate SBC") from 2009-2014, ultimately as Chief Counsel. During my tenure with the Senate SBC, I handled tax, labor and budget issues for the committee and its chair, and worked with small business stakeholders across the country and political spectrum to develop small business legislation. Before public service, I worked in private practice as a tax attorney with both PaulHastings and PwC's Washington National Tax Services.

Both my public and private sector experience have informed my research at the KTPC, and this statement reflects KTPC research findings that there is an immediate need to:

(1) develop a comprehensive oversight strategy of the small business tax expenditures included in the Tax Cuts and Jobs Act of 2017 (P.L. 115-97) (hereinafter, "tax reform" or "TCJA") with respect to women business owners, 99% of whom are small businesses;[1]

(2) track and address how health care costs for small businesses have been impacted by tax reform; and

(3) remedy tax reform's failure to include reforms to facilitate tax compliance for gig economy workers.

1. Congress Needs to Conduct Oversight on the Effectiveness and Distribution of Business Tax Expenditures with Respect to Women Businesses Owners.

The Committee's effort to investigate who tax reform left behind is commendable, and going forward, the Committee should develop a comprehensive strategy of study and oversight of business tax expenditures to consider their impact with respect to women business owners. Although millions of women business owners should see some tax savings from the marginal rate cuts and other expenditures included in tax reform, KTPC research suggests that additional taxpayer investments in expenditures targeted to individuals with business income

[1] Michael J. McManus, *Issue Brief Number 13: Women's Business Ownership: Data from the 2012 Survey of Business Owners,* Office of Advocacy, U.S. Small Business Administration (May 31, 2017), *available at* https://www.sba.gov/sites/default/files/advocacy/Womens-Business-Ownership-in-the-US.pdf.

(IRC §199A) and small business owners (IRC §179) effectively "doubled-down" on a billion-dollar blind spot Congress has when it comes to women business owners and the U.S. tax code. This Committee has jurisdiction to study this billion dollar blind spot and shed light on any findings.[2]

In June 2017, we published *Billion Dollar Blind Spot – How the U.S. Tax Code's Small Business Tax Expenditures Impact Women Business Owners*, ground-breaking research on how the U.S. tax code's small business tax expenditures targeted to help small businesses grow and access capital impact women-owned firms.[3] Our findings with respect to four specific tax expenditures targeted to small businesses (i.e., IRC §§1202, 1244, 179 and 195) raised questions as to (i) whether the U.S. tax code's small business tax expenditures were operating as Congress intended; and (ii) whether the cost of these expenditures had been accounted for in terms of their uptake by women-owned firms.[4]

This research is particularly important because although women business owners account for 40% of all U.S. firms and the total number of women-owned firms has increased over the last ten years by 58%, women business owners remain small businesses primarily operating as service firms (more than 60%) and continue to have challenges growing receipts and accessing capital.[5] Notably, women of color are the "driving force behind the growth of women-owned firms."[6] Firms owned by women of color grew at a rate of 163% during the last 10 years and today, women of color own 64% of the new women-owned businesses launched each day.[7]

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[2] *See* Rules of the U.S. House of Representatives, Rule X, *available at* https://rules.house.gov/sites/democrats.rules.house.gov/files/116-1/116-House-Rules-Clerk.pdf

[3] Bruckner, C.L. (2017). *Billion Dollar Blind Spot: How the U.S. Tax Code's Small Business Expenditures Impact Women Business Owners*. Kogod Tax Policy Center Report, *available at* https://www.american.edu/kogod/research/upload/blind_spot_accessible.pdf. We are currently slated to publish in the *American University Washington College of Law Business Law Journal* our latest findings with respect to how TCJA impacted women-business owners in Fall 2019 in an article titled, "Doubling-Down on a Billion Dollar Blind Spot."

[4] In *Billion Dollar Blind Spot*, we detailed the legislative history and Congress' intent to provide access to capital and opportunities for growth to small businesses with respect to four specific tax expenditures (i.e., IRC §1202 – *100% Exclusion from Capital Gains Tax for Investments in Qualified Small Business Stock*; IRC §1244 - *Ordinary Loss Treatment for Investments in Small Business Stock*; IRC §179- *Expensing for Small Businesses*; and IRC §195 – *Deduction for Qualified Start-Up Costs*). Each small business tax expenditure we studied met two criteria: (i) Congress intended the provision to stimulate growth or access to capital or investment in smaller firms; and (ii) Each expenditures generated a cost to U.S. taxpayers of at least $100 million. *Id.* at 7 (noting revenue loss is a key factor in Congress relies on in determining the effectiveness of a tax expenditure).

[5] The 2018 State of Women-Owned Businesses Report, Ventureer (2018), *available at* https://about.americanexpress.com/files/doc_library/file/2018-state-of-women-owned-businesses-report.pdf.

[6] *Id.*

[7] *Id.*

Despite the good news on their increasing numbers, women business owners still struggle to access capital to grow and scale their businesses.[8] For example, a 2014 Congressional report found that access to capital is a more severe challenge for women-owned firms and that women only account for 16 percent of conventional small business loans, and 17 percent of SBA loans; which means just $1 of every $23 in conventional small business loans goes to a women-owned business.[9] At the same time, "[t]axation plays a key role in the survival and growth of small businesses, primarily through its effect on equity infusion. The major source of equity capital for expansion of a business is reinvested profits. The amount of tax the business must pay determines the amount of money available for growth and expansion."[10]

However, to date, there has been no formal government or Congressional oversight strategy on how the U.S. tax code's more than $333.5 billion of tax expenditures targeted to help small businesses grow and access capital impact women-owned firms.[11] This is particularly troubling considering that three of the four small business tax expenditures we studied in *Billion Dollar Blind Spot* (i.e., IRC §1202, §1244, and §179) were so limited in design that they either (i) explicitly excluded service firms (e.g., IRC §1202), and by extension, the majority of women-owned firms; or (ii) effectively bypassed women-owned firms who are not incorporated (IRC §1244) or who are service firms with few capital-intensive equipment investments altogether (IRC §179).[12]

However, neither Congress nor Treasury or SBA has ever studied or conducted oversight on how the U.S. tax code's business expenditures impact women business owners. Moreover, neither the IRS nor JCT collect data or conduct

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[8] *See*, Farrell, Diana, Christopher Wheat, and Chi Mac, "Gender, Age and Small Business Financial Outcomes." (2019) JP Morgan Chase Institute (finding that "young and female small business owners are well-represented among firms that grow organically, but underrepresented among firms with external financing").

[9] Majority Report of the U.S. Senate Committee on Small Business and Entrepreneurship, 21ST CENTURY BARRIERS TO WOMEN'S ENTREPRENEURSHIP(2014),https://www.sbc.senate.gov/public/_cache/files/3/f/3f954386-f16b-48d2-86ad-698a75e33cc4/F74C2CA266014842F8A3D86C3AB619BA.21st-century-barriers-to-women-s-entrepreneurship-revised-ed.-v.1.pdf.

[10] INTERAGENCY TASK FORCE ON WOMEN BUSINESS OWNERS, THE BOTTOM LINE: UNEQUAL ENTERPRISE IN AMERICA. (U.S. Department of Commerce) (1978).

[11] Joint Committee on Taxation (JCT), Estimates of Federal Tax Expenditures for Fiscal Years 2018-2022, JCX-81-18 (Oct. 4, 2018), *available at* https://www.jct.gov/publications.html?func=startdown&id=5095. Total includes JCT's 5-year estimates of (1) expensing under Section 179 ($67.8B); (2) 20% deduction for qualified business income ($259B); and (3) exclusion of gain from certain small business stock ($6.7B).

[12] *Billion Dollar Blind Spot*, *supra* n. 3. As part of our research, we conducted a survey of the members of Women Impacting Public Policy (WIPP) and its coalition partners. We designed our survey to gauge whether and how familiar self-identified women business owners are with the tax expenditures we studied and whether those women-owned firms accessed them. WIPP and its coalition partners invited their memberships to participate in the online Survey Monkey survey, which was conducted from March 9, 2017 through April 11, 2017. We received 515 completed responses from women who, on their own, or with other women, owned at least 51% of a business, from the more than 550,000 WIPP or coalition partner members invited to participate in the survey. Our survey data of 515 experienced, engaged women business owners corroborated our research findings, and suggested that when women-owned firms can take advantage of tax breaks, they do (*see., e.g.*, uptake rates for IRC §195).

analysis on the distribution of business tax expenditures with respect to women-owned firms.[13] This means Congress has a billion dollar blind spot when it comes to understanding how effective and equitable tax expenditures are, and recent distributional analysis from JCT on certain provisions from tax reform indicates that Congress doubled-down on it.[14]

In fact, our assessment of two of the key tax investments of the TCJA (§199 and §179), which Congress designed based on two of the small business tax incentives we studied (§1202 and §179), confirms that questions we raised in *Billion Dollar Blind Spot* were not robustly investigated in connection with Congress' efforts on tax reform.[15] For example, according to Table 3 of JCT's distributional analysis of the TCJA, more than 90% of the revenue loss generated from the new deduction under IRC §199A will flow to firms with income of *more than* $100,000 in 2018 and 2024.[16] However, the most recent data available finds that 88% (or 10,775,600) of women business owners generate revenues *less than* $100,000.[17]

This inequitable distribution is even more pronounced when considered at higher income levels: only 1.7% of women-business owners have receipts of $1,000,000 or more, but JCT found in 2018, 44% of the IRC §199A will flow to pass-through businesses with $1,000,000 of income. Moreover, JCT projects that the 44% will increase to

[13] For example, Congress designed IRC §1202, which allows angel investors to invest in qualified small business corporations, to explicitly exclude service firms. Our research found that this limitation has resulted in only a very small minority of women business owners being able to utilize it. In fact, we identified only three women business owners who had ever used IRC §1202 to raise capital for their business. Keep in mind, this is a $6.7 billion tax break Congress specifically designed to enable small businesses to attract capital. While we expect that more than three women-owned firms have used this provision since 1993, we don't have publicly-available IRS or Treasury taxpayer data to prove it. Similarly, with respect to IRC §179, our survey results found that women business owners claimed this tax break at significantly lower rates (47%) than existing government research finds for businesses generally (60% to 80%). This tax break is one of the more expensive small business tax incentives (i.e., it will cost taxpayers $67.8 billion from 2018-2022), and yet we don't have any IRS or Congressional research on how it benefits women business owners, and what research we do have suggests that women business owners benefit less than businesses generally.

[14] For more on the history of tax expenditure analysis, *see* Anthony C. Infanti, *A Tax Crit Indentity Crisis? Or Tax Expenditure Analysis, Deconstruction, and the Rethinking of a Collective Identity*, 26 Whittier L. Rev. 707 (2005).

[15] We submitted summaries of our research and links to Billion Dollar Blind Spot to multiple Congressional committees in 2017 during the tax reform debate. *See e.g.*, Bruckner, Caroline (July 27, 2017). *Statement for the Record to the U.S. House of Representatives Committee on Ways & Means Tax Policy Subcommittee in connection with July 13 hearing, "How Tax Reform Will Help America's Small Businesses Grow and Create New Jobs."*; Bruckner, Caroline (July 17, 2017). *Submission to the U.S. Senate Finance Committee in Response to the Chair's Request for Recommendations for Tax Reform*; Bruckner, Caroline (June 28, 2017). *Statement for the Record to the U.S. Senate Committee on Small Business and Entrepreneurship in Connection with the June 14 Hearing Titled, "Tax Reform and Barriers to Small Business Growth."* *See also*, Bruckner, C. L. (August 30, 2017), *"Women in Business Must Be a Priority in U.S. Tax Reform Plans"* FINANCIAL TIMES, *available at https://www.ft.com/content/ebda758c-8cb7-11e7-a352-e46f43c5825d*.

[16] JCT, *Tables Related to the Federal System as in Effect 2017 through 2026 (JCX-32R-18)*, (April 24, 2018), *available at* https://www.jct.gov/publications.html?func=startdown&id=5093.

[17] The 2018 State of Women-Owned Businesses Report, *supra* n. 5 at 9.

52% by 2024.[18] These alarming estimates warrant immediate investigation and oversight by this Committee. Taxpayers are entitled to: (i) a government accounting of the distribution of the $415 billion JCT estimated Section 199A will cost with respect to women business owners; and (ii) an analysis as to whether high-earning women businesses owners—the majority of whom are in services and are excluded from claiming Section 199A above certain thresholds—will be effectively barred from being able to use this tax break to grow their businesses.[19]

While most women business owners will no doubt see some limited benefit from IRC §199A, JCT's distributional analysis raises serious questions as to the equity of the distribution of this tax expenditure with respect to women-owned firms, who constitute 40% of all U.S. firms. In addition, our research suggests additional oversight and tax research is warranted with respect to the TCJA's investments into expanding IRC §179.

2. Impact of Tax Reform on Health Care Costs for Small Businesses

One of the most concerning aspects of tax reform is impact on health care costs for small businesses. Small businesses remain deeply concerned regarding the affordability of health care.[20] In fact, the 4.4 million self-employed small business owners who purchase health care for themselves and their families on the individual market are acutely vulnerable to increases in healthcare costs, which represent a "material expense for nonemployer business owners."[21] As part of tax reform, Congress effectively eliminated the penalty that individual taxpayers who have no health insurance and are not exempt from the mandate must pay. In November 2017, during the tax reform debate, CBO issued a report finding that repealing the individual mandate would result in 4 million fewer people carrying insurance in 2019 and 13 million in 2027.[22] In addition, CBO found that "average premiums in

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[18] JCT, *supra* n. 16 at Table 3. *See also*, Exhibit A.

[19] In general, the deduction is available to sole proprietors, independent contractors, and owners of S corps, partnerships, and LLCs. However, if taxable income exceeds certain thresholds ($315,000 MFJ, $157,500 everyone else), and business is a "specified service trade or business," no deduction is available. For purposes of Section 199A the term "Specified Service Business" is based on Section 1202 and includes firms involving performance of services in fields of *health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services*, or any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees or owners or involves performance of services involving investing or trading. As noted in Exhibit A, half of women-owned businesses are concentrated in three industries: other services, health care and social assistance, and professional/scientific/technical services.

[20] *See, e.g.*, NIFIB Letter to Ways and Means Chair Brady (Jan. 2018), *available at* https://www.nfib.com/assets/NFIB-Letter-of-Support-Healthcare-Tax-Delay-Legislation-01-2018.pdf.

[21] Farrell, Diana, Christopher Wheat, and Chi Mac (2017), "Paying a Premium: Dynamics of the Small Business Owner Health Insurance Market." JPMorgan Chase Institute, *available at* https://www.jpmorganchase.com/content/dam/jpmorganchase/en/legacy/corporate/institute/document/institute-smb-health-insurance.pdf.

[22] Congressional Budget Office, *Repealing the Individual Health Insurance Mandate: An Updated Estimate* (Nov. 2017), available at www.cbo.gov/publications/53300. CBO also found that repealing the individual mandate would reduce deficits by $338 billion between 2018 and 2027.

the nongroup market would increase by about 10 percent in most years of the decade."[23] Essentially, CBO found that eliminating the individual mandate would mean fewer healthy people would buy insurance, "especially in the nongroup market" and "the resulting increases in premiums would cause more people not to purchase insurance."[24] More than a year later, there is some evidence CBO's estimates were accurate.

For example, an October 2018 issue brief prepared by the Kaiser Family Foundation found that "among insurers that publicly specify the effect of these legislative and policy changes in their filings to state insurance commissioners, we found that 2019 premiums will be an average of 6% higher, as a direct result of the individual mandate repeal and expansion of more loosely regulated plans than would otherwise be the case."[25] Although health care insurance premiums "may be flat or even falling in some places, they would be substantially lower still if not for these policy changes."[26] This Committee should be aware of and tracking this issue in connection with its oversight efforts of tax reform's distributional impact on American small businesses.

3. Tax Reform's Failure to Help Small Businesses Driving the Gig Economy

Finally, I am very concerned that tax reform failed to address the tax compliance challenges of the 2.3 million Americans working side-hustles every month using platforms such as Uber, Lyft, Etsy and Airbnb ("gig economy platforms") to connect with customers, which directly impact these taxpayers' ability to pay their taxes and be credited with Social Security contributions.[27]

In 2016, I published research detailing the findings of a survey on the tax compliance challenges of gig economy workers, and found that more than 60% of the population of experience self-employed workerse I surveyed did not receive any tax forms for the income they earned working with a platform and the IRS didn't either. This is because gig economy platforms are not required to report to the IRS income paid electronically or to send information reporting forms to service providers and sellers until a $20,000 and 200 transaction threshold is met.[28]

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[23] *Id.*

[24] *Id.*

[25] Kaiser Family Foundation, *How Repeal of the Individual Mandate and Expansion of Loosely Regulated Plans are Affecting 2019 Premiums* (Oct. 2018), *available at* https://www.kff.org/health-costs/issue-brief/how-repeal-of-the-individual-mandate-and-expansion-of-loosely-regulated-plans-are-affecting-2019-premiums/.

[26] *Id.*

[27] Bruckner, C.L. and Thomas Hungerford (2019). *Failure to Contribute: An Estimate of the Consequences of Non-and Underpayment of Self-Employment Taxes by Independent Contractors and On-Demand Workers*. Boston College Center for Retirement Research Working Paper, *available at* https://crr.bc.edu/working-papers/failure-to-contribute-an-estimate-of-the-consequences-of-non-and-underpayment-of-self-employment-taxes-by-independent-contractors-and-on-demand-workers-on-social-security/.

[28] Bruckner, C. L. (2016). *Shortchanged: The Tax Compliance Challenges of Small Business Operators Driving the On-Demand*

However, the majority of gig economy workers do not earn enough income or engage in enough transactions over the course of a year to trigger information reporting.[29] This means that there is a 63% likelihood that the billions of dollars these millions of taxpayers earn is misreported.[30] I testified before the House Small Business Committee as to these findings in 2016 and 2017, and worked extensively with Congressional staff in the last Congress to develop bipartisan legislation, the *Small Business Owners Tax Simplification Act* (H.R. 3717), to help these taxpayers.[31]

Notwithstanding these efforts, the final tax reform legislation failed to address this issue, which is a growing problem that subjects millions of taxpayers to audit and penalty exposure. In fact, recent IRS data shows that the underpayment of estimated taxes rose 40% from 2010 to 2015 up to 10 million from 7.2 million.[32] As a result, there are significant budget and Social Security consequences for taxpayers for this growing problem.

For example, in January, Boston College Center for Retirement Research published my latest research, Failure to Contribute, which reviewed existing estimates on the size and growth of the gig economy and independent contractors, and estimated that in 2014 alone, the independent contractors and gig workers I studied failed to properly report more than $7.35 billion in self-employment taxes. Moreover, the problem of underreporting is not confined to platforms who don't furnish 1099-Ks to their service providers and sellers. Following our research, Treasury's Inspector General released a new report earlier this year finding that the expansion of the gig economy warrants a focus on improving self-employment tax compliance because, in part, IRS failed to work cases for TY 2012 to TY2015 involving $12 billion of payments by gig platforms to workers that potentially wasn't reported.[33]

Platform Economy. Kogod Tax Policy Center Report, *available at* https://www.american.edu/kogod/news/Shortchanged.cfm.

[29] Diana Farrell, Fiona Greig, & Amar Hamoudi. 2018. "The Online Platform Economy in 2018: Drivers, Workers, Sellers and Lessors." JPMorgan Chase Institute (Sept. 2018), https://www.jpmorganchase.com/corporate/institute/document/institute-ope-2018.pdf (finding average month income ranges in four key sectors of the gig economy were: (1) transportation ($783/month); (2) leasing ($1,736/month); (3) selling ($608/month); and other services ($793/month) and that earnings represented a major sources of supplemental not primary income).

[30] *Shortchanged, supra* n. 28 (citing U.S. tax gap data noting that where income is not subject to withholding or information reporting there is a 63% chance of taxpayers misreporting).

[31] Bruckner, C. L. (February 15, 2018). *"Congress Failed to Fix Tax Woes for Gig Workers."* The Chicago Tribune, *available at* https://www.chicagotribune.com/news/opinion/commentary/ct-perspec-gig-economy-taxes-uber-lyft-airbnb-0216-20180215-story.html. *The Sharing Economy: A Taxing Experience for New Entrepreneurs Part I: Hearing Before the U.S. House Comm. on Small Business*, 114th Congress (testimony of Caroline Bruckner) (May 2016), https://smallbusiness.house.gov/uploadedfiles/5-24-16_bruckner_testimony_.pdf ("House May 2016 Testimony"); *Small Business Tax Reform: Modernizing the Code for the Nation's Job Creators: Hearing Before the U.S. House Comm. on Small Business*, 115th Congress (testimony of Caroline Bruckner) (Oct. 2017), https://smallbusiness.house.gov/uploadedfiles/10-4-17_bruckner_testimony.pdf.

[32] Laura Saunders, *Number of Americans Caught Underpaying Their Taxes Surges 40%*, THE WALL STREET JOURNAL, (Aug. 11, 2017) *available at* https://www.wsj.com/articles/the-numberof-americans-caught-underpayingsometaxes-surges-40-1502443801.

[33] U.S. Treasury Inspector General for Tax Administration, *Expansion of the Gig Economy Warrants Focus on Improving Self-Employment Tax Compliance*, Reference Number: 2019-30-016 (Feb. 14, 2019), *available at* https://www.treasury.gov/tigta/auditreports/2019reports/201930016fr.pdf.

In addition, the Chair and Ranking Member of the House Small Business Committee have once again introduced bipartisan legislation to address this issue (H.R. 593, *Small Business Owners' Tax Simplification Act*). Going forward, I urge members of this Committee to consider the growing tax implications of failure to act to facilitate tax compliance by these workers and platforms.

Conclusion

This Committee should be congratulated on holding this hearing and immediately set to work to develop the needed oversight on the distribution of business tax expenditures with respect to women business owners. The existing lack of research and effective Congressional oversight on how business tax expenditures impact women business owners constrains policymakers from developing evidenced-based policymaking on the effectiveness of tax expenditures overall and denies taxpayers information crucial to understanding how their money is being distributed among firms. In addition, this Committee should continue to track how the TCJA's changes impact the affordability of health care for small businesses. Finally, this Committee should study the ongoing and growing tax and Social Security implications of the expanding gig economy. We stand ready to aid the Committee in this important work on behalf of the millions of small businesses impacted by these issues.

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Mr. Michael Kimmel
Reform Pension Board
Mr. Steve Kiriakopoulos
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Unitarian Universalist Association
Ms. Kelly Oliveira
Reformed Church in America
Mr. Joshua Peterman
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Mr. Jonathan Phillips
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Mr. Michael J. Smilowitz*
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Rev. Ric Stanghelle
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CHURCH ALLIANCE

Acting on Behalf of Church Benefits Programs

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April 10, 2019

The Honorable Richard Neal
Chairman
House Committee on Ways and Means
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Kevin Brady
Ranking Member
House Committee on Ways and Means
1139 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member Brady:

The Church Alliance is pleased to submit the following statement for the record in response to the House Committee on Ways and Means' March 27, 2019 hearing on *The 2017 Tax Law and Who It Left Behind*. We are writing to highlight two provisions of the Tax Cuts and Jobs Act of 2017 ("the TCJA") related to the calculation of unrelated business income tax (or "UBIT") and the impact on houses of worship, church plans, and other religious organizations. We appreciate the Committee's interest and look forward to working with Congress on these issues.

ABOUT THE CHURCH ALLIANCE

The Church Alliance is a coalition of chief executive officers of 37 denominational benefit programs aligned with mainline and evangelical Protestant, Catholic, and Jewish faith traditions. Church Alliance members' organizations provide employee benefits to approximately one million clergy (including ministers, priests, rabbis, and other spiritual leaders), lay workers, and their family members, serving over 155,000 churches, synagogues, and affiliated organizations such as schools, colleges and universities, nursing homes, children's homes, homeless shelters, food banks, and other ministries. Coalition members' organizations and the churches and church-related institutions that participate in our plans are tax-exempt organizations.

The TCJA made significant changes to the calculation of UBIT by tax-exempt organizations, including churches and church-related nonprofits. These changes have become a source of substantial uncertainty for religious institutions across the country and threaten to create severe administrative and financial burdens for them. For that reason, we respectfully request repeal of Internal Revenue Code ("IRC") § 512(a)(7), the "Parking Lot Tax," and IRC § 512(a)(6), on "Siloing."

§ 512(A)(7) "PARKING LOT TAX"

New IRC § 512(a)(7) imposes UBIT on the cost of parking facilities provided to employees of tax-exempt organizations, including churches and church-related

nonprofits. The purpose of the parking lot at these locations is for congregants to worship and for community members to seek mission-related services. Parking is not intended as a fringe benefit and only incidentally is made available to clergy and church lay workers.

Regardless, under new § 512(a)(7), hundreds of thousands of churches and mission-focused religious organizations are required to undertake the burdensome and complex exercise of determining parking lot use and calculating the amount spent to provide employee parking. Most of these organizations have never engaged in UBIT-generating activities. Absent relief, however, many of these churches and related organizations, a number of whom have volunteer treasurers, may be forced to file a Form 990-T for the first time.

Churches and related nonprofits are concerned about the significant costs associated with complying with this provision, and the diversion of these precious resources away from the ministry and mission for which they were intended. Moreover, churches and related nonprofits view this as a significant danger of entangling government in the activities of churches and related organizations. Churches have never historically been required to file a tax return and possibly pay taxes while engaging solely in mission-focused work. However, under new § 512(a)(7), even though there is no change to a church's activities and it only remains engaged in religious activities, a church may find itself suddenly subject to government oversight and taxation.

§ 512(A)(6) "SILOING"

New IRC § 512(a)(6) and subsequent interim guidance under Notice 2018-67generally requires a separate calculation of UBIT for each "unrelated trade or business," thereby limiting the ability to net gross income and deductions across multiple lines of business. As noted above, Church Alliance members provide employee retirement and welfare benefits to approximately one million clergy (including ministers, priests, rabbis, and other spiritual leaders), lay workers, and their family members. The mission of church retirement plans is to provide for the retirement security of church workers, and investment in a diverse range of assets is core to that mission. Although, income from certain specific types of investments, primarily partnerships, statutorily is generally treated as unrelated business taxable income (UBTI), § 512(a)(6) significantly complicates and burdens compliance efforts by limiting the ability to offset combined gains with combined losses. The result is higher UBTI, increasing the amount of taxes due, which diverts resources from the bottom line of providing for the retirement of church workers.

It is also important to note that, generally, the assets of retirement and disability plans, including church plans, will eventually be taxed at individual income tax rates, e.g., as individuals retire and receive their distributions from retirement plans or become disabled and receive disability benefits. Consequently, § 512(a)(6) could result in double taxation.

REFORM OF § 512(A)(7) "PARKING LOT TAX" AND § 512(A)(6) "SILOING"

Repeal of § 512(a)(7), the "Parking Lot Tax," and § 512(a)(6), on "Siloing," is urgently needed to address the impact on the nation's religious institutions. Absent relief, the Parking Lot Tax will result in

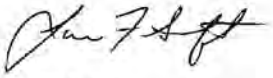
hundreds of thousands of churches, many with volunteer treasurers, undertaking the costly and burdensome task of calculating for the first time the cost of providing parking and filing a Form 990-T, only to remit in most cases a modest amount of UBIT. The "Siloing" provision would impose higher UBIT on nonprofit church retirement plans and decrease the retirement benefits available to clergy and church lay workers.

Recognizing these implications, bipartisan, broadly supported legislation has been introduced in the House and Senate to repeal the Parking Lot Tax. We are pleased that Reps. Tom Suozzi (D-NY) and Mark Walker (R-NC) have reintroduced the LIFT for Charities Act (H.R. 1545) and urge the Committee to swiftly consider this important legislation. We also appreciate the introduction of similar legislation to repeal the Parking Lot Tax by Rep. Jim Clyburn (D-SC) (H.R. 1223) and to repeal the Parking Lot Tax and Siloing provision by Rep. Mike Conaway (R-TX) (H.R. 513). We also welcome Rep. Carolyn Maloney's (D-NY) introduction of the Nonprofit Relief Act of 2019, which would repeal the provision requiring Siloing. We strongly urge consideration of repeal legislation at the earliest possible opportunity, either independently or as part of a moving vehicle. Urgent resolution of these issues is critical to ensuring that houses of worship, church plans, and religious organizations can continue to focus on their missions of serving their communities and constituencies.

CONCLUSION

In closing, the Church Alliance greatly appreciates the opportunity to submit these comments. We are pleased to serve as a resource to the Congress and the Committee on these and related matters. Thank you for your consideration.

Sincerely,



James F. Sanft
Chair of the Church Alliance

COUNCIL *on* FOUNDATIONS

Testimony for the Record on behalf of The Council on Foundations
Submitted to the
United States House of Representatives Committee on Ways and Means
Hearing on the "2017 Tax Law and Who It Left Behind"
March 27, 2019

Thank you for the opportunity to provide written testimony for the record on the subject of the "2017 Tax Law and Who It Left Behind." We commend the Committee for holding a hearing on this important topic. With over 700 grantmaking foundations and corporations as members, the Council on Foundations ("Council") serves the philanthropic field as its voice nationally by promoting policies that enable the philanthropic sector to work most effectively. To this end, the Council advocates for diverse forms of philanthropy and giving tools, tax incentives that encourage charitable giving, and regulatory systems that promote integrity and transparency.

The Council shares the opinion expressed by many of its colleague organizations, charities and individual taxpayers that the charitable sector was shamefully left behind when the 2017 Tax Cuts and Jobs Act was passed. It is unfortunate that with this legislation, Congress voted to give Americans tax reform that serves to increase need and decrease philanthropy's ability to help. The reasons for this are multiple and varied, and with this testimony, the Council would like to address each individually.

The 2017 tax law changes will reduce the number of taxpayers who itemize deductions and thereby reduce the number of taxpayers who give to charity:

The nonpartisan Joint Committee on Taxation (JCT) estimates that the percentage of total taxpayers who itemize deductions as part of their Federal income tax return will decrease from 31% in 2017 to just 13% in 2018—with the number of taxpayers claiming the charitable deduction decreasing by more than half to just 17.2 million.[1] This statistic is significant because only taxpayers who itemize deductions can take advantage of the tax deduction for charitable contributions provided by Section 170 of the Internal Revenue Code (the "Code"). A study prepared by the Indiana University Lilly Family School of Philanthropy estimates this reduction in the number of itemizers will result in an estimated loss of $11 billion for the charitable sector.[2] A recent United Way analysis of data collected by the University of Michigan Institute of Social Research indicates that itemizers give at more than twice the rate of non-itemizers and donors who receive a charitable deduction make average donations 2.5 times larger than donors who do not receive a charitable deduction.[3]

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[1] JCT report entitled: *Overview of the Federal Tax System as in Effect for 2018*, February 7, 2018, JCX-18

[2] *Tax Policy and Charitable Giving, Results May 2017*, IU Lilly Family School of Philanthropy study commissioned by Independent Sector.

[3] United Way Research analysis of Panel Study of Income Dynamics Philanthropy Panel Data. University of Michigan https://psidonline.isr.umich.edu/

The Council commends efforts to simplify the tax code and the tax system for all taxpayers. By offering this data, the Council is not suggesting that the answer to a decline in charitable giving is to increase the number of taxpayers who itemize. We are however, urging this Committee to recognize that a tax deduction for charitable giving is an important incentive for many taxpayers, and that the ability to take advantage of this tax incentive has a significant effect on the number of taxpayers who give and the amounts they give. The Council favors creation of a tax incentive that all taxpayers can utilize. Whether in the form of a tax credit, or a universal deduction as described in Representative Danny Davis' bill (H.R. 1260), creation of such an incentive would go a long way toward repairing the damage that we are already seeing in the charitable sector as a result of the 2017 Tax Act.

The reduction in the number of taxpayers who give to charity, coupled with anticipated reductions in government programs and financial support in the coming years, will affect those charitable organizations that need support the most, setting the stage for unrealistic expectations that philanthropy can make up the difference. Additionally, any downturn in the economy will almost certainly affect tax revenue collection by states and local governments and that predictively adds another layer of detrimental effect on nonprofit service delivery so relied upon by every community across the nation.

A charitable giving tax incentive for all taxpayers is imperative for the success of charitable organizations that rely on multiple smaller donations for their support. Social service providers, churches, schools, food banks, homeless shelters, animal welfare and conservation organizations, and many, many more depend on the generosity of numerous individual donors to keep the lights on and provide critical services for their communities. The United Way, a reliable source of data regarding this segment of charitable giving, is already reporting a trend downward. Its February 2019 Research Brief found a smaller percentage of people are giving to charity, with greater declines among non-itemizers.[4] According to its 2017 and 2018 Q4 Fundraising Effectiveness reports, charitable giving in 2018 declined 4.4% among those giving up to $250 as compared to 2017. Among those giving $250-$1,000, donors gave 4% less in 2018 than in 2017.

A decrease in charitable giving coupled with a simultaneous decrease in government support can be catastrophic to a small charity. For example, President Trump's 2020 budget document calls for billions in reductions through a 5% across the board cut in non-defense discretionary spending.[5] This is anticipated to have a potentially debilitating effect on essential nonprofit services already strapped for additional resources in many communities. Spending on the range of social, educational, environmental protection, and infrastructure programs has already been cut by hundreds of billions of dollars in real terms since 2010, but the President's budget would further slash funding for these types of programs by 9 percent as compared to 2019.[6]

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[4] United Way Worldwide Research Brief 2019, https://www.unitedway.org/the-latest/publications/weakening-ties-to-charity

[5] https://www.whitehouse.gov/wp-content/uploads/2019/03/budget-fy2020.pdf

[6] https://www.cbpp.org/research/federal-budget/new-budget-deal-needed-to-avert-cuts-invest-in-national-priorities

The Council's members consistently report a growing struggle by their grantees to keep up. Many nonprofit providers turn to charitable foundations and philanthropists with larger asks for these greater needs. Philanthropy cannot shoulder this burden nor is it its role to replace critical government support. While there is debate politically about the role of government services, we would assert that there is an appropriate role for government in the social contract with its people, and a critical role for philanthropy to support the common good. We believe the public and the philanthropic sector can accrue impactful benefits to society when they work in concert, not one supplanting the other.

New incentives to increase charitable giving, both large and small, would be a positive sign that the Federal government is willing to partner with the charitable sector to address the needs of the field rather than create impediments that harm the sector.

The 2017 tax law changes to the exempt organization unrelated business income tax rules have created new financial and administrative burdens on the charitable sector that must be remedied:

On July 11, 2018, in a letter to the 115th Congress, the Council expressed great concern over provisions included in the 2017 Tax Act that modify the rules related to exempt organization unrelated business income tax (UBIT); creating a situation where many organizations will be required to file an IRS Form 990-T for the first time. Specifically, new taxes imposed on expenses paid by an exempt organization employer for certain employee fringe benefits, as well as the requirement that each organization must compute unrelated business income and related losses for each unrelated trade or business separately have created new administrative and financial burdens on the exempt organizations affected. The Council addressed the siloing of unrelated businesses in more detail in a letter to the Internal Revenue Service dated November 15, 2018 with comments in response to Notice 2018-67. Many other organizations that work to support the sector have also submitted written comments and concerns. On May 16, 2018, the Council submitted a request to Treasury and the IRS to delay implementation of the new UBIT rules, and in the months since these provisions became effective several legislative proposals have been offered to delay, modify or repeal some, or all of these UBIT provisions.

The Council, like many of its colleagues in the field, seeks acknowledgment that this Committee is listening and is interested in addressing our concerns. Aside from the fact that new taxes imposed on charities mean less dollars available for charitable programs, these new rules also affect exempt organizations as employers and increase the cost to employ the hundreds of thousands of individuals working in the sector.

The charitable sector plays a critical role in strengthening our country's economy and in providing jobs and the context for continued growth. A 2012 Johns Hopkins University study determined that nonprofits account for 10.1% of non-government employment.[7] Foundations themselves employ many people. Importantly, they also provide resources and capital for innovations and services that communities need to thrive. While the Council's membership invests billions of dollars each year in the economy, its real value comes from its commitment and ability to advance

[7] Lester M. Salamon, S. Wojciech Sokolowski, and Stephanie L. Geller, "Holding the Fort: Nonprofit Employment During a Decade of Turmoil", *The Johns Hopkins Nonprofit Economic Data Project* (January 2012).

the communities, causes, and programs that make our country thrive. As is the case for other job creators, philanthropy benefits from permanent and sound tax policy. The unrelated business income tax provisions contained in the 2017 Tax Act are not sound policy and need to be changed.

The Council calls on this Committee to require a study on the current state of charitable giving with an emphasis on the changes brought about by the 2017 Tax Act.

While ad hoc data from various sources is now becoming available regarding 2018 charitable giving, the Council urges this Committee to require Treasury to conduct a study to understand the full effect of the 2017 Tax Act on charitable giving. If, as we suspect, giving is decreasing, we also ask that Congress commit to working with the charitable sector toward a solution that may include new tax incentives. We ask that this request for a study be included in any new legislation dealing with tax extenders and that this Committee recognize the importance and urgency of this matter.

Thank you again for this opportunity to include testimony on the record. Thank you for your leadership and for your recognition that the 2017 Tax Act may not have benefitted all sectors of the economy or all taxpayers. The Council on Foundations can provide any of the material cited in this testimony and stands ready to work with you on the crucial task of continuing to improve our tax code for everyone.

Respectfully submitted,

Kathleen Enright
President and CEO
Council on Foundations

Statement of

Dan Arnold

President and Chief Executive Officer
LPL Financial LLC

Hearing on

"The 2017 Tax Law and Who It Left Behind"

Before the

House Ways & Means Committee

March 27, 2019

Chairman Neal, Ranking Member Brady, and Members of the Committee:

LPL Financial LLC ("LPL") appreciates the opportunity to submit this statement for the record and comment on the hearing entitled, "The 2017 Tax Law and Who It Left Behind." I know that many of our independent contractor financial advisors certainly feel like they have been left behind and have not felt the benefit of the Tax Cuts and Jobs Act (TCJA) as some others in the service industry have.

Therefore, we urge Congress to resolve via clarifying legislation that financial services professionals such as broker-dealers and investment advisers shall qualify as "qualified trades or businesses" and shall not be considered "specified service trades or businesses" under new Internal Revenue Code (IRC) §199A. We are concerned that this definition unfairly and unintentionally disadvantages financial advisors such as those associated with LPL, and diminishes their ability to invest in and build their businesses.

Right now, real estate brokers and insurance brokers are able to enjoy the benefit of the 20% pass-through deduction. While we recognize that financial advisors may be regulated differently than real estate and insurance, as small business owners, they face the same burdens and challenges. Congress should not pick winners and losers.

LPL is one of the country's largest independent broker-dealer firms and provides brokerage and advisory services to over 16,000 financial advisors and over 700 diverse financial institutions. LPL further serves as a trusted partner to many of the country's retirement plans and market participants for technology, custodial, and consulting services.

Because of our independent contractor model, our advisors may be distinguished from those wealth managers, financial planners, and retirement advisors who are employed by the traditional employee-model broker-dealers. LPL financial advisors are small business entrepreneurs and drivers of the American economy.

A key provision under the TCJA created a 20% deduction on "qualified business income" for owners/shareholders of pass-through businesses, such as S corporations, partnerships, and sole proprietorships. A significant number of financial advisors associated with LPL are organized as pass-through entities, and we believe it is sound policy to allow these hard-working business owners to benefit from this new deduction in whole. Under § 199A, owners and shareholders of certain types of businesses – the "specified service

trades or businesses" – are limited in their ability to apply the 20% deduction if their overall taxable income exceeds certain thresholds.

LPL advisors provide a broad range of services that do not fall within a "specified service trade or business," and do far more than simply provide "financial services," "brokerage services," and "investment management" services (i.e., the terms used in the statute) for their clients. LPL financial advisors provide assistance on a wide range of issues, dealing with challenges such as how to create a savings plan, and how to plan for family transitions. As such, our advisors should have the opportunity to show that it is the reputation of their firm that is the principal asset of the business, not the reputation of any particular owner or employee.

With the savings crisis that America is facing, LPL believes that Congress did not intend to limit small business owners like our advisors from receiving the full benefits of the pass-through deduction. LPL financial advisors employ thousands of individuals across the United States and are community leaders, supporting millions of clients. Excluding our advisors from the full benefits of the pass-through deduction would be contrary to Congress's public policy goals of growing the economy, creating jobs, and providing our small business owners with much needed tax relief. For these reasons, we believe that Congress should approve clarifying legislation to confirm that advisors who perform services like ours shall not be considered "specified service trades or businesses."

Thank you for your attention to this important issue. We look forward to serving as a resource to you as you continue your work on clarifying legislation to strengthen TCJA. Please do not hesitate to contact us if we can provide further information.

Sincerely,
Dan Arnold
President and CEO
LPL Financial

March 26, 2019

Chairman Richard Neal
Ways and Means Committee
U.S. House of Representatives
1102 Longworth House Office Building
Washington D.C. 20515

Dear Chairman Neal:

Thank you for your continued leadership and ongoing support of philanthropy and the nonprofit sector. I had the pleasure of meeting Peg McGlinch, Senior Counsel to the Committee on Ways and Means earlier this month for a conversation about philanthropy, the nonprofit sector and the impact certain legislation is having and is projected to have on our communities. Joined by colleagues Maggie Osborn and Matt Hennessy from the United Philanthropy Forum, we were able to share our perspective on the impact of the Tax Cuts and Jobs Acts of 2017 as well as proposed legislation and strategies to address and mitigate the impact.

I am encouraged by the House Ways and Means Committee's decision to hold a hearing on "The 2017 Tax Law and Who It Left Behind."

As you know, the Tax Cuts and Jobs Act of 2017 significantly and negatively affected the nonprofit and philanthropy sector, making it more difficult for tax-exempt organizations to carry out their missions. I am hopeful that this hearing will shed more light on the ways in which philanthropy was "left behind" and how we can correct the harmful effects that resulted from the 2017 tax bill. My colleagues at United Philanthropy Forum have provided some data which I share below that will hopefully be used to the Committee.

Philanthropy creates thriving places that benefit everyone. Philanthropic resources help Americans every day by creating jobs, spurring innovation, supporting vulnerable populations, and empowering people to improve their lives. To be effective, foundations require favorable policies that help, not hurt, the nonprofit and philanthropy sector. **In Massachusetts, foundations provide $2.4 billion in funding annually** – an integral part of the economy. Further, the nonprofit sector is a significant part of the workforce in Massachusetts – **at 529,000 jobs, the nonprofit sector accounts for 17% of the state's workforce** (the national average is 10%).

133 Federal St #302, Boston, MA 02110 | 617.426.2606 | philanthropyma.org

PHILANTHROPY MASSACHUSETTS

As you are aware, two key issues for our sector that resulted from the 2017 tax bill are the negative effects on charitable giving and the new and burdensome tax on fringe benefits provided by tax-exempt organizations. In preparation for the hearing, I am sharing with you the below talking points and data on these issues. Please reach out if you have any questions or require additional information and other resources – I am standing by to assist.

I again want to echo my thanks to you for your support of the philanthropic and nonprofit sector here in Massachusetts and on behalf of all residents of the United States.

Yours,

Jeff Poulos
Chief Executive Officer
Philanthropy Massachusetts
133 Federal Street, Suite 802
Boston, MA 02110
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Encl.: Impact of 2017 Tax Law

PHILANTHROPY MASSACHUSETTS

IMPACT OF 2017 TAX LAW ON CHARITABLE GIVING AND UNRELATED BUSINESS INCOME TAX

The 2017 Tax Law and Charitable Giving

- In 2017 (the most recent data collection by Giving USA), Americans contributed $410.02 billion to charity. These charitable dollars are vital to America's charities, which continue to face tremendous demand for their services.
- The charitable deduction is unique and GOOD TAX POLICY – it encourages individuals to GIVE AWAY more of their income, investing it in their communities. Simple arithmetic shows that those in need receive $2.50 in benefit for every $1 of tax benefit going to the donor. This is an impressive return on investment.
- Fewer Americans are making charitable donations. Indiana University's Lilly Family School of Philanthropy has found that the percentage of Americans who give has fallen by 11 percent over the past 14 years—from 67 percent in 2002 to just 56 percent in 2014.
- The doubling of the standard deduction in the Tax Cuts and Jobs Act will likely accelerate this trend. The Fundraising Effectiveness Project found that the total number of donors dropped by 4.5% between 2017 and 2018.
- The FEP study also found that while total giving from gifts of $1,000 or more increased by 2.6%, gifts in the $250 - $999 range dropped by 4.0%, while gifts of under $250 dropped by 4.4%.
- Additionally, Blackbaud's 2018 Report on Charitable Giving found while GDP in 2018 grew by 3 percent—charitable giving grew by just 1.5 percent. And an American Enterprise Institute report projects that the TCJA will reduce charitable giving by individuals by $17.2 billion (6 percent) in 2018, primarily due to the doubling of the standard deduction.
- Congress can address this problem – and increase charitable giving – by enacting a universal charitable deduction to benefit all Americans. Such a proposal would offer every American taxpayer an incentive to make a charitable donation, not just those who itemize their taxes—mostly the wealthy.

The 2017 Tax Law and the Unrelated Business Income Tax

- The 2017 Tax Cuts and Jobs Act (TCJA) created a significant burden on tax-exempt organizations by forcing them to divert their time and resources away from their missions to calculate and then pay the new 21-percent unrelated business income tax (UBIT) that the TCJA imposed on qualified transportation and parking benefits that tax-exempt groups provide to their employees.
- Not only do these organizations now have to pay a hefty tax on these benefits, but they must put a value on the benefit offerings as well, which can be difficult when there is no clearly defined valuation method. Although the IRS issued some interim guidance in late 2018, it is incomplete and raises more questions for tax-exempt organizations that struggle to comply.
- Administratively, the new tax is excessively burdensome. This new requirement forces many tax-exempt employers, including churches and other places of worship, to file federal Form 990-T for the first time, irrespective of their engagement in unrelated business activity. Many organizations have already misfiled Form 990-T or missed filing deadlines altogether.

PHILANTHROPY MASSACHUSETTS

- A study commissioned by Independent Sector reveals that of the 156 organizations in the survey sample that are reporting UBIT for the first time, they collectively will incur an estimated $200,000 in administrative expenses.
- Those nonprofits responding to the survey also estimated that they will see an average of nearly $12,000 per organization diverted from their mission in order to meet this increased tax and administrative burden.
- Many large organizations will be forced to divert even larger sums from their missions to pay the new tax.
- Smaller nonprofits are likely to pay more in accounting and legal fees spent trying to interpret and comply with the law than they actually pay in taxes – a wasteful and inefficient policy.

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Submitted by email to WMdem.submission@mail.house.gov

Dear Sir or Madam,

I submit the following written comments in my capacity as an individual to the House Ways and Means Committee for its March 27, 2019 hearing on the topic of "The 2017 Tax Law and Who It Left Behind."

Libin Zhang
March 23, 2019

Marriage and the 2017 Tax Reform Law

Abstract

The Tax Cuts and Jobs Act of 2017 made significant changes to tax deductions for individuals, which can adversely affect some married couples compared to their unmarried counterparts. The article discusses the state and local tax deduction (the same $10,000 annual limit applies to a single person and to a married couple filing jointly), the home mortgage interest deduction, and other marriage penalty examples in the Act.

The tax law does favor married couples in certain cases, such as greater estate and gift tax exemptions. Marriage may also have some non-financial benefits.

Text[1]

The Tax Cuts and Jobs Act of 2017 made significant changes to tax deductions for individuals. The new restrictions on itemized deductions may favor unmarried couples in some cases, particularly two lawyers or other high income professionals, who live in a high tax state like New York, New Jersey, or California.

The Act generally limited a taxpayer's federal deduction for state and local income and property taxes to $10,000 per taxpayer per year for 2018 through 2025. The same $10,000 limit applies to a single individual and to a married couple filing a joint return. In other words, a married couple who is subject to the $10,000 limit would effectively double the limit, to $20,000 of aggregate deductible state and local taxes per year, by not being married. The Joint Committee on Taxation emphasized the $10,000 limit for married couples in a 400-word footnote in its year-end law summary, presumably to dispel any doubts.[2]

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[1] This text was previously published as *Marriage and the 2017 Tax Reform Law*, 39 Daily Tax Report 15 (February 28, 2019), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3346993

[2] Joint Committee on Taxation, General Explanation of Public Law 115-97, jcs-1-18, at 67 n. 293 (2018).

Prior to the Act, a taxpayer may deduct home mortgage interest generally on up to $1,100,000 of debt on a primary residence and a secondary residence. The Act reduced the allowed principal debt balance to $750,000 for 2018 through 2025, with some grandfathering for up to $1 million of pre-existing mortgages. The same $750,000 limit applies to a single individual and to a married couple filing jointly. The Ninth Circuit Court of Appeals held in *Voss v. Comm'r*, 796 F.3d 1051 (9th Cir. 2015), *acq*. A.O.D. 2016-02, IRB 2016-31, that two unmarried taxpayers may each have his or her own deductible debt limit for residences that they co-owned. As a result, a married couple who is subject to the new $750,000 debt limit may effectively double their limit to $1,500,000 by being unmarried co-owners of the same property.

The Act roughly doubled the standard deductions in 2018 (through 2025), to $12,000 for a single individual and $24,000 for a married couple filing jointly. An unmarried couple may benefit from having one person claiming the standard deduction and another person claiming itemized deductions. For example, if a married couple has $10,000 of local property taxes and $10,000 of charitable contributions, their best choice is the $24,000 standard deduction. Two unmarried persons in the same situation may have one person claiming the $12,000 standard deduction and the other person paying and claiming the $20,000 of itemized deductions ($10,000 local property tax deduction plus $10,000 charitable contributions), for an aggregate deduction of $32,000. Cases such as *Powell v. Comm'r*, T.C. Memo 1967-32, and *Milgroom v. Comm'r*, 31 T.C. 1256 (1959), have held that a co-owner of a property may pay more than his or her pro rata share of property taxes and deduct the entire amount paid (up to any applicable limits).

The Act changed the graduated federal income tax rates at various income brackets, with the bracket for a married couple generally equal to twice a single individual's bracket. For example, the 35% federal income tax rate applies to a single individual's taxable income above $200,000 and to a married couple's taxable income above $400,000 in 2018. However, the highest 37% federal income tax rate has a marriage penalty, in that it applies to a single individual's taxable income above $500,000 and a married couple's taxable income above only $600,000 in 2018.

For couples who found themselves married in 2018 and were reconsidering the situation, the Act helpfully eased any transition into unmarried status by providing that alimony is still deductible by the payor and includible in the payee's gross income as long as the alimony is paid pursuant to a divorce or separation instrument executed on or before December 31, 2018. Alimony that does not qualify for this grandfathering rule is not deductible by the payor or taxed to the recipient anymore, similar to child support and other non-business payments. Despite some comments from media reports and divorce lawyers that may have led to the Great Divorce Rush of 2018, couples could enter into a separation instrument in 2018, without necessarily getting divorced by that year's end, and still preserve the ability to deduct alimony for the rest of their lives. In *Dato-Nordurff v. Comm'r*, T.C. Memo 2004-119, the Tax Court held that a separation instrument, for two spouses that were physically separated but not legally separated, did not even have to be enforceable under state law, as long as the document was signed by both spouses and contained some terms of support.

The tax law does favor married couples in some cases, such as better federal gift and estate tax exemptions for individuals with more than around $11 million of assets. Marriage may also have some non-financial benefits. Nevertheless, the Act's marriage penalty effects may be costly for a married couple compared to two unmarried persons in otherwise identical circumstances. Congress took around 48 years to eliminate the marriage penalty in the lower income tax rate brackets that existed between 1969 and 2017, and future legislation may address the current marriage penalties. In the meantime, the Act may have a significant monetary influence on a couple's decision to get married, at least before 2026, particularly if the couple consists of two working professionals who live in a city with high housing costs and state and local taxes.

Statement of Sandra Karas to the House Ways and Means Committee

Introduction

Chairman Neal, Ranking Member Brady, thank you for the opportunity to testify regarding an unintended consequence of recent tax reform. I am a certified accountant and tax attorney in the State of New York. I also serve as the Secretary/Treasurer of Actors' Equity Association, representing over 51,000 professional actors and stage managers who work in live professional theatre, and serve on the New York board of the Screen Actors Guild-American Federation of Television and Radio Artists, which represents more than 160,000 members. I am testifying on behalf of members of Equity and SAG-AFTRA.

I process thousands of tax returns for actors, stage managers and performing artists in the entertainment industry through my personal practice, and through the work I do running a Volunteer Income Tax Assistance (VITA) program at Equity's New York office.

Performing Artists Face Unique Structural Challenges

Professional performing artists like actors, stage managers and musicians are employees, not contractors, who often spend thousands of dollars in income on necessary expenses. What makes the field even more challenging is that, unlike many other employee-classified workers, performing artists incur numerous regular expenses while they seek work. That includes expenses like headshots, video reels, travel to out of town auditions, the costs associated with self-taping auditions and training. Once they secure employment, they are on the hook for another set of expenses, such as agents' and managers' fees. Over the course of the year, these costs range from 20 to 30 percent of an actor's gross income – sometimes even more.

What's at Stake: Performing Artists Face Massive Tax Increases

Since the recent tax reform, I have looked at dozens of tax returns of performing artists and reworked those tax returns under the new laws to see how individuals who work in the performing arts are impacted. The vast majority of members of Actors' Equity and SAG-AFTRA are not celebrities, but rather working and middle-class taxpayers. Unfortunately, starting this year, these working Americans are now facing tax increases. For example, a performer with an adjusted gross income (AGI) of $40,247 in Washington State who paid $5,486 in income taxes in 2017 will now pay $7,099 – an increase of 29 percent. A Pennsylvania performer with an AGI of $60,660 is paying 27 percent more this year.

As employees, these workers previously used miscellaneous itemized deductions to deduct their expenses. And even with the higher standard deduction in the new tax law, they are grappling with significant, unintended tax increases.

Correcting an Unintended Consequence: Update the Qualified Performing Artist Tax Deduction (QPA)

Signed into law in 1986 by President Ronald Reagan, the QPA, as codified in § 62(a)(2)(B), is a provision of the tax law that allows qualifying performing artists the ability to deduct expenses incurred over the course of their employment. This is an "above-the-line" deduction. Despite countless revisions to the code since 1986, the QPA remains a part of the code, and for good reason. Congress recognizes the valuable role performing artists play in our economy. For example, according to Americans for the Arts, attendees at nonprofit performing arts events spend more than $31 per person per event beyond their admission on things like parking, babysitting and meals. Still, despite these economic benefits, many actors struggle to make ends meet, often working two or more jobs and constantly looking for the next role. It is understandable that when one thinks of an actor, a rich celebrity comes to mind, but the truth is our average members are working class Americans earning less than $50,000 a year.

The eligibility for the QPA has remained unchanged since it was passed – limiting the adjusted gross income of the taxpayer to $16,000. Actors' Equity Association and Screen Actors Guild – American Federation of Television and Radio Artists request that the AGI ceiling of the QPA be raised to $100,000 for single taxpayers and $200,000 for a couple filing jointly, with a built-in phaseout to help transition the taxpayer out of the deduction.

Conclusion

The entertainment industry is one of our most vital economic engines, creating and retaining jobs, not just in New York and Los Angeles, but in small- and medium-sized cities across the country. According to the newest data from the International Intellectual Property Alliance, the value added annually by the core copyright industries, which includes the arts and entertainment sectors, to U.S. GDP reached more than $1.3 trillion. The industry is also booming. During the period 2014-2017, these industries grew at an aggregate annual rate of 5.23 percent.

All of this economic activity requires a skilled workforce. The overall goal of the Tax Cut and Jobs Act was to give middle-class Americans a tax break. Updating the bipartisan QPA – which has been on the books since President Reagan – is good for the economy and in keeping with the goals of tax reform.

Respectfully,

Sandra Karas

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The 2017 Tax Law and Who it Left Behind

March 26, 2019

Ways and Means Committee
U.S. House of Representatives
1102 Longworth House Office Building
Washington D.C. 20515

RE: Section 965 – 2017 Overpayments

Dear Sir or Madam:

This letter is submitted by Mazars USA, an independent member firm of Mazars on behalf of a significant segment of our client base adversely impacted (or expected to be impacted) by the above-referenced issue, most notably U.S. individuals directly owning interests in controlled foreign corporations.

Mazars is an international, integrated and independent firm, specializing in audit, accountancy, advisory, tax and legal services. As of January 1, 2019, Mazars and its correspondents operate throughout 89 countries and territories. Mazars draws upon the expertise of 23,000 professionals and 1,040 partners, working in 310 offices worldwide to assist our clients, a large portion of which are comprised of small/medium enterprises and individuals.

As discussed further below, the Section 965 overpayment issue has had a substantial adverse effect on many of our clients and the businesses they conduct.

BACKGROUND

Section 965 (h)(1) of the Internal Revenue Code, enacted as Section 14103 of P.L. 115-97, provides that a taxpayer may elect to pay the section 965 net tax liability in eight installments of specified percentages of that liability. An election to make installment payments shall be made not later than the due date for the return of tax for the last taxable year which begins before January 1, 2018. Section 965(h)(5). Prop. Regs. Section 1.965-7(b)(2) specifies the manner of making the election.

The question has arisen as to how an overpayment of a properly elected installment payment is to be treated. On August 2, 2018 the Internal Revenue Service ("IRS") issued a Chief Counsel Memorandum (PMTA 2018-16) which took the position that an overpayment of a section 965(h) installment cannot be credited to current estimated tax liabilities or refunded unless and until the overpayment amount exceeds all remaining section 965(h) installment payments. The effect of this PMTA is to deny the benefit of statutorily authorized tax deferral with respect to the overpayment, a result that was clearly not contemplated by the Congress when it enacted section 965(h). Moreover, the result will have a potentially negative impact on cash flow and debt management.

REMEDY

While we believe the IRS position is incorrect as a matter of law and policy, the most effective remedy is a statutory correction. Indeed, the need to address this result by statute has already been recognized. Section 4(gg)(6) of the Tax Technical and Clerical Corrections Act Discussion Draft, released by Congressman Brady on January 2, 2019, deals explicitly with this problem. In substance, the amendment provides that any excess amount over the installment due "may be refunded, credited or applied to other obligations of the taxpayer, whether or not arising in the same taxable year", thus preserving the original Congressional intent of permitting a scheduled deferral of the payment of the section 965 tax. Technical

The 2017 Tax Law and Who it Left Behind

Explanation of the House Ways and Means Chairman's Discussion Draft of the "Tax Technical and Clerical Corrections Act, JCX-1-19, January 2, 2019, p.13.

CONCLUSION

We strongly support the enactment of this correction and urge that it be included in any appropriate legislation that is considered during this Congress. We are available to meet with staff to discuss the issue further.

Comments submitted on behalf of:

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Comments for the Record
U. S. House of Representatives
Committee on Ways and Means
Hearing on the 2017 Tax Law and Who It Left Behind
Wednesday, March 27, 2019, 10:00 A.M.
By Michael G. Bindner
Center for Fiscal Equity

Chairman Neal and Ranking Member Brady, thank you for the opportunity to submit these comments for the record for the Committee on Ways and Means on the fallout from the *Tax and Job Cuts Act* (not a typo). Use of the term "Left Behind" is apt, because the tax law, if maintained, would be, like the novels, apocalyptic.

Let us first lay out who was not left behind: the wealthy, corporations and other business owners. The tax cuts on the second two were designed to promote hiring. They did not.

As we stated in to the Committee in February, there is absolutely no reason to infer that *TCJA* did anything for growth. Tax cuts for the wealthy might increase corporate investment, but only when interest rates are high. They are not. Only the passage of the Orwellianly named *Balanced Budget Act of 2018* staved off another boom-bust cycle, which is the goal of Austrian supply-side economics.

The (il)logic of reducing tax rates on the rich is to let a million start-ups bloom until the market busts and the next new thing emerges, Devil take the hindmost. *BBA2018* prevented such insanity. As long as the current tax cuts are in force, the money not collected in taxes should be made up with bond sales, else all sorts of mischief occur in the area of asset accumulation and inflation.

Such accumulations are not economic growth, they are the manufacture of speculative investment bubbles that always lead back to recessions and depressions. There is no such thing as a business cycle, only rich people who are undertaxed who invest in garbage and then sell it to the public, like any Ponzi scheme.

Growth is defined as a positive change in the Gross Domestic Product, not in the price of assets. *BBA2018* is entirely responsible for increases in government purchases and consumption (by beneficiaries, government employees, contractors and secondary effects in private sector households). Exports and imports may have a change due to the trade war, not *TCJA*. Private sector investment in plant and equipment is on a longer time line for any recent intervention to be important.

We remind the Committee that in the long-term we face a crisis in net interest on the debt, both from increased rates and growing principle. This growth will only feasible until either China or the European Union develop tradable debt instruments backed by income taxation, which is the secret to the ability of the United States to be the world's bond issuer. At some point, however, we need incentives to pay down the debt.

The national debt is possible because of progressive income taxation. The liability for repayment, therefore, is a function of that tax. For every dollar you pay in taxes, you owe

$13 in debt. People who pay nothing owe nothing. People who pay tens of thousands of dollars a year owe hundreds of thousands. The answer is not making the poor pay more or giving them less benefits, either only slows the economy.

The first group the Trump Tax Law leaves behind is our progeny, or rather, the progeny of the wealthy. My child is becoming a social worker, an artist or a photographer. Don't look to her to pay off the debt. The children and grandchildren of Members and those of your donors are the ones on the hook unless their parents step up and pay more. How's that for incentive to raise taxes?

Tax preparers are doing well because tax reform did not take anyone off the tax rolls in so obvious a way that they no longer have to get help to see otherwise.

Our reforms make it obvious who does not need to file. Indeed, no one may need to. With an asset VAT in place and dividends taxed at normal rates, employers could submit salary, dividend and child tax credit data with their subtraction VAT filing (collected by the states) and have IRS calculate their tax bill automatically. Employers would withhold taxes for high-income individuals and only send a refund to anyone who had dividend withholding on total income under the standard deduction.

The alternative is to have employers simply pay a surtax for high income earners at various rates and for all dividends to be assessed at the Asset VAT rate, which is similar to the proposal discussed by Lawrence B. Lindsey in testimony to the Senate Finance Committee (sans A-VAT).

EITC payers still have to do hard calculations (keeping preparers in business). A better way is to put a floor on the Old Age and Survivor's Employee levy and let an averaged employer contribution pick up the slack, as proposed earlier and explained. In Attachment One. A better way to give childless workers more money is a higher minimum wage.

Children lost out because the Child Credit was not made refundable or adequate. The unborn were also left behind because inadequate family income is the cause for the vast majority of abortions.

Workers were left behind because there is still no clear path to employee-ownership of the workplace assisted by tax policy changes and because taxes on the CEO class still invite the extraction of economic rent from them in terms of wages, benefits and union rights. (Also described in Attachment One). They must also still file taxes instead of their employers doing so. In general, while the wealthy got a cut, they merely got a shell game

Taxpayers in general list out because corporate income tax payers can demand special breaks on their taxes that they could not demand under a consumption tax system, which taxes wages and profit at the same rate.

On the up side, giving both corporations and pass-throughs a tax cut lays the groundwork for shifting from individual income and corporate taxes to consumption taxes. Congratulations to the Republicans for slipping this by Chairman Hatch. This step gets us

to real tax reform, as I have proposed for over 20 years and will again explain using our comprehensive four-part approach. It has recently been updated.

- A Value Added Tax (VAT) to fund domestic military spending and domestic discretionary spending with a rate between 10% and 13%, which makes sure very American pays something. This would include a Carbon Value Added Tax.
- Personal income surtaxes on joint and widowed filers with net annual incomes of $100,000 and single filers earning $50,000 per year to fund net interest payments, debt retirement and overseas and strategic military spending and other international spending, with graduated rates between 5% and 25%. Capital Gains Taxes will be replaced by an Asset VAT or A-VAT in long-held assets and a Tobin Tax for short term trades would fund the SEC and pay down the debt.
- Employee contributions to Old Age and Survivors Insurance (OASI) with a lower income cap, which allows for lower payment levels to wealthier retirees without making bend points more progressive.
- A VAT-like Net Business Receipts Tax (NBRT), which is essentially a subtraction VAT with additional tax expenditures for family support, health care and the private delivery of governmental services, to fund entitlement spending and replace income tax filing for most people (including people who file without paying), the corporate income tax, business tax filing through individual income taxes and the employer contribution to OASI, all payroll taxes for hospital insurance, disability insurance, unemployment insurance and survivors under age 60. Collection would be accomplished by the states, who would forward data to the IRS.

Our new proposed A-VAT removes the need for including heirs in the personal income surtax, other than on any direct transfer of cash or trust fund income over the standard deduction in a single year, which should still be taxed at normal income rates. The Death Tax on inherited assets will be repealed for everyone, but with the following proviso. Any asset transferred by inheritance or created by exercising stock options will be taxed at 100% of value when sold, rather than only the gain from inheritance or as a step up from when the deceased purchased them. As always, sales to a qualified broad-based ESOP are A-VAT free. We advocate tax simplification, not evasion. Tax evasion by the rich should not be considered a conservative value.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

Attachment One: Center for Fiscal Equity Detailed Proposals

Recent legislation has solved some of our international tax issues. It would still be simpler to adopt a VAT on the international level and it would allow an expansion of family support through an expanded child tax credit. American competitiveness is enhanced by enacting a VAT, as exporters can shed some of the burden of taxation that is now carried as a hidden export tax in the cost of their products. The NBRT will also be zero rated at the border to the extent that it is not offset by deductions and credits for health care, family support and the private delivery of governmental services.

Some oppose VATs because they see it as a money machine, however this depends on whether they are visible or not. A receipt visible VAT is as susceptible to public pressure to reduce spending as the FairTax is designed to be, however unlike the FairTax, it is harder to game. Avoiding lawful taxes by gaming the system should not be considered a conservative principle, unless conservatism is the defense of entrenched corporate interests who have the money to game the tax code.

Our VAT rate estimates are designed to fully fund non-entitlement domestic spending not otherwise offset with dedicated revenues. This makes the burden of funding government very explicit to all taxpayers. Nothing else will reduce the demand for such spending, save perceived demands from bondholders to do so – a demand that does not seem evident given their continued purchase of U.S. Treasury Notes.

Value Added Taxes can be seen as regressive because wealthier people consume less, however when used in concert with a high-income personal income tax and with some form of tax benefit to families, as we suggest as part of the NBRT, this is not the case.

The shift from an income tax based system to a primarily consumption based system will dramatically decrease participation in the personal income tax system to only the top 20% of households in terms of income. Currently, only roughly half of households pay income taxes, which is by design, as the decision has been made to favor tax policy to redistribute income over the use of direct subsidies, which have the stink of welfare. This is entirely appropriate as a way to make work pay for families, as living wage requirements without such a tax subsidy could not be sustained by small employers.

The income surtax is earmarked for overseas military, naval sea and international spending because this spending is most often deficit financed in times of war. Earmarking repayment of trust funds for Social Security and Medicare, acknowledges the fact that the buildup of these trust funds was accomplished in order to fund the spending boom of the 1980s without reversing the tax cuts which largely benefited high income households.

Earmarking debt repayment and net interest in this way also makes explicit the fact that the ability to borrow is tied to the ability to tax income, primarily personal income. The personal or household liability for repayment of that debt is therefore a function of each household's personal income tax liability. Even under current tax law, most households that actually pay income taxes barely cover the services they receive from the government in terms of national defense and general government services. It is only the higher income

households which are truly liable for repayment of the national debt, both governmental and public.

If the debt is to ever be paid back rather than simply monetized, both domestically and internationally (a situation that is less sustainable with time), the only way to do so without decreasing economic growth is to tax higher income earners more explicitly and at higher rates than under current policy, or even current law. The decrease in economic class mobility experienced in recent decades, due to the collapse of the union movement and the rapid growth in the cost of higher education, means that the burden of this repayment does not fall on everyone in the next generation, but most likely on those who are living in high income households now.

Let us emphasize the point that when the donors who take their cues from Americans for Tax Reform bundle their contributions in support of the No Tax Pledge, they are effectively burdening their own children with future debt, rather than the entire populace. Unless that fact is explicitly acknowledged, gridlock over raising adequate revenue will continue.

CBO projections on the size of the debt and the role of Net Interest are troubling, however, in that they show that while most discretionary and entitlement spending are projected to remain flat while net interest is due to explode. It is helpful to explore the reasons for this. This explosion essentially fuels the growth of the growth of the Dollar as the world's currency. Essentially, this means that we pay our expenses with taxation (even without adopting the Center for Fiscal Equity Plan) while we roll over our debt without repaying it. This seems like a wonderful way for American consumers to continue to live like imperial Rome, however it cannot last.

There are two possible ends to this gravy train. The first is the internationalization of the Dollar, the Federal Reserve and our entire political system into a world currency or government and its concurrent loss of national sovereignty or the eventual creation of rival currencies, like a tradable Yuan or a consolidated European Debt and Income Tax to back its currency. In the prior case, all nations which use the Dollar will contribute to an expanded income tax to repay or finance the interest on the global debt. In the second case, the American taxpayer will be required to pay the debt back – and because raising taxes on all but the wealthy will hurt the economy, it will be the wealthy and their children who will bear the burden of much higher tax levies.

To avert either crisis, there are two possibilities. The first is the elimination of deductions, including the Charitable Deduction itemized on personal income taxes – especially for the wealthy. If the charitable sector, from the caring community to the arts, industrial and education sectors, convince wealthier taxpayers to fight for this deduction, then the only alternative is higher rates than would otherwise occur, possibly including a much more graduated tax system.

Unlike other proposals, a graduated rate for the income surtax is suggested, as at the lower levels the burden of a higher tax rate would be more pronounced. More rates make the burden of higher rates easier to bear, while providing progressivity to the system rather

than simply offsetting the reduced tax burden due to lower consumption and the capping of the payroll tax for Old Age and Survivors Insurance.

One of the most oft-cited reforms for dealing with the long-term deficit in Social Security is increasing the income cap to cover more income while increasing bend points in the calculation of benefits, the taxability of Social Security benefits or even means testing all benefits, in order to actually increase revenue rather than simply making the program more generous to higher income earners. Lowering the income cap on employee contributions, while eliminating it from employer contributions and crediting the employer contribution equally removes the need for any kind of bend points at all, while the increased floor for filing the income surtax effectively removes this income from taxation. Means testing all payments is not advisable given the movement of retirement income to defined contribution programs, which may collapse with the stock market – making some basic benefit essential to everyone.

Moving the majority of Old Age and Survivors Tax collection to a consumption tax, such as the NBRT, effectively expands the tax base to collect both wage and non-wage income while removing the cap from that income. This allows for a lower tax rate than would otherwise be possible while also increasing the basic benefit so that Medicare Part B and Part D premiums may also be increased without decreasing the income to beneficiaries.

If personal accounts are added to the system, a higher rate could be collected, however recent economic history shows that such investments are better made in insured employer voting stock rather than in unaccountable index funds, which give the Wall Street Quants too much power over the economy while further insulating ownership from management.

Too much separation gives CEOs a free hand to divert income from shareholders to their own compensation through cronyism in compensation committees, as well as giving them an incentive to cut labor costs more than the economy can sustain for purposes of consumption in order to realize even greater bonuses. Employee-ownership ends the incentive to enact job-killing tax cuts on dividends and capital gains, which leads to an unsustainable demand for credit and money supply growth and eventually to economic collapse similar to the one most recently experienced.

The NBRT base is similar to a Value Added Tax (VAT), but not identical. Unlike a VAT, an NBRT would not be visible on receipts and should not be zero rated at the border – nor should it be applied to imports. While both collect from consumers, the unit of analysis for the NBRT should be the business rather than the transaction. As such, its application should be universal – covering both public companies who currently file business income taxes and private companies who currently file their business expenses on individual returns.

In the long term, the explosion of the debt comes from the aging of society and the funding of their health care costs. Some thought should be given to ways to reverse a demographic imbalance that produces too few children while life expectancy of the elderly increases.

Unassisted labor markets work against population growth. Given a choice between hiring parents with children and recent college graduates, the smart decision will always be to hire the new graduates, as they will demand less money – especially in the technology area where recent training is often valued over experience.

Separating out pay for families allows society to reverse that trend, with a significant driver to that separation being a more generous tax credit for children. Such a credit could be "paid for" by ending the Mortgage Interest Deduction (MID) without hurting the housing sector, as housing is the biggest area of cost growth when children are added. While lobbyists for lenders and realtors would prefer gridlock on reducing the MID, if forced to chose between transferring this deduction to families and using it for deficit reduction (as both Bowles-Simpson and Rivlin-Domenici suggest), we suspect that they would chose the former over the latter if forced to make a choice. The religious community could also see such a development as a "pro-life" vote, especially among religious liberals.

Enactment of such a credit meets both our nation's short term needs for consumer liquidity and our long term need for population growth. Adding this issue to the pro-life agenda, at least in some quarters, makes this proposal a win for everyone.

The expansion of the Child Tax Credit is what makes tax reform worthwhile. Adding it to the employer levy rather than retaining it under personal income taxes saves families the cost of going to a tax preparer to fully take advantage of the credit and allows the credit to be distributed throughout the year with payroll. The only tax reconciliation required would be for the employer to send each beneficiary a statement of how much tax was paid, which would be shared with the government. The government would then transmit this information to each recipient family with the instruction to notify the IRS if their employer short-changes them. This also helps prevent payments to non-existent payees.

Assistance at this level, especially if matched by state governments may very well trigger another baby boom, especially since adding children will add the additional income now added by buying a bigger house. Such a baby boom is the only real long term solution to the demographic problems facing Social Security, Medicare and Medicaid, which are more demographic than fiscal. Fixing that problem in the right way definitely adds value to tax reform.

The NBRT should fund services to families, including education at all levels, mental health care, disability benefits, Temporary Aid to Needy Families, Supplemental Nutrition Assistance, Medicare and Medicaid. If society acts compassionately to prisoners and shifts from punishment to treatment for mentally ill and addicted offenders, funding for these services would be from the NBRT rather than the VAT.

The NBRT could also be used to shift governmental spending from public agencies to private providers without any involvement by the government – especially if the several states adopted an identical tax structure. Either employers as donors or workers as recipients could designate that revenues that would otherwise be collected for public schools would instead fund the public or private school of their choice. Private mental

health providers could be preferred on the same basis over public mental health institutions. This is a feature that is impossible with the FairTax or a VAT alone.

To extract cost savings under the NBRT, allow companies to offer services privately to both employees and retirees in exchange for a substantial tax benefit, provided that services are at least as generous as the current programs. Employers who fund catastrophic care would get an even higher benefit, with the proviso that any care so provided be superior to the care available through Medicaid. Making employers responsible for most costs and for all cost savings allows them to use some market power to get lower rates, but not so much that the free market is destroyed. Increasing Part B and Part D premiums also makes it more likely that an employer-based system will be supported by retirees.

Enacting the NBRT is probably the most promising way to decrease health care costs from their current upward spiral – as employers who would be financially responsible for this care through taxes would have a real incentive to limit spending in a way that individual taxpayers simply do not have the means or incentive to exercise. While not all employers would participate, those who do would dramatically alter the market. In addition, a kind of beneficiary exchange could be established so that participating employers might trade credits for the funding of former employees who retired elsewhere, so that no one must pay unduly for the medical costs of workers who spent the majority of their careers in the service of other employers.

Conceivably, NBRT offsets could exceed revenue. In this case, employers would receive a VAT credit.

Contact Sheet

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Committee on Ways and Means
Hearing on the 2017 Tax Law and Who It Left Behind
Wednesday, March 27, 2019, 10:00 A.M.

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears:

This testimony is not submitted on behalf of any client, person or organization other than the Center itself, which is so far unfunded by any donations.

TESTIMONY BEFORE THE UNITED STATES CONGRESS ON BEHALF OF

Statement for the Record

Before the

Committee on Ways and Means
United States House of Representatives

Hearing entitled "The 2017 Tax Law and Who It Left Behind"

March 27, 2019

NFIB
1201 F Street, NW Suite 200
Washington, DC 20004

Chairman Neal and Ranking Member Brady,

On behalf of NFIB, thank you for the opportunity to submit this statement for the record for the Ways and Means Committee hearing entitled, "The 2017 Tax Law and Who It Left Behind."

As NFIB represents approximately 300,000 small and independent businesses across the country, we appreciate the Ways and Means Committee's continued interest in how tax policy affects small businesses.

For years, small businesses have counted tax issues among five of their top ten problems, according to NFIB's *Small Business Problems and Priorities* survey.[1] The *Tax Cuts and Jobs Act* (TCJA) provided the biggest tax overhaul in more than three decades, and it dramatically improved the landscape for many small businesses.

Since enactment of the tax law, the tangible effects have been remarkable and historic. According to NFIB's monthly *Small Business Economic Trends* survey, small and independent business owners are notably confident about the economy.[2] The NFIB Small Business Optimism Index has soared, providing the highest index reading in the survey's 45-year history. NFIB's March *Jobs Report* broke another record; job creation among small businesses is at its highest in 45 years.[3] The report also states that one-third of the businesses surveyed raised compensation, its highest reading since November 2000. Further, an additional 20 percent of small business owners are planning compensation increases within the next few months.

Small business owners are reporting that sales are strong, profits are good, and employee compensation is increasing. They are making new capital outlays and increasing inventories. And, many are setting into motion plans to expand.

Simply put, small businesses were not left behind by the new tax law.

For small business owners, the centerpiece of the tax changes is the new Section 199A, or the Small Business Deduction. Under the law, a pass-through business owner – regardless of the type of business they own – can now claim a full 20 percent deduction on qualified business income (QBI) up to $157,500 (single) or $315,000 (joint) for tax year 2018.

The Joint Committee on Taxation (JCT) recently released data on the Small Business Deduction.[4] The analysis explains that over 95 percent of taxpayers who will claim the

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[1] Small Business Problems and Priorities, NFIB Research Foundation, (August, 2016), available online at https://www.nfib.com/assets/NFIB-Problems-and-Priorities-2016.pdf.

[2] NFIB Small Business Economic Trends, NFIB Research Foundation, (March, 2019) available online at https://www.nfib.com/assets/SBET-March-2019.pdf.

[3] NFIB Jobs Report, NFIB Research Foundation, (March, 2019) available online at https://www.nfib.com/foundations/research-center/monthly-reports/jobs-report/.

[4] Overview of Deduction for Qualified Business Income: Section 199A, Joint Committee of Taxation, (March, 2019) available online at https://www.jct.gov/publications.html?func=startdown&id=5171.

Small Business Deduction are below both the Specified Service Trade or Business limitation and statutory income threshold (i.e., single and $157,500 of QBI or less, or joint-filing and $315,000 of QBI or less). The JCT estimates 26.8 million taxpayers will claim the Small Business Deduction for the 2019 tax year. Businesses above the thresholds must invest significantly in employees or capital to benefit from the deduction.

Coupled with lower individual rates, broader tax brackets, increased thresholds for the alternative minimum tax and estate tax, and significant increases in the expensing limits, the TCJA benefits to small and independent business owners are substantial.

To put these reforms in context, consider Lana Pol. She owns multiple small businesses in and around Pella and Des Moines, Iowa, including Geetings, Inc., G.I. Warehouse Corporation, Mowbility Sales and Service, and Creative Inspirations. In her testimony before the House of Representatives Budget Committee in late February, Pol explained how the TCJA, specifically, the Small Business Deduction, has impacted her businesses.[5]

Pol stated, "My accountant informed me that the new Small Business Deduction (Section 199A) will provide around $40,000 in tax relief for our businesses. This tax relief from the new tax law provides crucial cash flow that allowed us to provide up to $4,000 raises to our employees, the largest compensation increases we have been able to provide in recent years. These raises increased employees' take-home pay and helped us retain employees. As you know, businesses across the country are experiencing tight labor markets, an indicator of a strong economy. The labor market is especially tight in Iowa. Retaining highly-valued employees is key for our businesses to function."

Pol's experience is not unique. On May 17, 2018, NFIB released a survey titled *Small Business Introduction to the Tax Cuts and Jobs Act (Part 1)* to provide a baseline reading on small business owners' initial responses to the TCJA.[6] The survey, the executive summary of which is attached as an addendum to this statement for the record, found that small business owners are bullish about business and the impact of the TCJA:

- The vast majority (76 percent) of small business owners believe the current business climate is heading in a positive direction.
- Three-fourths of small business owners believe the tax law will positively impact their business.

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[5] House of Representatives Budget Committee hearing, "2017 Tax Law: Impact on the Budget and American Families" (February 27, 2019), testimony available online at https://budget.house.gov/legislation/hearings/2017-tax-law-impact-budget-and-american-families.

[6] Small Business Introduction to the Tax Cuts and Jobs Act: Part 1, NFIB Research Center, (May, 2018), available online at https://www.nfib.com/assets/TCJA-Survey.pdf.

- Eighty-seven percent think the new tax law will have a positive impact on the general economy.

The majority of respondents anticipate a lower tax bill next year and plan to allocate the extra money across a number of business activities.[7] Among these small business owners:

- Forty-four percent plan to increase employee compensation.
- More than one-quarter (27 percent) plan to use the extra savings to add employees.

Certain specific benefits stand out for small business owners:

- Overwhelmingly, 84 percent of small business owners view the creation of Section 199A as important.
- Eighty-five percent consider the reduction of individual rates as important.
- Two-thirds regard the changes to the estate tax as important.
- Seventy-six percent of small business owners view the doubling of the standard deduction as important.

The NFIB Research Center will continue to examine the TCJA's lasting effect on small business owners' expectations and plans, particularly since many of the benefits expire after 2025. This uncertainty complicates long-term planning for small business owners. NFIB urges Congress to consider the *Main Street Tax Certainty Act*, H.R. 216, to make these critical provisions permanent, thereby providing lasting tax relief to small business owners across the country.

Small businesses make up more than 99 percent of all U.S. businesses and account for nearly half of the nation's private sector jobs. When small businesses signal plans to grow, hire and boost pay, it is good news for the entire economy.

[7] As the survey was conducted in 2018, "next year" refers to tax year 2018.

Small Business Introduction to the Tax Cuts and Jobs Act: Part 1

May 2018

Executive Summary

- Over three-quarters (76 percent) of small business owners believe the current business climate is heading in a positive direction (Q#4).
- The vast majority (87 percent) percent of small business owners think the new tax law will have a positive impact on the general economy. Just 4 percent believe it will have a negative impact and 9 percent think it will have no significant impact (Q#14).
- Three-fourths (75 percent) of small business owners believe the tax law will positively impact their business, 22 percent anticipate it will have no impact, and 3 percent a negative impact (Q#12).
- While small business owners are enthusiastic about the law generally, many of the details are still unfamiliar to them. Almost one-in-four (24 percent) percent of small business owners are not at all familiar with the new tax law (Q#7).
- Half of small business owners with some familiarity about the law obtained their most useful information from their tax preparer or advisor, another 28 percent from the general news media (Q#8).
- Over half (51 percent) of small business owners expect to pay less in federal income taxes next year, 7 percent expect to pay more, and 37 percent about the same (Q#15).
- Almost half (47 percent) of small business owners who expect to pay less in taxes next year plan to increase business investments with their tax saving (Q#15a5) and 44 percent plan to increase employee compensation (Q#15a6). Another 40 percent of small business owners plan to pay down debt obligations (Q#15a7), 32 percent plan to retain the funds freed up as higher earnings available to support business growth (Q#15a4), and 27 percent plan to hire an additional employee (Q#15a3).
- Over half (55 percent) say that the creation of Section 199A, allowing for up to a 20 percent small business income tax deduction, is "very important" with another 29 percent "somewhat important" (Q#20B).
- Forty-five percent of small business owners say that changes to the personal income tax brackets and rates are "very important" to them and their business, 40 percent say "somewhat important" (Q#20A).

215 Pennsylvania Avenue, SE • Washington, D.C. 20003 • 202/546-4996 • www.citizen.org

March 27, 2019

U.S. House of Representatives
Ways & Means Committee
1102 Longworth House Office Bldg.
Washington, DC 20515
Via email to: WMdem.submission@mail.house.gov

Re: Hearing on "The 2017 Tax Law and Who It Left Behind"

Dear Chairman Neal, Ranking Member Brady and Honorable Committee Members,

On behalf of Public Citizen's more than 500,000 members and supporters, we write to thank you for holding this important hearing examining the disastrous outcomes of the 2017 tax giveaway package, the Tax Cuts and Jobs Act (TCJA) (Public Law No. 115-97). That legislation has done much to enrich wealthy shareholders, corporate CEOs and Wall Street bankers and has done little to assist average Americans. And, the hole in the budget these tax cuts are already leaving will lead to declining services for families that are suffering and fewer health care dollars for seniors and others who need care. As a next step, we urge you to move forward with the process of writing legislation to unrig the tax code—focusing not only on which harmful provisions of the 2017 tax law should be repealed, but also which glaring loopholes to close and how to progressively grow revenues to provide real investment in our communities.

There are three broad categories of Americans who were left behind by the 2017 tax law: Main Street businesses; workers; and children, seniors and other vulnerable populations. But, it's the nation as a whole that will suffer the most since the 2017 tax law moved further from the American ideal of everyone having a fair shake and instead entrenched the runaway economic inequality that means large numbers of Americans are struggling to get by while a tiny fraction of the population is hoarding unfathomable wealth.

The tax legislation left Main Street businesses behind in several ways—most severely through providing unequal footing for domestic companies as compared to multinational corporations. Unlike Main Street U.S. companies, multinational corporations are able to make use of accounting gymnastics to book their profits to offshore subsidiaries housed in low tax countries—tax havens—as a way to reduce or eliminate their U.S. tax bill. Instead of fixing this problem, the Tax Cuts and Jobs Act worsened the offshoring of investments by allowing deductions that give a "50 percent off tax coupon" for profits said to be made by offshore branches. Not only will profit shifting continue under the 2017 tax bill, outsourcing of investments will be worse since

companies are more likely to make physical investments offshore, like building plants, in order to lower their taxes. According to the Congressional Budget Office (CBO), "By locating more tangible assets abroad, a corporation is able to reduce the amount of foreign income that is categorized as GILTI [global intangible low-tax income]. Similarly, by locating fewer tangible assets in the United States, a corporation can increase the amount of U.S. income that can be deducted as FDII [foreign-derived intangible income]. Together, the provisions may increase corporations' incentive to locate tangible assets abroad."[1]

Not only did the international provisions leave Main Street businesses behind, the deduction for "pass-through" entities did as well. Partnerships or limited liability companies where taxes "pass-through" and are filed by the owners on an individual basis now get a 20 percent deduction, subject to some complicated rules and thresholds that are ripe for gamesmanship and that have proven difficult for true small business owners to navigate.[2] The Joint Committee on Taxation estimated that millionaires stand to gain handsomely from the deduction-- where almost a full half of the benefit will go to persons making $1 million or more, with that figure surpassing the halfway point by 2024.[3] This when millionaires are only .3 percent of tax filers.

The second group of Americans left behind by the 2017 tax law are workers since companies are using the money they have received from their discounted tax rate to pay shareholders dividends and buy back stock to increase the value of the existing shares, all the while cutting existing jobs[4]. This clearly breaks promises about this bill made by the Republicans to American workers, who were sold the lie that these cuts are going to "trickle down" to everyday wage earners, instead of further lining the pockets of Wall Street investors. According to estimates of the results so far from the Tax Cuts and Jobs Act, corporations are spending more than 141 times as much on stock buybacks than they are shelling out for increased wages or one-time bonuses.[5]

The last broad group of Americans left behind by the 2017 tax law are children, senior citizens and vulnerable populations since decreasing government revenues will mean that funding for services like public education, Medicare, Medicaid, and nutrition services will be shortchanged. The TCJA will increase the U.S. deficit by $1.9 trillion over ten years.[6] Lawmakers are brazenly using these budget shortfalls to call for cuts to social safety net programs that seniors and families depend on. President Trump's recent budget proposed huge cuts to non-defense discretionary spending-- reductions of around 9 percent, or 11 percent after adjusting for inflation, with much deeper cuts affecting some agencies.[7] This will equate to fewer teachers and books, less money for providing rental assistance for seniors, and more families having to choose between buying prescription medicine and putting food on the table. Moreover, the 2017 tax law ended the Affordable Care

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[1] U.S. CONGRESSIONAL BUDGET OFFICE, THE BUDGET AND ECONOMIC OUTLOOK: 2018-2028 AT 109-110 (April 9, 2018), https://bit.ly/2Jt8P1b.

[2] Ruth Simon and Richard Rubin, *Crack and Pack: How Companies Are Mastering the New Tax Code*, THE WALL STREET JOURNAL (April 3, 2018) https://on.wsj.com/2HKzoO2.

[3] JOINT COMMITTEE ON TAXATION, JCX-32R-18: TABLES RELATED TO THE FEDERAL TAX SYSTEM AS IN EFFECT 2017 THROUGH 2026 (April 24, 2018), https://bit.ly/2f0JDyX.

[4] Todd Spangler, *Democrats Say GM Gets Tax Cuts While Workers Get Shafted*, DETROIT FREE PRESS (Nov. 26, 2018), https://bit.ly/2r6ujZT

[5] *Key Facts: How Corporations Are Spending Their Trump Tax Cuts*, AMERICANS FOR TAX FAIRNESS https://americansfortaxfairness.org/trumptaxcuttruths (viewed on March 25, 2019).

[6] U.S. CONGRESSIONAL BUDGET OFFICE, THE BUDGET AND ECONOMIC OUTLOOK: 2018-2028 (April 9, 2018), https://bit.ly/2Jt8P1b.

[7] PAUL N. VAN DE WATER, JOEL FRIEDMAN, AND SHARON PARROTT, CENTER ON BUDGET AND POLICY PRIORITIES, 2020 TRUMP BUDGET: A DISTURBING VISION (March 11, 2019), https://bit.ly/2CzFP6f.

Act's insurance mandate, which will harshly push 13 million Americans out of the markets and will raise premiums for the rest of us[8], leaving our nation that much further away from reaching the goal of universal health care, a right enjoyed by citizens of other industrialized nations.

The 2017 tax bill also generally harms American values since it further rigged our economy to benefit the wealthy in numerous ways. It's estimated that 83 percent of the benefits of the tax cuts will go to the top 1%.[9] And, as many Americans continue to struggle to regain their economic footing more than ten years after the Wall Street crash and Great Recession, it was unfair for the legislation to lower taxes on the top earners in our society, down from 39.6 percent to 37 percent. Further, the TCJA weakened the estate tax by doubling the exemption limits, meaning far fewer estates are subject to the tax. The previous thresholds were already far too generous, and by increasing the exemption to more than $11 million (or $22 million-plus for married couples,) the TCJA further entrenched the ability of the "haves" in our society to hoard their wealth. Not only are these unfair handouts to the richest among us, it leaves rest of us to foot the bill for important government services.

For these reasons and more, public opinion remains squarely against TCJA.[10] Prominent Senators have spoken unfavorably about the law, Sen. Marco Rubio is quoted as saying, "[corporations] bought back shares, a few gave out bonuses; there's no evidence whatsoever that the money's been massively poured back into the American worker."[11] And, Sen. Corker reportedly remarked, "If it ends up costing what has been laid out here, it could well be one of the worst votes I've made."[12]

Another reason the 2017 tax giveaways are so disliked is because they were a clear example of self-dealing because the people who are wrote the law stand to benefit richly from the tax code changes they put in place.[13] For example, many lawmakers have significant income from partnerships or limited liability "pass-through" companies, and a large number of President Trump's own web of companies are formed as LLCs. As noted previously, the majority of the benefit from this provision flows to millionaires. Additionally, the heirs of President Trump and other billionaires' and millionaires in the cabinet as well as in Congress stand to gain enormously from expanded exemptions for the estate tax.[14]

The reason the that the 2017 tax cuts were so obviously skewed in benefit of the wealthy and corporations was because they were the output of a corporate patronage system where campaign contributions go in one end and tax cuts come out of the other. Republican lawmaker Rep. Chris Collins shockingly admitted that his campaign donors were pressuring him to vote for the TCJA

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[8] U.S. CONGRESSIONAL BUDGET OFFICE, REPEALING THE INDIVIDUAL HEALTH INSURANCE MANDATE: AN UPDATED ESTIMATE (Nov. 8, 2017), https://bit.ly/2AugUyh.

[9] *Distributional Analysis of the Conference Agreement for the Tax Cuts and Jobs Act*, TAX POLICY CENTER (December 18, 2017) https://tpc.io/2Bv5yLd.

[10] *Trump, Republicans' Tax Reform Law*, REALCLEAR POLITICS (viewed March 26, 2019) https://bit.ly/2Fzl9KX.

[11] *Marco Rubio Offers His Trump-Crazed Party a Glint of Hope*, THE ECONOMIST (April 26, 2018) https://econ.st/2vYQkqv.

[12] Niv Elis, *Corker: Tax Cuts Could be "One of the Worst Votes I've Made,"* THE HILL (April 11, 2018) https://bit.ly/2l2ygc3.

[13] Brian Beutler, *New Memo Shows How Republicans Used Tax Bill to Enrich Themselves*, CROOKED (April 9, 2018) https://bit.ly/2H8twRJ.

[14] Ben Steverman, *It's a Great Time to Be a Wealthy Heir After Trump Tax Overhaul*, BLOOMBERG (May 15, 2018) https://bloom.bg/2rKljbt.

legislation.[15] And, the "debate" around the TCJA was heavily mired in the swamp that Trump's base so clearly dislikes—Public Citizen research revealed the shocking statistic that more than 60 percent of all D.C. lobbyists weighed in on 2017 tax cut bill —more than 7,000 individual lobbyists.[16]

The time has come for Congress to repeal these harmful provisions of the 2017 law that did little for average Americans while lining the pockets of the rich and multinational corporations. Moreover, there are many low-hanging policy changes that could close glaring loopholes in the code that have been bleeding our national coffers for years. For example, the carried interest loophole, which allows investment fund managers to pay a lower tax rate than teachers or construction workers was barely touched in the TCJA. The same is true for the loophole that allows performance-based bonuses of more than $1 million dollars to be deducted for most employees receiving such exorbitant pay packages from financial firms or other hugely profitable companies.

Americans have come together as a society and agreed to invest in services like health care, education, nutrition assistance, roads, first responders, courts and other essential government programs. But the fact remains that we need tax revenues to fund these services that we depend on and expect. To address that, moving forward, the tax debate should also be looking at creating new sources of revenue such as by taxing Wall Street trades, among other things. A tax of only 10 cents for every $100 traded would create more than $777 billion in revenue over 10 years.[17] Other proposals to tax wealth and to strengthen the estate tax must also be on the table. By unrigging the tax code, we would generate funds that could easily be channeled toward greater investments in our communities that will improve the lives of everyone, not just wealthy shareholders or corporate CEOs.

In America, equal opportunity should mean using taxes to pay for a hand up when you need it, not a handout to the rich who already have so much in comparison. We look forward to working with you on a real tax plan that will benefit all Americans, not just the few who need it the least.

Sincerely,

Lisa Gilbert
Vice President of Legislative Affairs
Public Citizen's Congress Watch division

Susan Harley
Deputy Director
Public Citizen's Congress Watch division

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[15] Dylan Scott, *House Republican: My Donors Told Me to Pass the Tax Bill "Or Don't Ever Call Me Again,"* Vox (November 7, 2017) https://bit.ly/2zmmQeO.
[16] Taylor Lincoln, Public Citizen, Swamped (Revised Edition) (January 30, 2018) https://bit.ly/2FyuTV1.
[17] Congressional Budget Office, Options for Reducing the Deficit: 2019 to 2028, at 298 (Dec. 2018), https://bit.ly/2SNAOb1.

Statement Submitted to the U.S. House of Representatives
Committee on Ways and Means
by the Association of Art Museum Directors

April 10, 2019

The Association of Art Museum Directors (AAMD) is composed of the directors of approximately 245 of the leading art museums in North America, including more than 200 in the United States. We are grateful for the opportunity to submit written testimony on the social service role of art museums, which is largely enabled by charitable giving.

During the March 27 hearing "The 2017 Tax Law and Who It Left Behind," several questions were asked about the effect of the Tax Cuts and Jobs Act (TCJA) on charities. One witness stated in response:

"There's some speculation that there is a difference in the nature of giving, and that large givers, who may not be impacted by the standard deduction, who will continue to give, may tend to give more to certain kinds of charities, maybe museums, maybe universities, and that the kinds of [human] services you referenced in the church, are often the kinds of services that were funded by charity from lower-income individuals, who are individuals that may no longer benefit by virtue of the increased standard deduction. So I think time will tell and it certainly bears further investigation as to whether or not there is a change in the charitable sector as to where the dollars are being directed."

We share the witness's concern that any decline in giving for human services would be a tragedy. It does not follow, however, that because one type of charity is receiving less, that those missing dollars are being directed elsewhere, as opposed to simply lost. Nor is it correct to assume that museums do not provide human services.

Museums preserve, study, and exhibit art for a multitude of purposes, some of which have profound effects on individual lives. Moreover, many art museums were founded with an explicitly utilitarian purpose. The mission statement of the Metropolitan Museum of Art in New York City, for example, which was articulated in 1870 and reaffirmed by its board in 2015, notes that the organization was founded "for the purpose of establishing and maintaining in said city a Museum and library of art, of encouraging and developing the study of the fine arts, and the application of arts to manufacture and practical life…"

From their beginnings in the 19th century up to the present time, American museums have placed education at the heart of their mission. AAMD's members in the United States have formal programming with approximately 40,000 schools annually[1], including public, private, parochial, and home schools. Last year, 50,000 teachers participated in on-site professional development programs at art museums, usually earning continuing education credit. While art museums have long hosted field trips for schools, today they are often the primary source of exposure to visual arts for many at-risk children and

youth, especially in the absence of meaningful arts education at far too many schools. Recent scientific research[2] confirms that even a single visit facilitated by trained docents confers lasting benefits with respect to empathy, tolerance, comfort with ambiguity, and emotive recall.

Art museums have branched out far beyond K-12. Nearly half provide programs for Alzheimer's patients and caregivers. Others have offerings for seniors at home, children in the juvenile justice system, and incarcerated adults. About a third offer instruction for medical, nursing, and pharmacy students, which is clinically proven to sharpen observation skills and hence improve the ability to make correct diagnoses. Some institutions have art therapists on staff.[3] In Sacramento, a recent study showed that visiting the museum helped people with chronic pain.[4] In Canada, physicians have begun prescribing museum visits.

There are even examples of museums working with programs for the homeless and the hungry.

Regardless of the makeup of their donors, art museums serve a broad audience in ways that should not be characterized, even implicitly, as unconnected with a range of human needs. We refer the Committee to *The Social Work of Museums*.[5]

We share the concern of many in the charitable sector that confining the availability of the charitable deduction to a narrow slice of upper income taxpayers could profoundly harm the vitality of civil society. Just as art museums work to serve broadly, they also try to attract gifts from a broad range of people, not just the rich. For this reason, we support extending the charitable deduction to non-itemizers.

Absent charitable giving, most museums would be able to do little more than keep their collections safe. As matters now stand, most art museums in the United States derive a quarter to a third of their budgets from annual giving. Because of charitable giving, art museums are accessible. One-third of AAMD member museums offer free admission to all, all the time, and two-thirds offer free admission for children under 12. Those with admission fees nearly always offer some form of free admission (for example, a weekly or monthly free day) and discounts for seniors and students. Many museums participate in Museums for All, an initiative that provides free or reduced admission to people who present an Electronic Benefits Transfer card. Two thousand museums of all types participate in Blue Star Museums, which offers free admission to active duty military personnel and their families from Memorial Day to Labor Day. Taking all of this into account, we estimate the average cost of admission at AAMD museums to be about five dollars or less. At the same time, the cost to museums per visitor is about $55.[6]

AAMD members share a commitment to serving the public, partnering with their community institutions, including health, human service, and education organizations, and applying the unique resources of the arts to serving a wide variety of purposes. Museums are anchors in their communities, often serving as the centerpiece of new or

revitalized neighborhoods, providing jobs, attracting tourists as well as residents, and in a less literal sense, helping to form the community's identity – its sense of self.

Notes:

1 In response to a question posed at a 2007 Ways & Means Committee hearing on charities and diverse communities, the AAMD developed a project to map the service relationships of its members. With more than 140 museums mapped, we literally have the names and addresses of more than 25,000 schools that are served, which allows us to extrapolate to a likely total of about 40,000.

2 Greene, J.P., Kisida, B., & Bowen, D.H. (2014). *The educational value of field trips*. Education Next, 14(1), 78-86. This study of field trips to the Crystal Bridges Museum of American Art in Bentonville, AR found that underserved and minority students benefited the most.

NAEA/AAMD Core Team (2018). *Impact Study of Facilitated Single-Visit Art Museum Programs on Students Grades 4–6 User Guide*. Alexandria, VA: National Art Education Association. This federally funded study investigated field trips to six museums and included an exhaustive literature review, which was published along with the findings.

3 Statistics in this paragraph are from AAMD 2018 annual Statistical Survey.

4 https://gooddaysacramento.cbslocal.com/2018/08/28/art-instead-of-opioids/

5 Silverman, Lois H. (2010) *The Social Work of Museums*, Routledge

6 Total operating expenses divided by total attendance, from AAMD 2018 Statistical Survey.

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House Ways and Means Committee
The 2017 Tax Law and Who It Left Behind
Written Statement for the Record
April 9, 2019
United Philanthropy Forum

Dear Chairman Neal and Members of the House Ways and Means Committee,

Thank you for your leadership in holding the hearing "The 2017 Tax Law and Who It Left Behind" and for the opportunity to submit written testimony on the topic.

As the largest and most diverse network in American philanthropy, United Philanthropy Forum holds a unique position in the social sector to help increase philanthropy's impact in communities across the country. We are a membership organization of more than 75 regional and national philanthropy-serving organizations, representing 7,000 foundations and other funders, who work to make philanthropy better. The Forum envisions a courageous philanthropic sector that catalyzes a just and equitable society where all can participate and prosper.

For members of our network, the Tax Cuts and Jobs Act (TCJA) has had a profound and negative impact on their ability to carry out their charitable missions. Specifically, two issues have hampered our work: a threat to the effectiveness of the charitable deduction as a result of the increased standard deduction and changes to the tax-exempt organizations' unrelated business income tax (UBIT). We appreciate that during the recent hearing, several Members of the Committee raised both of these issues as examples of how our sector was "left behind" in the 2017 tax bill.

While the TCJA did not directly limit the charitable deduction, by increasing the standard deduction it greatly reduced the number of taxpayers who itemize and therefore reduced access to the charitable deduction. The Tax Policy Center estimated that the number of households claiming the charitable deduction will shrink from about 37 million to about 16 million.[1] We know that the charitable deduction increases giving. Data shows that taxpayers who itemize give at higher rates and make larger gifts than non-itemizers. By restricting the number of taxpayers who can take advantage of the charitable deduction, the TCJA severely limits a crucial element of the tax code that ensures the continued health of the charitable sector.

The TCJA's changes to the tax code come at a time when the philanthropy and nonprofit sector is already vulnerable. Early data reveal that charitable giving has indeed slowed down in 2018, following the implementation of the TCJA provisions. The 2018 Charitable Giving Report from the Blackbaud Institute for Philanthropic Impact shows that while overall giving increased 1.5 percent in 2018, the increase did not keep up with the 1.9 percent rate of inflation. Additionally, the 1.5 percent increase in giving for 2018 is much smaller than the 4.1 percent increase in giving that Blackbaud reported in 2017 and the combined 9 percent increase since 2016. Particularly concerning, smaller nonprofits with annual fundraising of under $1 million saw a 2.3 percent drop in donations between 2017 and 2018.[2] A report by the Fundraising Effectiveness Project (FEP) found

[1] The Tax Policy Center. "21 Million Taxpayers Will Stop Taking the Charitable Deduction Under The TCJA." https://www.taxpolicycenter.org/taxvox/21-million-taxpayers-will-stop-taking-charitable-deduction-under-tcja
2 Blackbaud Institute. "2018 Charitable Giving Report." https://institute.blackbaud.com/asset/2018-charitable-giving-report/

that the total number of charitable donors in 2018 dropped 4.5 percent from 2017 levels, and new donors decreased by a bigger margin of 7.3 percent.[3]

To address this issue, we strongly support increasing charitable giving by providing all taxpayers access to a universal charitable deduction. A universal charitable deduction would help charitable organizations continue raising the funds they need to achieve their critical missions and democratize the incentive for all Americans to donate.

Regarding the second issue of the TCJA's new taxes on nonprofits, changes in the TCJA to the UBIT created both financial and administrative burdens for philanthropy-serving organizations and foundations. The new tax on fringe benefits is of serious concern. Introduced in the TCJA, this tax requires for the first time that nonprofits pay a 21% federal tax on employee transportation and parking benefits. According to research by the Urban Institute, the tax will cost nonprofits $12,000 per year on average, and for some, much more.[4] This tax funnels money away from its intended charitable purpose and impedes our members' abilities to achieve their organizational missions. For many nonprofits, the administrative burden to calculate the tax will be extremely costly and often times will cost more than the tax itself.

Moreover, the new requirement that unrelated business income and related losses must be calculated separately in "silos" creates an additional challenge, one that is estimated to cost affected nonprofits $15,000 per year—further diverting precious funds away from supporting our communities.[5] We are appreciative of the bipartisan efforts in Congress to repeal both these UBIT provisions.

We are encouraged by the fact that the Ways and Means Committee hosted this hearing and we support additional hearings to further investigate how the 2017 tax bill impacted the charitable sector and what can be done to ameliorate these unintended consequences. We welcome the opportunity to work with Members of the Committee and their offices to provide data and perspectives on this topic. Please let us know how we can continue to support our sector's partnership with government and advance tax policies that encourages philanthropy to continue to innovate and deliver results in America's communities and leverage government investments.

On behalf of our network of philanthropy-serving organizations, United Philanthropy Forum thanks Chairman Neal, Ranking Member Brady, and members of the Committee for their support of the charitable sector. We look forward to working together with you on these important issues and exploring other topics related to strengthening America's philanthropy and nonprofit sector.

Respectfully Submitted,

United Philanthropy Forum

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3 Fundraising Effectiveness Project. http://afpfep.org/reports/download/

4 Urban Institute. " How the TCJA's New UBIT Provisions Will Affect Nonprofits." https://independentsector.org/wp-content/uploads/2019/01/How-the-TCJAs-New-UBIT-Provisions-Will-Affect-Nonprofits.pdf

5 Urban Institute. " How the TCJA's New UBIT Provisions Will Affect Nonprofits." https://independentsector.org/wp-content/uploads/2019/01/How-the-TCJAs-New-UBIT-Provisions-Will-Affect-Nonprofits.pdf

Economic
Policy
Institute

State of Working America

Wages 2018

Wage inequality marches on—and is even threatening data reliability

Report • By Elise Gould • February 20, 2019

Rising wage inequality and sluggish hourly wage growth for the vast majority of workers have been defining features of the American labor market for nearly four decades, despite steady productivity growth. The U.S. economy of the last several years has been no exception. Although the unemployment rate continued to fall and participation in the labor market continued to grow over the last year, most workers are experiencing moderate wage growth and even workers who have seen more significant gains are just making up ground lost during the Great Recession and slow recovery rather than getting ahead.

This report analyzes data from the Current Population Survey (CPS) and details the most up-to-date hourly wage trends through 2018 across the wage distribution and education categories, highlighting important differences by race and gender. By looking at real (i.e., inflation-adjusted) hourly wages by percentile, we can compare what is happening over time for the lowest-wage workers (those at the 10th and 20th percentiles) and for middle-wage workers (those at or near the 50th percentile) with wage trends for the highest-wage workers (those at the 90th and 95th percentiles).

The data show not only rising inequality in general, but also the persistence, and in some cases worsening, of wage gaps by gender and race. What also stands out in this last year of data is that, while wages are growing for most workers, wage growth continues to be slower than would be expected in an economy with relatively low unemployment. Given this slow wage growth, policymakers should not presume that the economy has already achieved (or even surpassed, as some claim) full employment. Instead, policymakers should try to keep labor markets as tight as possible for as long as possible to see if wage growth lost during the Great Recession can be clawed back, and to see if wage disparities by gender and race can be reduced.

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New in this report: Accounting for "top-coding" in the CPS

The CPS is one of the best measures of hourly pay because it allows researchers to analyze differences across the wage distribution and by demographic characteristics. However, for confidentiality reasons, the CPS "top-codes" weekly earnings. All workers who report weekly earnings *above* $2,884.61 (annual earnings for full-year workers above $150,000) are recorded as having weekly earnings of *exactly* $2,884.61, to preserve the anonymity of respondents. This top-code amount of $2,884.61 hasn't changed or been updated for inflation in 20 years and, as a result, a growing share of workers are assigned this weekly earnings value rather than having their actual wages reported. Because these workers' actual wages are masked by the top-code, it has become harder to uncover the extent of top-end wage levels and growth. Other data, such as data from the Social Security Administration, illustrates that wage growth is far more concentrated at the top than can be illustrated using the CPS, with growth at and within the top 1 percent exhibiting growth orders of magnitude faster than at the 95th percentile. In the most recent year of data, the top-code is assigned to more than 5 percent of weekly earnings for male workers in the CPS; with no adjustment, this would compromise our 95th-percentile hourly wage estimates. For the purposes of this report, we use what we think is an acceptable proxy for wage growth at this percentile, as described in the "Methodological considerations" section of this report.

Summary of key findings

Below is a summary of the key findings of this report. These findings are outlined in greater detail in subsequent sections of the report.

Considerations and cautions when using the Current Population Survey (CPS) to measure wages in a world of growing inequality. Regarding stagnant top-codes, month-to-month volatility, and the data sample, we find that:

- Top-coding of weekly earnings is catching an increasing number and share of workers as inequality continues to climb, making it increasingly difficult to obtain reliable measures of 95th-percentile wages, particularly for male workers and white workers. Therefore, caution should be exercised when examining recent wage levels and trends for these workers.
- Because the CPS exhibits a fair amount of year-to-year volatility, one-year changes in wages by decile in the CPS—while providing new and valuable information—should be taken with a grain of salt.

- Caution should be exercised when making comparisons with prior-year versions of this report, as the data sample has changed; notably, the analysis here includes all workers 16 years of age and older to be both consistent with other Bureau of Labor Statistics analyses and reflective of a growing number of workers ages 65 and older in the labor market.

Wage inequality. From 2000 to 2018, wage growth was strongest for the highest-wage workers, continuing the trend in rising wage inequality over the last four decades.

- Since 2007, the labor market peak before the Great Recession, the strongest wage growth has continued to be within the top 10 percent of the wage distribution.
- From 2017 to 2018, relatively fast growth continued at the top (2.7 percent at the 95th percentile), but the 20th and 30th percentiles saw the strongest growth at 4.8 percent and 3.7 percent, respectively. Median wages grew 1.6 percent over the year.

Wage inequality by gender. While wage inequality has generally been on the rise for both men and women, wage inequality is higher and growing more among men than among women.

- Because of their relatively high wages, particularly at the top of the wage distribution, men are far more likely to be affected by the top-code in recent years, making it more difficult to accurately assess 95th-percentile wage levels and wage growth.
- From 2017 to 2018, men at the 95th percentile saw large wage gains, while those at the middle and very bottom of their wage distribution experienced downright wage losses. Since 2000, men's wages at the 95th percentile grew 42.0 percent, more than twice as fast as at the 90th percentile (17.1 percent), while the median man's wage barely budged, rising only 0.8 percent over the entire 18-year period.
- Women have experienced more equal wage growth since 2000, and their wage growth from 2017 to 2018 was relatively more broadly shared as well, with stronger growth among the bottom 30 percent than among the top 20 percent. Since 2000, wage inequality has grown less among women compared with men.

Gender wage gap. The "gender wage gap" refers to the historically persistent difference between what men and women are paid in the workplace. While significant gender wage gaps remained across the wage distribution, the gender wage gap at the median continued to shrink over the last year, with a typical woman paid 84 cents on the typical man's dollar in 2018 (or, facing a 16 percent wage gap).

- The gender wage gap at the 10th percentile remains the smallest across the wage distribution and it has narrowed since 2000; it is currently at 5.9 percent.
- As inequality among men has continued to increase, it is not surprising that the gender wage gap at the top grew significantly and that 95th-percentile women are paid 33.6 percent less in 2018 than 95th-percentile men.
- The regression-adjusted average gender wage gap narrowed slightly from 2000 to 2018 and is currently at 22.6 percent. This measure accounts for differences in educational attainment, age, and other potentially relevant characteristics for wages,

and reports the gender wage gap remaining after these statistical controls are used.

Wage growth in states with minimum wage increases. From 2017 to 2018, wages of the lowest-wage workers grew more in states that increased their minimum wage in 2018.

- On average, in the 29 states without minimum wage increases in 2018, the 10th-percentile wage rose 1.6 percent; in states with minimum wage increases in 2018 (including the District of Columbia), the average 10th-percentile wage rose by 2.1 percent.
- The differential is larger when looking across recent years with many minimum wage increases: Between 2013 and 2018, when 26 states and D.C. experienced at least one minimum wage increase, the 10th-percentile wage grew much faster in those states (and in D.C.) than in states without any increase (13.0 percent vs. 8.4 percent).
- In both comparison periods, both men and women at the 10th percentile saw greater wage growth in states with minimum wage changes versus those without.

Wage growth by race/ethnicity. At every decile, wage growth since 2000 was faster for white and Hispanic workers than for black workers.

- Over the last 18 years, wage growth for white and Hispanic workers has been about four times faster than that of black workers in the 20th through the 70th percentiles of their respective wage distributions. The 60th and 70th percentiles of the black wage distribution remain below their 2000 levels.
- Because of their higher wages, the 95th percentile white wage has to be imputed using the same method as described for male workers. Regardless of measurement, between 2017 and 2018, the strongest wage growth among white workers was at the 95th percentile, while white workers at the 10th percentile experienced downright declines. White wages grew across the wage distribution since 2000.
- Over the entire period from 2000 to 2018, Hispanic workers experienced relatively more broadly based wage growth, with strong growth at the top as well as at the median and at the bottom. From 2017 to 2018, however, Hispanic workers' wages faltered, with outright declines (or stagnation) for the top half of the wage distribution.

Racial/ethnic wage gaps. Wage gaps by race/ethnicity describe how much less African American and Hispanic workers are paid relative to white workers. Throughout the wage distribution, black–white wage gaps were larger in 2018 than in 2000; conversely, Hispanic workers have been slowly closing the gap with white workers in the bottom 80 percent of the wage distribution.

- The regression-adjusted black–white wage gap (controlling for education, age, race, and region) has become larger over the last year (EPI 2019d).
- While the Hispanic–white wage gap has remained fairly constant over the last 18 years (12.3 percent in 2000 compared with 11.8 percent in 2018), the black–white gap was significantly larger in 2018 (16.2 percent) than it was in 2000 (10.2 percent). In 2000, the regression-adjusted Hispanic–white wage gap was larger than the regression-adjusted black–white wage gap. By 2018, the reverse was true.

Wage growth by education. From 2000 to 2018, the strongest wage growth occurred among those with advanced degrees, those with college degrees, and those with less than a high school diploma.

- Over the last year, the strongest wage growth occurred among those with some college and those with advanced degrees, a reversal from 2016 to 2017, when wages fell among these workers.
- The wages of those with a high school diploma rose faster than the wages of those with a college degree over the last two years, narrowing the gap between college and high school wages. As a result, the college wage premium—the regression-adjusted log-wage difference between the wages of college-educated and high school–educated workers—fell from 50.6 percent to 48.4 percent between 2016 and 2018.
- Between 2000 and 2018, the college wage premium rose slightly, from 47.0 percent to 48.4 percent over that whole period. The growth in the college wage premium was nowhere near fast enough to explain the total rise in wage inequality over that time.
- For the first time in this recovery, workers with some college just reached their 2000 wage level in 2018.

Wage growth by education and gender. Since 2000, wage growth for those with a college or advanced degree was faster for men than for women, while wage growth for those with a high school diploma or some college was faster for women than for men.

- In general, the women's wage distribution by educational attainment is more compressed; that is, the wage differences between workers of different levels of education are not quite as large for women as they are for men.
- While there has been a slow narrowing of gender wage gaps since 2000 for those with high school diplomas and for those with some college, gender wage gaps were wider than in 2000 among those with less than high school, those with college degrees, and those with advanced degrees.
- At every education level, women are paid consistently less than their male counterparts, and the average wage for a man with a college degree is higher than the average wage for a woman with an advanced degree.

Wage growth by education and race/ethnicity. From 2000 to 2018, wage growth for white and black workers tended to be faster for those with more education than for those with less education.

- Average wages grew faster among white and Hispanic workers than among black workers for all education groups from 2000 to 2018.
- Among black workers, only college- and advanced-degree holders had higher wages than in 2000, but their wage growth was considerably slower than wage growth for white or Hispanic workers with those same degrees.
- From 2017 to 2018, wage growth was strongest for those with an advanced degree in

all racial/ethnic groups, while wages fell most for black workers with less than a high school diploma.

- Black–white wage gaps by education were larger in 2018 than in 2000 for all education groups, while Hispanic–white wage gaps were narrower for workers with less than high school or high school diploma levels of education. At nearly every education level, workers of color were paid consistently less than their white counterparts.

Methodological considerations

This section describes our methodology for addressing data limitations due to top-coding, as well as other considerations to keep in mind when using CPS data and EPI's wage series reports to understand wage trends.

Top-coding of weekly earnings

Top-coding of weekly earnings is catching an increasing number and share of workers as inequality continues to climb, making it increasingly difficult to obtain reliable measures of 95th-percentile wages, particularly for male workers and white workers.

For this report, when workers directly report an hourly wage, this wage is used. For workers who do not directly report an hourly wage, hourly wages are calculated by dividing reported weekly earnings by their usual hours worked in a week. The CPS weekly earnings series is top-coded to protect the anonymity of high-wage respondents. In practice, this means that if a respondent reports weekly earnings above a certain value—$2884.61 in 2018—his or her weekly earnings are simply recorded as being that value (i.e., $2884.61). The top-code value has remained at $2884.61 since 1998, even as high-end wages have continued to rise. This weekly wage level translates into $150,000 annually for full-year workers.

Because actual wages are masked for these high earners, it has become harder to uncover the extent of top-end wage levels and growth. Other data, such as data from the Social Security Administration, illustrates that wage growth is far more concentrated at the top than can be seen using the CPS, with growth at and within the top 1 percent exhibiting growth that is orders of magnitude faster than at the 95th percentile (see **Appendix Figure A** for these trends).

Historically, the Bureau of Labor Statistics (BLS) has periodically made adjustments to the weekly earnings top-code when it has begun to reach increasingly larger shares of workers. Unfortunately, BLS has chosen to set the top-code at nominal values without adjusting for inflation. Between 1973 and 1988, the top-code sat at $999; from 1989 to 1998, it sat at $1,923; and, since 1998, it has remained at $2,884.61. Best practices for consistent and accurate data use suggest not only increasing the top-code but also

indexing it over time to keep it from hitting an increasing share of the workforce. Since the top-code was set in 1998 and has not risen since then, even to adjust for inflation, it is catching an increasing number and share of workers as wage growth at the top continues to climb. In the overall wage distribution, over the period analyzed in this report, the share of workers reporting weekly earnings at or above the top-code rose from 0.8 percent in 2000 to 4.2 percent in 2018. The share of men and white workers hitting the top-code is much higher than for workers overall. In 2018, the share of white workers with weekly earnings hitting the top-code was 5.2 percent. For working men, that share was 5.9 percent in 2018.

For weekly earnings above the top-code, EPI assigns those top-coded workers the imputed mean above the top-code assuming the earnings distribution is Pareto above the 80th percentile. However, because the highest-percentile wage we examine is the 95th percentile, as long as the top-code generally affected only the top 2–3 percent of workers, we could have confidence that our 95th-percentile estimate was largely unaffected by how binding the top-code was. Now that the top-code hits over 5 percent of the wage distribution of men and white workers, however, our 95th-percentile wage estimate has essentially become the weekly earnings top-code divided by a measure of usual hours. This makes our measure of 95th-percentile wages for working men and white workers unreliable.

As mentioned previously, the top-code is particularly binding when examining the 95th-percentile wage for both white and male workers. Because of this, we have used the 94th percentile as a proxy in those cases, so that values below the weekly top-code imputation are driving measured wage levels and wage growth, not the imputation itself. Given these limitations, some caution should be exercised when examining recent wage levels and trends for these workers.

Year-to-year volatility in the CPS

Because the CPS exhibits a fair amount of year-to-year volatility, one-year changes in wages by decile in the CPS—while providing new and valuable information—should be taken with a grain of salt; longer-term trends should be given more weight.

Every month, policymakers, analysts, and journalists look to the monthly jobs report to assess the health of the labor market. Along with payroll employment growth and the unemployment rate, nominal wage growth is a key indicator of the tightness of the labor market, a measure of workers' ability to secure pay increases from their employers. As workers become scarcer, employers have to pay more to attract and retain the workers they want. So making an accurate assessment of the state of wage growth is essential to a complete understanding of labor market dynamics and to determining how close the U.S. economy may indeed be to full employment.

The Bureau of Labor Statistics releases two surveys every month as part of their Employment Situation report: the Current Population Survey (CPS) and the Current

Employment Statistics survey (CES). The CPS collects employment and demographic information from households, while the CES collects information from employers' payroll records.[1] Gould (2018) compares recent trends in both of these series. In sum, given the larger sample size and the benchmarking of CES employment to unemployment insurance tax records, it has been well established that the CES is the better survey for assessing overall employment growth (Gould 2003).

Both series are consistent in how to interpret overall growth in wages. The growth rate in nominal private-sector earnings in the CES from 2017 to 2018 was 3.0 percent. The nominal growth in the typical CPS wage—that is, at the median—was 4.1 percent. In Gould (2018), I demonstrate that calculating growth rates from the CPS in three-year averages corresponds rather well to CES annual average growth rates. The average growth rate of the median wage in the CPS over the last three years was 3.4 percent. Therefore, it is important to not read too much into the somewhat stronger wage growth exhibited over one year in the CPS. Given the Federal Reserve's 2 percent inflation target, and given 1.5 percent long-run trend productivity growth, wages should be growing by at least 3.5 percent annually *and* for a sustained period of time for workers to reap the benefits of economic growth (EPI 2019c). While the growth seen in the average and median wage for U.S. workers over the past year is welcome and expected given the steadily improving labor market, recent trends indicate that the economy has a ways to go before reaching full employment. The recent pickup in the last quarter of 2018 in the CES is particularly promising; however, trends in both surveys indicate that workers are still trying to make up for ground lost during the Great Recession and its aftermath. Given that workers have limited leverage to bid up their wages, some slack remains in the labor market.

The CPS remains the best series for measuring wages and wage growth by demographic characteristics as well as across the wage distribution. Given the limitations of the CPS, however, I suggest taking swings in year-to-year differences with a large grain of salt and paying more attention to longer-term trends. Even so, I do report cross-cutting differences from the CPS for the most recent year; a look at the most current available data remains valuable to understanding how today's economy is serving U.S. workers across the labor market.

Changes in EPI's worker sample

Caution should be exercised when making comparisons with prior-year versions of this report, as the data sample has changed.

For many years, the Economic Policy Institute has reported wage growth using the CPS. For multiple sets of analyses, such as *The State of Working America* (Mishel et al. 2012) and previous versions of the *State of Working America Data Library* (EPI 2019d), most wage analysis was limited to workers who are 18 to 64 years old. To be both consistent with other Bureau of Labor Statistics analyses and reflective of a growing number of workers age 65 and older in the labor market, the analysis in this study reports hourly wages for all workers 16 years of age and older. Because of this change in the data sample, caution should be used in making comparisons with prior-year versions of this

report. **Appendix Figure B** provides the historical growth rates using the "new" series for select percentiles back to 1979.

Wage inequality across the wage distribution

Wage growth from 2000 to 2018 continues long-run trends in rising inequality.

Since 1979, "real" (inflation-adjusted) hourly pay for the vast majority of American workers has diverged from economywide productivity, and this divergence is at the root of numerous American economic challenges. After tracking rather closely in the three decades following World War II, growing productivity and typical worker compensation diverged (shown in **Appendix Figure C**).[2] From 1979 to 2017, productivity grew 70.3 percent, while hourly compensation of production and nonsupervisory workers grew just 11.1 percent. Productivity thus grew six times faster than typical worker compensation.

A natural question that arises from this story is just where did the "excess" productivity go? A significant portion of it went to higher corporate profits and increased income accruing to capital and business owners (Bivens et al. 2014). But much of it went to those at the very top of the wage distribution, as shown in Appendix Figure A. The top 1 percent of earners saw cumulative gains in annual wages of 157.3 percent between 1979 and 2017—far in excess of economywide productivity growth and nearly four times faster than average wage growth (40.1 percent). Over the same period, top 0.1 percent earnings grew 343.2 percent, with the latest spike reflecting the sharp increase in executive compensation (Mishel and Wolfe 2018).

While the CPS-ORG—the primary data set used in this report—does not allow disaggregation within the top 5 percent of the earnings distribution, it is still instructive for measuring the growth in wage inequality over the last 40-odd years. Appendix Figure B illustrates that for all but the highest earners, hourly wage growth has been weak. If it hadn't been for a period of strong across-the-board wage growth in the late 1990s, wages for most would have fallen outright. Median hourly wages rose 14.0 percent between 1979 and 2018, compared with an increase of 4.1 percent for the 10th-percentile worker (i.e., the worker who earns more than only 10 percent of workers). Over the same period, the 95th-percentile worker saw growth of 56.1 percent.

Wage growth since the Great Recession has continued to follow this trend: slower growth for most compared with faster growth for those at the top. **Table 1** shows hourly wages by wage decile (and at the 95th percentile) and includes data from 2000 (the previous business cycle peak), 2007 (the most recent business cycle peak), and the two most recent years of data (2017 and 2018). For a full discussion of EPI's use of the CPS-ORG data, see EPI's methodology for measuring wages and benefits (EPI 2019a). In the full business cycle from 2000 to 2007, growth was relatively slow overall and relatively

unequal; the gains at the 90th and 95th percentiles were higher than at the middle or bottom of the wage distribution. After growing at practically the same rate from 2000 to 2007, wages for the bottom grew about twice as fast as wages for the middle from 2007 to 2018, slightly narrowing the ratio of wages at the 50th and 10th percentiles of the wage distribution (i.e., the 50/10 wage gap, or the gap between the middle and the bottom). However, because of the large and disproportionate gains at the top, both the 95/50 gap (the gap between top and the middle) and the 95/10 gap (the gap between the top and the bottom) grew substantially from 2007 to 2018.

With the caveat that, as discussed above, we need to be careful to not assign too much meaning to one-year changes given concerns about data volatility, we note the following trends over the past year: The one-year change in the median wage from 2017 to 2018 was 1.6 percent, compared with 2.7 percent at the 95th percentile and 0.5 percent at the 10th percentile. The strongest growth in the overall wage distribution occurred at the 20th and 30th percentiles, at 4.8 percent and 3.7 percent, respectively.

Figure A illustrates the trends in wages for select deciles (and the 95th percentile), showing the cumulative percent change in real hourly wages from 2000 to 2017. The overall story of inequality is clear. The lines demonstrate that those with the highest wages have had the fastest wage growth in recent years. From 2000 to 2018, the 95th-percentile wage grew over three times faster than wages at the median. By 2018, the 95/10 ratio had grown to 6.3 from 6.0 in 2007 and 5.6 in 2000 (see Table 1). This means that on an hourly basis the 95th-percentile wage earner was paid 6.3 times what the 10th-percentile wage earner was paid. Similar trends are found in the 95/50 wage ratio, with those at the top pulling away from those at the middle. In 2018, the 95th-percentile wage earner was paid 3.4 times more than the median worker compared with 3.0 times more in 2007 and 2.9 times more in 2000.

Wages by gender

The gender wage gap continues to shrink, but remains significant; wage inequality is higher and growing more among men than among women.

Analyzing wages at different points in the wage distribution over time can mask different outcomes for men compared with women. **Table 2** replicates the analysis of wage deciles for men and women separately, with a comparison of gender wage disparities over 2000–2018. **Figures B** and **C** accompany this table, illustrating the cumulative percent change over 2000–2018 in real hourly wages of men and women at select wage percentiles.

It is important to keep in mind that the top-coding issue in the CPS disproportionately impacts analysis of men's wages more than analysis of women's wages because men's wages are higher and their high-end wage growth grew much faster over the last 20 years. Because more than 5 percent of men's weekly earnings were top-coded in the CPS

in 2016, 2017, and 2018, the 95th percentile is estimated using the growth rate of the 94th percentile for each of those years to the 95th percentile in 2015. If the 95th percentile had been reported using EPI's top-coding procedure, the growth rate between 2017 and 2018 would have been a whopping 19.7 percent.

Even using the potentially slightly slower growth rate in recent years at the 94th percentile as a proxy, long-term trends suggest that low- and middle-wage men have fared comparatively poorly and that wage gaps between the top and the middle (the 95/50 ratio) and the top and the bottom (the 95/10 ratio) have increased more for men than for women. Men's wages at the 95th percentile grew 42.0 percent from 2000 to 2018, more than twice as fast as at the 90th percentile (17.1 percent), while at the median, men's wages barely budged, rising only 0.8 percent over the entire 18-year period. Wage growth for lower-wage working men (at the 10th and 20th percentiles) was considerably stronger than for those at or near the middle of the wage distribution.

From 2017 to 2018, men saw their wages fall at the middle and bottom of the wage distribution: a 1.5 percent drop at the 50th percentile and a 1.4 percent drop at 60th percentile, along with a 0.7 percent decline at the 10th percentile. Table 2 shows that the 95th-percentile men's wage grew 9.9 percent, continuing to pull away from wages across the rest of the men's wage distribution.

Women also experienced a growth in wage inequality from 2000 to 2018, with the 95th percentile continuing to pull away from the middle and bottom of the wage distribution. Wages at the 90th and 95th percentiles grew about twice as fast as for middle- and low-wage earners over the 18-year period. However, wage inequality among women in 2018 was not as high as it was among men: A 95th-percentile woman was paid 5.6 times more than a 10th-percentile woman, while the 95/10 ratio among men was 7.9. While inequality has grown modestly among women, the growth in women's wages is more broadly shared across the wage distribution than men's, with stronger growth among the bottom 30 percent than among the top 20 percent from 2017 to 2018. In addition, women at all deciles registered higher wages in 2018 than in 2007 or 2000.

The "gender wage gap" refers to historically persistent differences between what men and women are paid in the workplace. While significant gender wage gaps remain across the wage distribution, the gender wage gap at the median continued to shrink, with the typical woman earning 84 cents for every dollar a man earned in 2018 (that is, they faced a 16 percent wage gap). Unfortunately, the slight narrowing of the gender wage gap at the median between 2017 and 2018 was due to losses in the median man's wage rather than any increase in the median woman's wage. If we can stem the tide of rising inequality and claw back the disproportionate gains going to those at the top of the overall wage distribution, it would be economically feasible to see both men's and women's wages rise while simultaneously closing the gender wage gap (EPI 2018a). The gender wage gap at the bottom of the wage distribution continued to narrow between 2017 and 2018, with the gap at the 10th percentile falling from 8.9 percent to 5.9 percent. Not surprisingly, as the 95th-percentile wage for men rose sharply between 2017 and 2018, the gender wage gap at the top grew significantly, with higher-earning women facing a 33.6 percent pay penalty.

The regression-adjusted average gender wage gap (controlling for education, age, race, and region) showed a small narrowing between 2000 and 2018, from 23.9 percent to 22.6 percent, while much greater progress was made between 1979 and 2018; the regression-adjusted gender wage gap was 37.7 percent in 1979.[3]

Wage growth and the minimum wage

Wage growth at the bottom was faster in states that increased their minimum wage in 2018.

In 2018, the minimum wage was increased in 13 states and the District of Columbia through legislation or referendum, and in eight states because the minimum wage is indexed to inflation in those states. Most of these increases occurred at the start of the year, though some occurred later in the year. **Figure D** shows in green the states with minimum wage increases that occurred through legislation or referendum in 2018; states in blue had automatic increases resulting from indexing the minimum wage to inflation. Workers in states that increased their minimum wage in 2018 account for about 50 percent of the U.S. workforce. Comparing the average minimum wage in 2017 with the average in 2018, the amounts of the nominal minimum wage increases, legislated or indexed, ranged from $0.04 (or 0.4 percent) in Alaska to $1.00 (or 11.1 percent) in Maine.

When we compare 10th-percentile wage growth among states that are grouped by whether they had a minimum wage increase or not, the comparison yields highly suggestive results. As shown in **Figure E**, when looking at 10th-percentile wages, growth in states without minimum wage increases was slower (1.6 percent) than in states with any kind of minimum wage increase (2.1 percent). This result holds true for both men and women at the 10th percentile. The 10th-percentile men's wage grew 1.8 percent in states with minimum wage increases, compared with 0.3 percent growth in states without any minimum wage increases, while women's 10th-percentile wage grew 1.7 percent in states with minimum wage increases and 1.0 percent in states without.

It is not surprising that these differences are smaller than what has been seen in earlier years because as the economy gets closer to full employment, we would expect the 10th-percentile wage to increase across all states regardless of changes in the minimum wage (Gould 2017). Furthermore, 2018 changes in state minimum wages came on the heels of other recent changes to minimum wages in many of the same states over the previous couple of years. In fact, when we compare states that have had any minimum wage change since 2013 with states that did not have a minimum wage change during that time, the pattern—as shown in **Figure F**—is even more pronounced. Wage growth at the 10th percentile in states with at least one minimum wage increase from 2013 to 2018 was more than 50 percent faster than in states without any minimum wage increases (13.0 percent vs. 8.4 percent). As expected, given women's lower wages in general, this result is even stronger for women (13.0 percent vs. 6.0 percent), though men also experienced much faster 10th-percentile wage growth in states with minimum wage increases than in those without (12.0 percent vs. 8.6 percent).

Wages by race/ethnicity

From 2000 to 2018, within-group wage inequality grew for white, black, and Hispanic workers.

Table 3 examines wage deciles (and the 95th-percentile wage) for white non-Hispanic, black non-Hispanic, and Hispanic workers from 2000 to 2018. From 2000 to 2018, the strongest growth among white, black, and Hispanic workers occurred at the top of the wage distribution, a sign that wage inequality is growing *within* each of these racial/ethnic groups as well as among workers overall. At every decile, wage growth since 2000 has been faster for white and Hispanic workers than for black workers. After suffering declines in the aftermath of the Great Recession, the 60th and 70th percentiles of the black wage distribution remain below their 2000 levels. In fact, over the last 18 years, wage growth for white and Hispanic workers has been about four times faster than wage growth for black workers in the 20th through the 70th percentiles of their respective wage distributions. This growing differential is largely attributable to the fact that there has been little to no wage growth for black workers; it does not reflect some tremendous growth for white and Hispanic workers.

From 2017 to 2018, the strongest wage growth among white workers was at the 95th percentile. Because 5.2 percent of white workers had weekly earnings at or above the top-code, the growth rate for the 95th percentile is imputed using the 94th-percentile growth from 2017 to 2018. Unlike for men, the difference here is imperceptible when rounding—6.7 percent growth using the 95th percentile as estimated with the Pareto distribution and also as estimated using growth from the 94th percentile, which was not directly affected by the top-code procedure. Either way, wage growth for white workers was much faster over the last year among high-wage workers than among middle- or low-wage workers. It's important to not read too much into one-year comparisons given data volatility, but wages for white workers at the bottom (the 10th percentile) of the wage distribution actually fell from 2017 to 2018. Since 2000, however, wages grew by at least 7.3 percent for white workers at all wages deciles, including 8.6 percent at the median.

Over the entire period from 2000 to 2018, Hispanic workers experienced more broadly based wage growth, with wages increasing across their wage distribution: There was strong growth at the top (21.5 percent) as well as at the median (13.9 percent) and the bottom (16.1 percent). Over the last year (2017 to 2018), however, Hispanic workers' wages faltered, with outright declines (or stagnation) in the top half of the wage distribution.

Black workers' wages fell (or stagnated) near the middle of the wage distribution (at the 50th, 60th, and 70th percentiles) between 2017 and 2018, though the losses were not as great or as widespread as for Hispanic workers. (Again, when looking at all of these numbers, we need to keep in mind that the CPS data is subject to a certain amount of volatility from year to year; for data on black wages, that volatility is likely to be even more pronounced because of the smaller data sample represented by the black population.) What is particularly striking about black wages is the slow wage growth since 2000 nearly across the board. At the median, black workers' wages rose only 0.5 percent over the

entire period. The only notable diversions from the near-zero growth rates at most levels were increases for black workers at the 10th percentile (4.2 percent), the 80th percentile (4.9 percent), the 90th percentile (12.7 percent), and the 95th percentile (26.2 percent). But the growth rates at the 10th and 80th percentiles are still extremely slow, representing annualized percent changes of 0.2 and 0.3 percent, respectively. For perspective, over the same 18-year period, the *slowest* wage growth among Hispanic workers between 2000 and 2018 was 13.6 percent (0.7 percent annualized) at the 70th percentile.

The bottom section of Table 3 displays wage gaps by race/ethnicity. Wage gaps by race/ethnicity track how much less African American and Hispanic workers are paid relative to white workers; here, black and Hispanic wages are shown as a share of white wages at each decile of their respective wage distributions. Compared with white workers, black workers have been losing ground since 2000, with larger black–white wage gaps across the entire distribution. In 2000, black wages at the median were 79.2 percent of white wages. By 2018, they were only 73.3 percent of white wages, representing an increase in the wage gap from 20.8 percent to 26.7 percent. Conversely, Hispanic workers have been slowly closing the gap with white workers at the bottom 80 percent of the wage distribution. In 2000, median Hispanic wages were 69.7 percent of white wages and, by 2018, they were 73.1 percent, representing a narrowing of the gap from 30.3 percent to 26.9 percent. The 95th-percentile Hispanic–white wage gap still remains significantly wider than its 2000 level.

The regression-adjusted black–white wage gap (controlling for education, age, race, and region) has become larger over the last year (EPI 2019d). While the Hispanic–white wage gap has remained fairly constant over the last 18 years (12.3 percent in 2000 compared with 11.8 percent in 2018), the black–white gap was significantly larger in 2018 (16.2 percent) than it was in 2000 (10.2 percent). In 2000, the Hispanic–white wage gap was larger than the black–white wage gap. In 2018, the reverse was true. Further, between 2000 and 2018 the regression-adjusted black–white wage gap widened significantly for both men (+5.8 percentage points) and women (+5.9 percentage points), while the Hispanic–white wage gap narrowed for men (−1.8 percentage points) and grew for women (+1.6 percentage points).

Wages by education level

Wage growth has generally been faster among the more educated, particularly among men, since 2000.

Table 4 presents the most recent data on average hourly wages by education for all workers and by gender, and **Figure G** displays the cumulative percent change in real average hourly wages by education. (The discussion throughout identifies each group as mutually exclusive such that those identified as having a college degree have no more than a bachelor's degree. Those identified as having "some college" may have an associate degree or have completed part of a two- or four-year college degree.)

From 2000 to 2018, the strongest wage growth occurred among those with advanced degrees (11.0 percent), those with college degrees (6.7 percent), and those with less than a high school diploma (8.7 percent). Given that those with less than a high school diploma are often the lowest-wage workers in general, it is likely that some of these gains can be attributed to state-level increases in the minimum wage. These workers represent a small and shrinking share of the overall workforce, only about 8 percent of workers in 2018 (EPI 2019d). The average wage for workers with some college has finally returned to its 2000 level, but still remains just below its 2007 level.

Over the last year, average wages of those with some college and those with advanced degrees rose the fastest, a reversal from 2016 to 2017, when wages fell among these workers (EPI 2019d). Between 2017 and 2018, wages of those with a high school diploma rose faster than wages of those with a college degree, continuing to narrow the gap between college and high school wages since 2016. As a result, the college wage premium—the regression-adjusted log-wage difference between the wages of college-educated and high school–educated workers—fell slightly from 50.6 percent to 48.4 percent between 2016 and 2018.

However, wage growth among those with college degree rose faster over the entire period from 2000 to 2018 than among those with a high school diploma (6.7 percent vs. 3.4 percent). Because of the disproportionate gains for those with more credentials, the regression-adjusted college wage premium grew from 47.0 percent to 48.4 percent from 2000 to 2018.

A prevalent story explains wage inequality as a simple consequence of growing employer demand for skills and education—often thought to be driven by advances in technology. According to this explanation, because there is a shortage of skilled or college-educated workers, the wage gap between workers with and without college degrees is widening. However, despite its great popularity and intuitive appeal, this story about recent wage trends being driven more and more by a race between education and technology does not fit the facts well, especially since the mid-1990s (Mishel, Shierholz, and Schmitt 2013). When we compare the relative changes in the 95/50 wage gap and the college premium from 2000 to 2018, it is clear that gains in the college wage premium have not been large enough to drive the continued steady growth of the 95/50 wage gap (see Gould 2018 for additional analysis on these differences since 1979).

The more salient story is not one of a growing differential of wages between college and high school graduates, but increasingly one of growing wage inequality overall and within various education groups. Among college graduates, there has been a significant pulling away at the very top of the wage distribution. The bottom 60 percent of those with a college degree still have lower wages than they did in 2000 or 2007. The 50th-percentile wage among those with bachelor's degrees was 2.4 percent *lower* in 2018 than it was in 2000, while the 90th-percentile wage of those with bachelor's degrees was 9.8 percent higher. (The 95th wage percentile for college graduates is fraught with the same top-coding issue as for white and male workers—but to an even greater extent—making those comparisons less reliable.)

Figures H and **I** display the cumulative percent change in real hourly wages by education for men and women, respectively. Since 2000, wage growth for those with a college or advanced degree was faster for men than for women, while wage growth for those with a high school diploma or some college was faster for women than for men. In general, the women's wage distribution by educational attainment is more compressed; that is, the wage differences between workers of different levels of education are not quite as large for women as they are for men.

For both men and women, the largest gains since 2000 were among those with a college or advanced degree as well as those with less than a high school diploma. Wages of men with some college remained lower than their 2000 levels. Among women, all groups have exceeded their 2000 wage levels.

While there has been a slow narrowing of gender wage gaps for those with a high school diploma and those with some college since 2000, gender wage gaps are wider among those with less than high school and among those with college or advanced degrees. As **Figure J** illustrates, women are paid consistently less than their male counterparts at every education level.

Educational attainment has grown faster for women than men between 2000 and 2018, and now women are more likely than men to have a college or advanced degree (EPI 2019d). Unfortunately, increasing educational attainment has not insulated women from large gender wage gaps: The average wage for a man with a college degree was higher in 2018 than the average wage for a woman with an advanced degree (by 4.1 percent).

From 2000 to 2018, wage growth for white and black workers tended to be faster for those with more education than for those with less (**Table 5**). Average wages grew faster among white and Hispanic workers than among black workers for all education groups (which is not surprising given that the same was true at all deciles of the wage distribution). Black workers with less than a college degree had lower wages in 2018 than in 2000. Consistent with our findings on the relationship between education and earnings for all workers (see Table 4), wage growth was strongest for those with an advanced degree for all groups over the last year, while wages fell for black workers with less than a high school diploma.

Black–white wage gaps by education were larger in 2018 than in 2000 for all education groups, while Hispanic–white wage gaps were narrower for workers with less than high school and for workers with high school diplomas. At nearly every education level, black and Hispanic workers were consistently paid less than their white counterparts in 2018, while Hispanic workers were consistently paid more than black workers (**Figure K**).

Conclusion

From 2017 to 2018, real hourly wages increased for many workers across the wage distribution, though not for all genders and races or ethnicities nor for workers at all levels of educational attainment. In general, the years since 2000 have been associated with a continued pulling apart of the wage distribution, with disproportionate gains at the top. Wages for those with additional schooling remain higher than wages for workers with less education, though modest increases in the college wage premium cannot explain the more extreme pulling away of the top earners. One trend pushing back on growing wage inequality between the top and bottom of the wage distribution is stronger growth at the 10th percentile over the last five years, particularly in states that have increased their minimum wage.

Rising wages over the last few years have happened during a period of falling unemployment, with unemployment rates dropping near to (or even below) pre–Great Recession lows. This is no coincidence. If the unemployment rate is allowed to continue to fall, eventually low unemployment should boost low- and middle-wage workers' leverage enough to see steady and large wage gains. However, there is no sign that we've reached the limits of how much we can sustainably boost wage growth with lower unemployment—wage growth remains weaker than we should expect in a fully healthy economy. This means that confident proclamations that we've achieved full employment should not be made and that the Federal Reserve should hold off on any further interest rate increases and allow the economy to continue to grow.

Full employment is one way that workers gain enough bargaining power to increase their wages; employers have to pay more to attract and retain the workers they need when idle workers are scarce. The "lever" for higher wages that comes from full employment is most important for workers at the bottom of the wage distribution: For a given fall in the unemployment rate, wage growth rises more for low-wage workers, and in the absence of stronger labor standards, it is often only in the tightest of labor markets that low-wage workers see stronger wage growth (Bivens and Zipperer 2018).

Beyond seeking to keep labor markets tight, policymakers could take other steps to foster strong broad-based wage growth, such as raising the federal minimum wage, expanding eligibility for overtime pay, addressing gender and racial pay disparities, and protecting and strengthening workers' rights to bargain collectively for higher wages and benefits. For more policies that will raise wages, see EPI's *Policy Agenda* (EPI 2018b).

About the author

Elise Gould, senior economist, joined EPI in 2003. Her research areas include wages, poverty, economic mobility, and health care. She is a co-author of *The State of Working America, 12th Edition*. In the past, she has authored a chapter on health in *The State of Working America 2008/09*; co-authored a book on health insurance coverage in retirement; published in venues such as *The Chronicle of Higher Education*, *Challenge Magazine*, and *Tax Notes*; and written for academic journals including *Health Economics*, *Health Affairs*, *Journal of Aging and Social Policy*, *Risk Management & Insurance Review*, *Environmental Health Perspectives*, and *International Journal of Health Services*. She holds a master's degree in public affairs from the University of Texas at Austin and a Ph.D. in economics from the University of Wisconsin at Madison.

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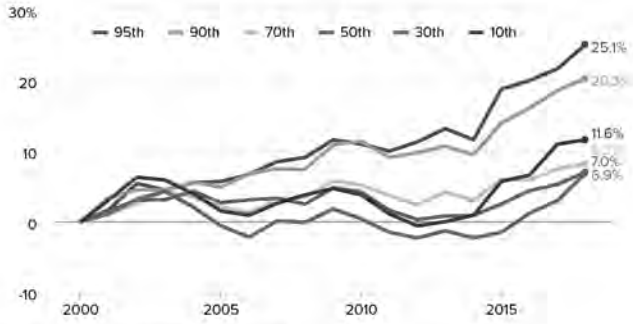
Figure A

High-wage earners have continued to pull away from everyone else since 2000

Cumulative percent change in real hourly wages, by wage percentile, 2000–2018



Note: Sample based on all workers ages 16 and older

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata from the U.S. Census Bureau

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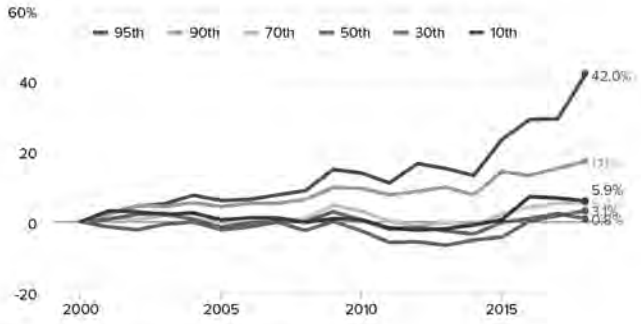
Figure B

Disproportionate wage growth since 2000 for those at the top has contributed to widening inequality among men

Cumulative percent change in real hourly wages of men, by wage percentile, 2000–2018



Notes: Sample based on all workers ages 16 and older.

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata from the U.S. Census Bureau

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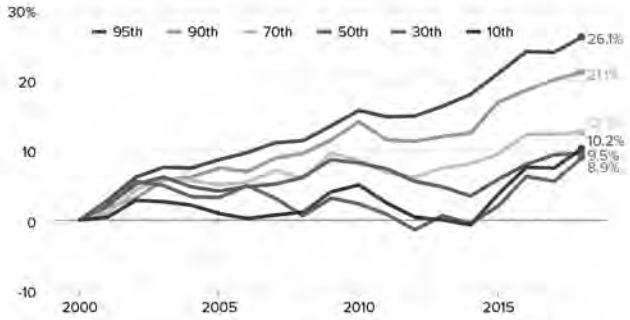
Figure C

Women's wages are more compressed than men's wages, but inequality among women has increased since 2000

Cumulative percent change in real hourly wages, by wage percentile, 2000–2018



Notes: Sample based on all workers ages 16 and older. The xth-percentile wage is the wage at which x% of wage earners earn less and (100-x)% earn more.

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata from the U.S. Census Bureau

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Figure D

The minimum wage increased in 21 states and the District of Columbia in 2018

States with minimum wage increases in 2018, by type of increase

Notes: Minimum wage increases passed through either legislation or ballot measure took effect on January 1, 2018, in Arizona, California, Colorado, Hawaii, Maine, Michigan, New York, Vermont, Rhode Island, and Washington. Alaska, Florida, Minnesota, Missouri, Montana, New Jersey, Ohio, and South Dakota increased their minimum wages in 2018 because of indexing to inflation. Maryland, Oregon, and Washington, D.C., legislated minimum wage increases that took effect on July 1, 2018. Delaware legislated a minimum wage increase that took effect on October 1, 2018.

Source: EPI analysis of state minimum wage laws. See EPI's minimum wage tracker (EPI 2019b) for the most current state-level minimum wage information.

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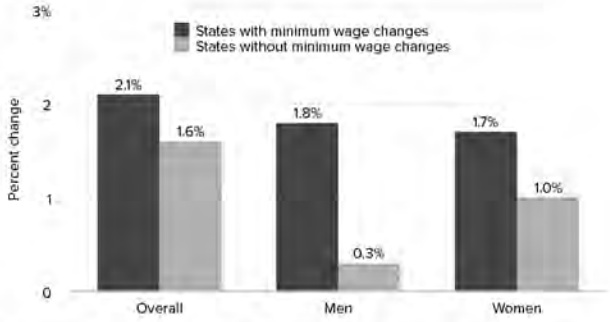
Figure E

Wage growth at the bottom was strongest in states with minimum wage increases in 2018

10th-percentile wage growth, by presence of 2018 state minimum wage increase and by gender, 2017–2018



Notes: Arizona, California, Colorado, Hawaii, Maine, Michigan, New York, Vermont, Rhode Island, and Washington legislated minimum wage increases that took effect on January 1, 2018. Alaska, Florida, Minnesota, Missouri, Montana, New Jersey, Ohio, and South Dakota increased their minimum wages in 2018 because of indexing to inflation. Maryland, Oregon, and the District of Columbia legislated minimum wage increases that took effect on July 1, 2018. Delaware legislated minimum wage increases that took effect on October 1, 2018. Sample based on all workers ages 16 and older.

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata from the U.S. Census Bureau

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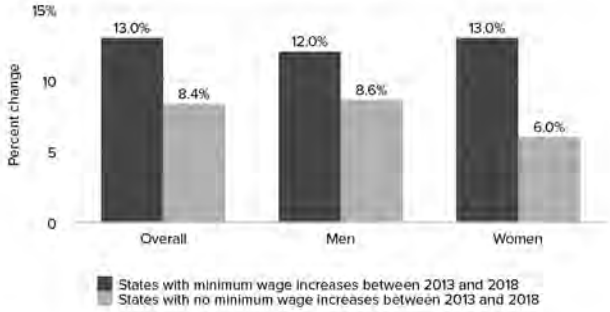
Figure F

Wage growth at the bottom was strongest in states with minimum wage increases between 2013 and 2018

10th-percentile wage growth from 2013 to 2018, by presence of state minimum wage increase between 2013 and 2018 and by gender



Notes: Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, the District of Columbia, Florida, Hawaii, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nebraska, New Jersey, New York, Ohio, Oregon, Rhode Island, South Dakota, Vermont, Washington, and West Virginia increased their minimum wages at some point between 2013 and 2018. Sample based on all workers ages 16 and older.

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata from the U.S. Census Bureau

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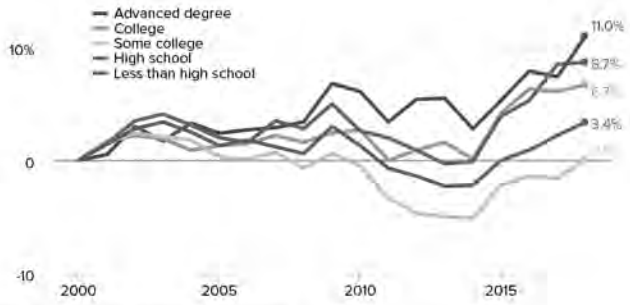
Figure G

For workers with some college education, wages have just reached their 2000 level

Cumulative percent change in real average hourly wages, by education, 2000–2018



Note: Sample based on all workers ages 16 and older

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata from the U.S. Census Bureau

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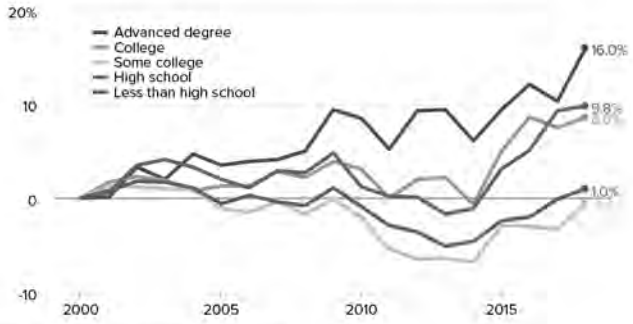
Figure H

The average wage for men with some college is still below its 2000 level

Cumulative percent change in real average hourly wages of men, by education, 2000–2018



Note: Sample based on all workers ages 16 and older

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata from the U.S. Census Bureau

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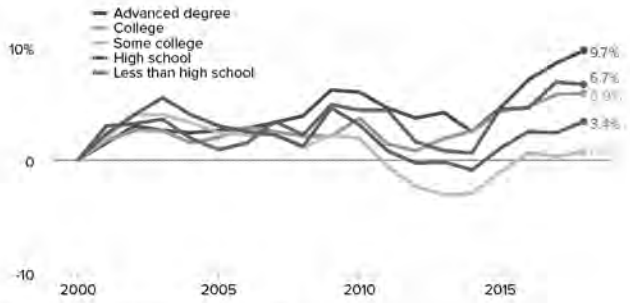
Figure I

Average wages were higher in 2018 than in 2000 for women at all levels of educational attainment

Cumulative percent change in real average hourly wages of women, by education, 2000–2018



Note: Sample based on all workers ages 16 and older.

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata from the U.S. Census Bureau

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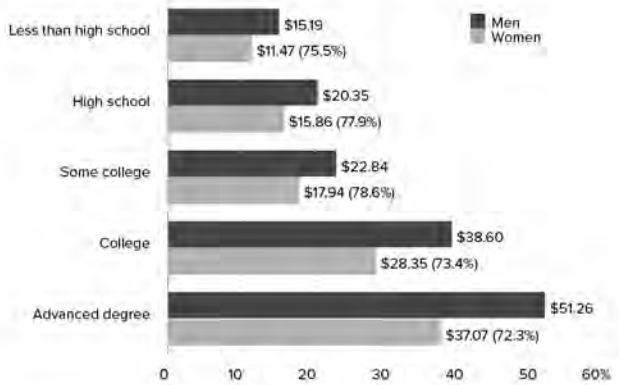
Figure J

On average, men are paid more than women at every education level

Average hourly wages by gender and education, 2018



Note: Sample based on all workers ages 16 and older.

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata from the U.S. Census Bureau.

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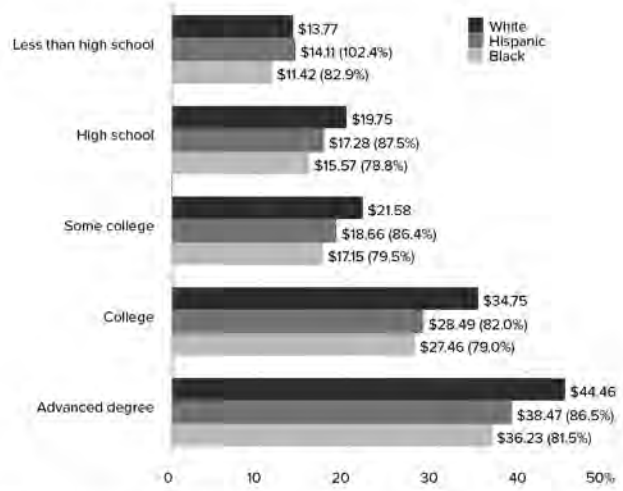
Figure K.

On average, white workers are paid more than black and Hispanic workers at nearly every education level

Average hourly wages, by race/ethnicity and education, 2018



Note: Sample based on all workers ages 16 and older.

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata from the U.S. Census Bureau

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Table 1

Hourly wages of all workers, by wage percentile, 2000–2018 (2018 dollars)

	Wage by percentile										Wage ratio		
	10th	20th	30th	40th	50th	60th	70th	80th	90th	95th	50th/ 10th	95th/ 50th	95th/ 10th
2000	$8.93	$10.93	$13.01	$14.78	$17.57	$20.64	$24.73	$29.97	$39.46	$50.46	1.97	2.87	5.65
2007	$9.17	$11.04	$13.03	$15.29	$18.15	$21.29	$25.46	$31.50	$42.41	$54.76	1.98	3.02	5.97
2017	$9.92	$11.36	$13.40	$15.56	$18.49	$22.00	$26.58	$33.64	$46.78	$61.42	1.87	3.32	6.19
2018	$9.97	$11.91	$13.91	$15.94	$18.80	$22.02	$26.76	$33.79	$47.48	$63.10	1.89	3.36	6.33
Annualized percent changes											**Wage ratio change**		
2000–2018	0.6%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	0.7%	1.0%	1.2%	-0.1	0.5	0.7
2000–2007	0.4%	0.1%	0.0%	0.5%	0.5%	0.4%	0.4%	0.7%	1.0%	1.2%	0.0	0.1	0.3
2007–2018	0.8%	0.7%	0.6%	0.4%	0.3%	0.3%	0.5%	0.6%	1.0%	1.3%	-0.1	0.3	0.4
2017–2018	0.5%	4.8%	3.7%	2.4%	1.6%	0.1%	0.7%	0.5%	1.5%	2.7%	0.0	0.0	0.1

Notes: Sample based on all workers ages 16 and older. The xth-percentile wage is the wage at which x% of wage earners earn less and (100-x)% earn more.

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata from the U.S. Census Bureau

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Table 2

Hourly wages of men and women, by wage percentile, 2000–2018 (2018 dollars)

	Wage by percentile										Wage ratio		
	10th	20th	30th	40th	50th	60th	70th	80th	90th	95th	50th/10th	95th/50th	95th/10th
Men													
2000	$9.60	$11.79	$14.52	$16.93	$19.94	$23.38	$27.93	$33.61	$44.46	$56.34	2.08	2.83	5.87
2007	$9.70	$12.09	$14.50	$17.06	$19.97	$23.51	$28.03	$34.90	$46.77	$60.63	2.06	3.04	6.25
2017	$10.23	$12.27	$14.76	$17.26	$20.41	$24.46	$29.41	$36.91	$51.24	$72.80	1.99	3.57	7.11
2018	$10.16	$12.48	$14.97	$17.42	$20.10	$24.12	$29.44	$37.47	$52.08	$79.98	1.98	3.98	7.87
Annualized percent changes											**Wage ratio change**		
2000–2018	0.3%	0.3%	0.2%	0.1%	0.0%	0.2%	0.2%	0.6%	0.9%	2.0%	-0.10	1.15	2.00
2000–2007	0.2%	0.4%	0.0%	0.1%	0.0%	0.1%	0.1%	0.5%	0.7%	1.1%	-0.02	0.21	0.38
2007–2018	0.4%	0.2%	0.3%	0.1%	0.0%	0.2%	0.3%	0.6%	1.0%	2.5%	-0.08	0.94	1.62
2017–2018	-0.7%	1.7%	1.4%	0.9%	1.5%	1.4%	0.1%	1.5%	1.7%	8.9%	-0.02	0.41	0.76
Women													
2000	$8.68	$10.23	$11.75	$13.48	$15.47	$17.97	$21.35	$26.05	$34.05	$42.09	1.78	2.72	4.85
2007	$8.74	$10.34	$12.11	$14.03	$16.26	$18.93	$22.86	$27.95	$37.06	$46.73	1.86	2.87	5.35
2017	$9.32	$10.80	$12.40	$14.74	$16.90	$19.86	$23.95	$29.65	$40.88	$52.16	1.81	3.09	5.59
2018	$9.56	$11.04	$12.79	$14.90	$16.93	$19.96	$24.02	$30.02	$41.25	$53.07	1.77	3.13	5.55
Annualized percent changes											**Wage ratio change**		
2000–2018	0.5%	0.4%	0.5%	0.6%	0.5%	0.6%	0.7%	0.8%	1.1%	1.3%	-0.01	0.41	0.70
2000–2007	0.1%	0.2%	0.4%	0.6%	0.7%	0.7%	1.0%	1.0%	1.2%	1.5%	0.08	0.15	0.50
2007–2018	0.8%	0.6%	0.5%	0.5%	0.4%	0.5%	0.5%	0.7%	1.0%	1.2%	-0.09	0.26	0.20
2017–2018	2.5%	2.2%	3.2%	1%	0.2%	0.5%	0.3%	1.2%	0.9%	1.8%	-0.04	0.06	-0.04
Wage disparities (women's wages as a share of men's)													
2000	90.4%	86.7%	80.9%	79.6%	77.6%	76.9%	76.4%	77.5%	76.6%	74.7%			
2007	90.0%	85.5%	83.5%	82.3%	81.4%	80.5%	81.6%	80.1%	79.2%	77.1%			
2017	91.1%	88.0%	84.0%	85.4%	82.8%	81.2%	81.4%	80.3%	79.8%	71.6%			
2018	94.1%	88.5%	85.4%	85.5%	84.2%	82.8%	81.6%	80.1%	79.2%	66.4%			

Notes: Sample based on all workers ages 16 and older. The *x*th-percentile wage is the wage at which *x*% of wage earners earn less and (100-*x*)% earn more.

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata from the U.S. Census Bureau

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Table 3 **Hourly wages by race/ethnicity and wage percentile, 2000–2018 (2018 dollars)**

	Wage by percentile									
	10th	20th	30th	40th	50th	60th	70th	80th	90th	95th
White										
2000	$9.35	$11.62	$13.86	$16.14	$18.93	$22.06	$26.40	$32.10	$41.09	$52.78
2007	$9.58	$12.01	$14.27	$16.09	$19.55	$23.28	$27.55	$33.86	$45.16	$59.19
2017	$10.20	$12.30	$14.92	$17.41	$20.49	$24.51	$29.38	$36.32	$49.24	$67.53
2018	$10.08	$12.47	$15.00	$17.66	$20.57	$24.58	$29.53	$36.70	$50.05	$72.05
Annualized percent changes										
2000–2018	0.4%	0.4%	0.4%	0.5%	0.5%	0.6%	0.6%	0.7%	1.0%	1.7%
2000–2007	0.3%	0.5%	0.4%	0.7%	0.5%	0.8%	0.6%	0.8%	1.0%	1.4%
2007–2018	0.5%	0.3%	0.5%	0.4%	0.5%	0.5%	0.6%	0.7%	0.9%	2.0%
2017–2018	-1.1%	1.4%	0.5%	1.4%	0.4%	0.3%	0.5%	1.1%	1.6%	6.7%
Black										
2000	$8.78	$10.28	$11.75	$13.33	$15.00	$17.50	$20.49	$24.70	$31.38	$37.00
2007	$8.74	$10.38	$12.05	$13.45	$15.19	$17.66	$20.63	$24.64	$33.43	$41.74
2017	$9.12	$10.27	$11.68	$13.26	$15.31	$17.41	$20.48	$25.60	$34.61	$44.53
2018	$9.15	$10.44	$12.00	$13.66	$15.08	$17.41	$20.43	$25.92	$35.38	$47.96
Annualized percent changes										
2000–2018	0.2%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.2%	0.7%	1.3%
2000–2007	-0.1%	0.1%	0.4%	0.1%	0.2%	0.1%	0.1%	0.0%	0.8%	1.4%
2007–2018	0.4%	0.0%	0.0%	0.1%	-0.1%	-0.1%	-0.1%	0.5%	0.5%	1.3%
2017–2018	0.4%	1.6%	2.7%	3.0%	-1.6%	0.0%	-0.2%	1.2%	2.2%	7.7%
Hispanic										
2000	$8.44	$9.43	$10.42	$11.73	$13.20	$14.76	$17.58	$21.46	$28.31	$36.41
2007	$8.64	$9.73	$10.95	$12.19	$14.06	$15.91	$18.42	$23.16	$30.46	$38.99
2017	$9.37	$10.37	$11.77	$13.20	$15.27	$17.12	$20.21	$24.62	$33.77	$44.24
2018	$9.80	$10.95	$12.03	$13.52	$15.04	$17.09	$19.97	$24.63	$33.65	$44.23
Annualized percent changes										
2000–2018	0.8%	0.8%	0.8%	0.9%	0.7%	0.8%	0.7%	0.8%	1.0%	1.1%
2000–2007	0.3%	0.5%	0.7%	0.6%	0.9%	1.1%	0.7%	1.1%	1.1%	1.4%
2007–2018	1.1%	1.1%	0.9%	0.9%	0.6%	0.6%	0.7%	0.6%	0.9%	0.9%
2017–2018	4.5%	5.6%	2.2%	2.4%	-1.5%	-0.2%	-1.2%	0.0%	-0.3%	0.0%
Wage disparities										
Black as a share of white										
2000	93.8%	88.4%	84.8%	82.6%	79.2%	79.3%	77.6%	76.9%	74.7%	72.0%
2007	91.3%	86.4%	84.4%	79.7%	77.7%	75.8%	74.9%	72.8%	74.0%	71.7%
2017	89.4%	83.5%	78.3%	76.1%	74.7%	71.1%	69.7%	70.5%	70.3%	65.9%
2018	90.8%	83.7%	80.0%	77.3%	73.3%	70.8%	69.2%	70.6%	70.7%	66.6%
Hispanic as a share of white										
2000	90.2%	81.1%	75.2%	72.7%	69.7%	66.9%	66.6%	66.9%	67.4%	68.0%
2007	90.2%	81.0%	76.8%	72.2%	71.9%	68.4%	66.9%	68.4%	67.5%	68.7%
2017	91.9%	84.2%	78.9%	75.8%	74.5%	69.9%	68.8%	67.8%	68.6%	65.5%
2018	97.2%	87.8%	80.2%	76.5%	73.1%	69.5%	67.6%	67.1%	67.2%	61.4%

Notes: Sample based on all workers ages 16 and older. The *x*th-percentile wage is the wage at which *x*% of wage earners earn less and (100-*x*)% earn more. Race/ethnicity categories are mutually exclusive (i.e., white non-Hispanic, black non-Hispanic, and Hispanic any race).

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata from the U.S. Census Bureau.

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Table 4

Average hourly wages by gender and education, 2000–2018 (2018 dollars)

	Less than high school	High school	Some college	College	Advanced degree
All					
2000	$12.59	$17.85	$20.32	$31.27	$39.47
2007	$13.03	$18.06	$20.46	$31.95	$40.60
2017	$13.66	$18.25	$20.01	$33.17	$42.39
2018	$13.68	$18.45	$20.34	$33.36	$43.80
Annualized percent changes					
2000–2018	0.5%	0.2%	0.0%	0.4%	0.6%
2000–2007	0.5%	0.2%	0.1%	0.3%	0.4%
2007–2018	0.4%	0.2%	-0.1%	0.4%	0.7%
2017–2018	0.1%	1.1%	1.6%	0.6%	3.3%
Men					
2000	$13.84	$20.15	$22.98	$35.54	$44.19
2007	$14.24	$20.08	$22.88	$36.52	$46.00
2017	$15.13	$20.14	$22.23	$38.19	$48.72
2018	$15.19	$20.35	$22.84	$38.60	$51.26
Annualized percent changes					
2000–2018	0.5%	0.1%	0.0%	0.5%	0.8%
2000–2007	0.4%	-0.1%	-0.1%	0.4%	0.6%
2007–2018	0.6%	0.1%	0.0%	0.5%	1.0%
2017–2018	0.4%	1.0%	2.7%	1.1%	5.2%
Women					
2000	$10.75	$15.34	$17.82	$26.77	$33.78
2007	$11.12	$15.67	$18.24	$27.43	$34.91
2017	$11.49	$15.71	$17.89	$28.33	$36.68
2018	$11.47	$15.86	$17.94	$28.35	$37.07
Annualized percent changes					
2000–2018	0.4%	0.2%	0.0%	0.3%	0.5%
2000–2007	0.5%	0.3%	0.3%	0.3%	0.5%
2007–2018	0.3%	0.1%	-0.1%	0.3%	0.5%
2017–2018	-0.2%	1.0%	0.4%	0.1%	1.0%
Wage disparities (women's wages as a share of men's)					
2000	77.7%	76.1%	77.5%	75.3%	76.5%
2007	78.1%	78.0%	79.7%	75.1%	75.9%
2017	75.9%	78.0%	80.4%	74.2%	75.3%
2018	75.5%	77.9%	78.6%	73.4%	72.3%

Note: Samples based on all workers ages 16 and older.

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata from the U.S. Census Bureau.

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Table 5 **Average hourly wages by race/ethnicity and education, 2000–2018 (2018 dollars)**

	Less than high school	High school	Some college	College	Advanced degree
White					
2000	$12.81	$18.60	$20.98	$32.15	$39.97
2007	$13.18	$18.96	$21.19	$32.89	$41.26
2017	$13.69	$19.49	$21.16	$34.39	$42.94
2018	$13.77	$19.75	$21.58	$34.75	$44.46
Annualized percent changes					
2000–2018	0.4%	0.3%	0.2%	0.4%	0.6%
2000–2007	0.4%	0.3%	0.1%	0.3%	0.5%
2007–2018	0.4%	0.4%	0.2%	0.5%	0.7%
2017–2018	0.6%	1.3%	2.0%	1.1%	3.5%
Black					
2000	$12.10	$15.75	$18.02	$26.60	$34.98
2007	$12.22	$15.67	$18.16	$26.56	$34.38
2017	$11.96	$15.39	$16.99	$27.02	$34.91
2018	$11.42	$15.57	$17.15	$27.46	$36.27
Annualized percent changes					
2000–2018	-0.3%	-0.1%	-0.3%	0.2%	0.2%
2000–2007	0.1%	-0.1%	0.1%	0.0%	-0.2%
2007–2018	-0.6%	-0.1%	-0.5%	0.3%	0.5%
2017–2018	-4.5%	1.1%	0.9%	1.6%	3.8%
Hispanic					
2000	$12.48	$15.88	$18.52	$28.62	$35.58
2007	$13.13	$16.48	$18.82	$28.36	$38.40
2017	$14.07	$17.02	$18.53	$28.38	$37.69
2018	$14.11	$17.28	$18.66	$28.49	$38.43
Annualized percent changes					
2000–2018	0.7%	0.5%	0.0%	0.4%	0.4%
2000–2007	0.7%	0.5%	0.2%	0.0%	1.1%
2007–2018	0.7%	0.4%	-0.1%	0.0%	0.0%
2017–2018	0.6%	1.5%	0.7%	0.4%	2.1%
Wage disparities					
Black as a share of white					
2000	94.5%	84.7%	85.9%	82.8%	87.5%
2007	92.7%	82.6%	85.7%	80.8%	83.3%
2017	87.3%	79.0%	80.3%	78.5%	81.3%
2018	82.9%	78.8%	79.5%	79.0%	81.5%
Hispanic as a share of white					
2000	97.5%	85.4%	88.3%	82.8%	89.0%
2007	99.6%	86.9%	88.8%	86.2%	93.0%
2017	102.4%	87.3%	87.6%	82.5%	87.8%
2018	102.4%	87.5%	88.4%	82.0%	86.6%

Note: Sample based on all workers ages 16 and older

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata from the U.S. Census Bureau

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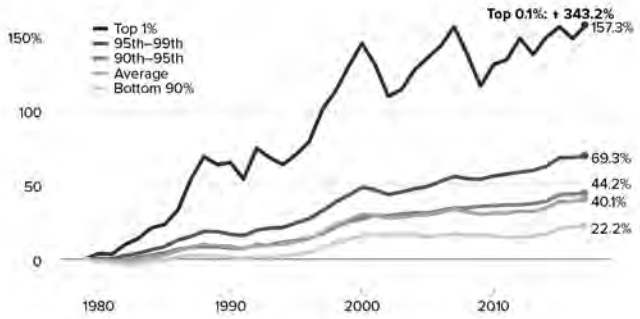
Appendix Figure A

Cumulative percent change in real annual wages, by wage group, 1979–2017



Source: EPI analysis of Kopczuk, Saez, and Song (2010, Table A3) and Social Security Administration wage statistics

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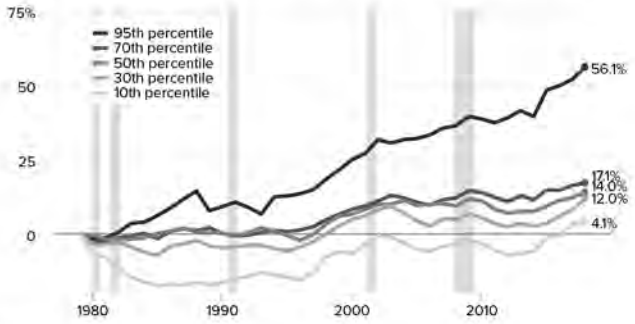
Appendix Figure B

Cumulative change in real hourly wages of all workers, by wage percentile, 1979–2018



Notes: Shaded areas denote recessions. The xth-percentile wage is the wage at which x% of wage earners earn less and (100−x)% earn more.

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata

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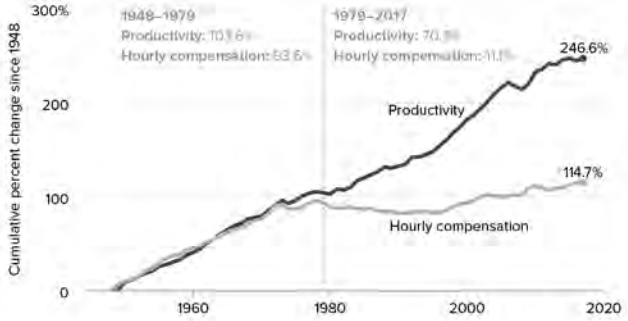
Appendix Figure C

Productivity growth and hourly compensation growth, 1948–2017



Notes: Data are for compensation (wages and benefits) of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services less depreciation per hour worked.

Source: EPI analysis of Bureau of Labor Statistics and Bureau of Economic Analysis data. Updated from Figure A in Bivens et al. 2014.

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Endnotes

1. For more information about the CPS and CES employment measures, see BLS 2019.

2. See EPI 2019e for an interactive calculator illustrating this divergence.

3. Regression-adjusted figures are not shown in the tables in this report but are available in the *State of Working America Data Library* (EPI 2019d).

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March 27, 2019

The Honorable Richard Neal
Chairman
Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

The Honorable Kevin Brady
Ranking Republican Member
Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

Dear Chairman Neal and Ranking Member Brady:

On behalf of the Credit Union National Association (CUNA), I am writing to thank you for holding this hearing, "The 2017 Tax Law and Who It Left Behind." CUNA represents America's credit unions and their more than 115 million members. Credit unions are Americans' best option for financial services. I respectfully request that this letter be made part of the hearing record.

The importance of having not-for-profit credit unions as vibrant and viable alternatives in the financial services marketplace is as significant today as it has ever been. The fact that this hearing is happening at all provides ample evidence of the need for this alternative in the marketplace. Credit unions provide accessible and affordable basic financial services to people of all means and encourage the equitable distribution of capital across all individuals, families, communities and small businesses. Credit unions infuse financial market competition with multiple and differentiated competitive business models. They help keep financial services accessible – and affordable – for all consumers, whether they are members of a credit union or not.

Credit unions provide significant financial benefits to their members. The nation's 115 million credit union members benefit by $12 billion a year as a result of paying fewer and lower fees and lower loan rates and earning higher rates on deposits compared to banking institutions. This $12 billion is not retained by just a few large stockholders. Instead it is distributed across all 115 million members based on their usage of the credit union. In fact, relatively more of the benefit accrues to lower income members than would be explained by their volume of business at the credit union because credit union pricing tends to be friendlier to lower balance accounts than at banks and alternative financial institutions.

I appreciate that the Tax Cuts and Jobs Act of 2017 (TCJA) recognizes and, in a sense, reaffirms the federal income tax status of credit unions. By not altering the credit union federal income tax status, Congress demonstrated its long-held belief in the credit union model and structure. However, the TCJA imposes an excise tax on certain executive compensation provided by tax-exempt organizations. Tax-exempt entities are now required to pay a 21% excise tax on the five highest paid employees' compensation that individually exceed $1 million annually. CUNA and other not-for-profit employers are concerned about the lack of parity between existing for-profit and not-for-profit employee contracts regarding the not-for-profit 21 percent excise tax and the deductibility of corporate executive compensation. The TCJA exempts from deductibility limits

existing corporate executive compensation contracts by "grandfathering" in "for-profit" executive contracts in effect on or before November 2, 2017. No such provision was included for not-for-profit employee contracts. This amounts to a retroactive tax on the nonprofit sector as these contracts were agreed upon with certain tax considerations assumed. CUNA and the nonprofit sector are deeply concerned about this lack of parity.

The Tax Cuts and Jobs Act of 2017 (TCJA) also extends the Unrelated Business Income Tax (UBIT) to certain employee fringe benefits. The TCJA requires tax-exempt organizations currently subject to UBIT to pay UBIT (effectively 21 percent) on certain employee fringe benefits, namely transportation and parking benefits, as well as on-site gyms and athletic facilities. For profit businesses are no longer allowed to deduct these and other employee benefits. The definitions and IRS guidance regarding this provision is severely lacking in substance and clarity. Absent a clear repeal of this provision in the TCJA, a delay in its implementation would hold these tax-exempt employers harmless until they have clear instructions on how to file.

Further, some cities, including Washington, DC, New York, and San Francisco, have mandated employer-provided pre-tax mass transit benefits. As a result, employers in those cities cannot avoid the new tax. Nationwide, thousands of credit unions and other not-for-profit entities that have historically had very limited contact with the IRS and have also never needed this type of administrative expertise, are now suddenly required to begin filing tax returns and pay income tax. It has been estimated that two million employees living in such jurisdictions have these mandated benefits. In addition, this new tax on fringe benefits basically taxes an expenditure made by an employer, not sales or other revenue-generating activity. CUNA and others have lobbied Congress to exempt from this new tax all not-for-profit employers who are subject to these local mandates.

On behalf of America's credit unions and more than 115 million members, thank you very much for your consideration of our views.

Sincerely,

Jim Nussle
President & CEO

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